

16 October 2019

Eyeopener

Firms worried about demand

IMF cuts global growth forecasts again
NBP report signals firms see lower demand, CPI confirmed at 2.6% y/y
Zloty slightly stronger
Today Polish core CPI, US retail sales

Monday was quite calm and positive on the global market – stock indexes rose as the first US companies published better-than-expected Q3 earnings. The dollar index and the EM currencies did not move much. Later in the day, when some supportive information regarding Brexit, core yields started to rise while prices of silver and gold fell. The oil price held stable. In the US-China relations we have had some negative factor – the House of Representatives voted a bill supporting Hong Kong, condemned by China. However market mood is still quite good.

The **IMF** raised its 2019 Poland GDP growth forecast to 4% from 3.8% forecasted in April as the robust wage growth fuels internal demand and the economic growth. Upward revision of growth forecasts for Poland contrasted with a less optimistic outlook for the global economic activity – to 3% from 3.3% in 2019 and to 3.4% from 3.6% in 2020. For Poland, CPI forecasts were also shifted up – to 2.4% from 2% in 2019 and to 3.5% (our forecast 3.4%) from 1.9% in 2020.

Moody's rating agency warned that the economic policies of PiS and continuation of changes in the Polish judiciary will be credit-negative and it stressed the risk for the country's competitiveness due to strong hikes of minimum wage. While the agency expects the GG deficit to reach 1% of GDP in 2020, the structural deficit may grow to 3% of GDP, even without taking into account all the election promises. The main S&P analyst for Poland Karen Vartapetov said in an interview for PAP that the rating is likely to remain unchanged for a longer time and only budget surpluses give chances for a higher assessment.

CPI inflation in September was confirmed at 2.6% y/y down from 2.9% y/y in August. According to our estimates, despite lower headline CPI, the core inflation excluding food and energy prices moved up to 2.4% in September from 2.2% in August. In our view, core inflation will continue to climb in the months to come, while CPI will soon resume its upward trend. Government decision on energy prices are crucial for the price developments in early 2020. In case these are unfrozen, CPI can easily break 4% y/y in early 2020. This would however be unlikely to make the MPC hike rates.

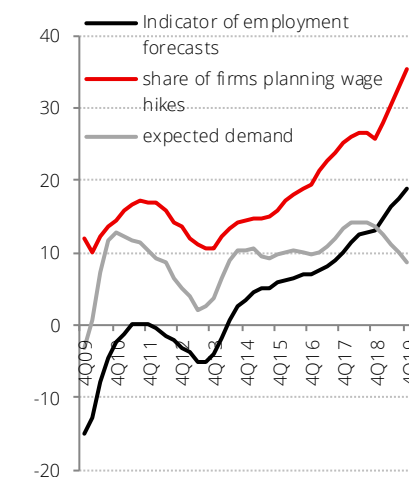
Quarterly business climate report by NBP „Quick monitoring” showed that corporates feel weaker demand and expect further weakening in 4Q. Specialised exporters are particularly worried. In 2H19 investment growth may be limited by significant decrease in capacity utilization. The report also showed that labour costs are a growing obstacle to expansion – now even greater than labour shortages. Quick wage growth was the main factor behind cost increases in companies, as a result in 2Q sales margins widely fell. The report underlines however that there are signals of weakening of the wage pressures and hence corporates do not expect that the pressure could increase in 4Q in response to high inflation.

EURUSD opened unchanged at 1.1025 after US holidays a day before. On Tuesday it slowly marched towards 1.104 in early Polish morning and then slowly decreased during the day by a total of 0.4% and tested 1.100 towards the end of the day. FX options market implies higher probability of moves higher than that of moves lower in tenors up to 1 year. After positive news on the EU-UK talks the currency rose again to 1.1030.

EURPLN held stable around 4.295 and closed the day slightly below this level thanks to the positive Brexit news. USDPLN closed at 3.893, CHFPLN at 3.90 and GBPPLN at 4.959 (+1.3% amid similar scale of GBPUSD rise. The **other CEE currencies** performed mixed – EURCZK remained near 25.81, EURHUF rose 0.3% to 332.3, USDRUB was stable around 64.25 as the oil price did not move much.

On the Polish **interest rate market** the yield curve flattened – 2Y yields climbed to 1.51% from 1.49% and 10Y yields slid to 1.94% from 1.97% amid low volatility. The downward move of longer Polish yields was a bit more pronounced than in case of German counterparts, so 10Y PL-DE spread narrowed. Polish swaps remained unchanged for the better part of the day so 10Y asset swap went down to 23bps. Trade on the core market was rather calm, but at the end of the day yields spiked after news that EU and UK negotiators are close to strike a deal. Bund ended the day at -0.43% and UST at 1.74%. We are expecting yields to rise in the upcoming days, both on the core and Polish markets.

NBP business climate indicators, 4Q moving average



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2942	CZKPLN	0.1665
USDPLN	3.8908	HUFPLN*	1.2922
EURUSD	1.1037	RUBPLN	0.0604
CHFPLN	3.8991	NOKPLN	0.4255
GBPPLN	4.9690	DKKPLN	0.5748
USDCNY	7.0964	SEKPLN	0.3963

*for 100HUF

Last session in the FX market 15/10/2019

	min	max	open	close	fixing
EURPLN	4.290	4.300	4.294	4.291	4.2949
USDPLN	3.885	3.907	3.893	3.893	3.8952
EURUSD	1.099	1.105	1.103	1.102	-

Interest rate market 15/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.50	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.74	1	21 mar 19	PS0424	2.209
DS1029 (10L)	1.98	1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	0	1.80	1	-0.39	1
2L	1.74	1	1.67	2	-0.39	2
3L	1.73	2	1.61	4	-0.38	2
4L	1.73	2	1.59	4	-0.37	0
5L	1.74	3	1.59	4	-0.33	0
8L	1.75	3	1.64	4	-0.17	-1
10L	1.76	4	1.69	3	-0.04	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.59	1
SW	1.59	0
2W	1.60	0
1M	1.63	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	-1
3x6	1.71	0
6x9	1.68	0
9x12	1.65	0
3x9	1.78	0
6x12	1.76	0

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	-4
France	20	-1	0.30	-2
Hungary			2.39	-3
Spain	38	-1	0.64	-4
Italy	124	-8	1.35	-4
Portugal	39	-1	0.62	-2
Ireland	32	-2	0.43	-5
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

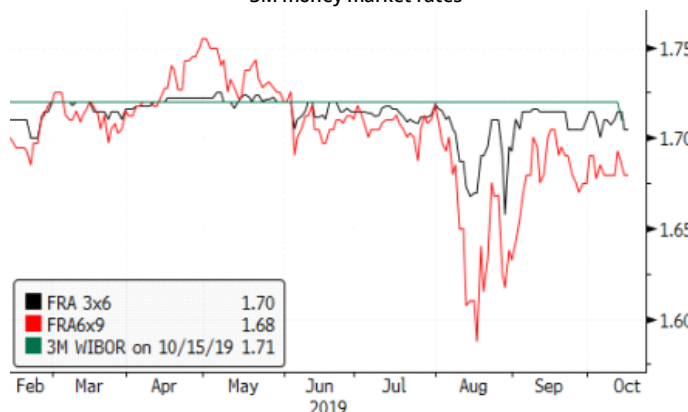
Zloty exchange rate



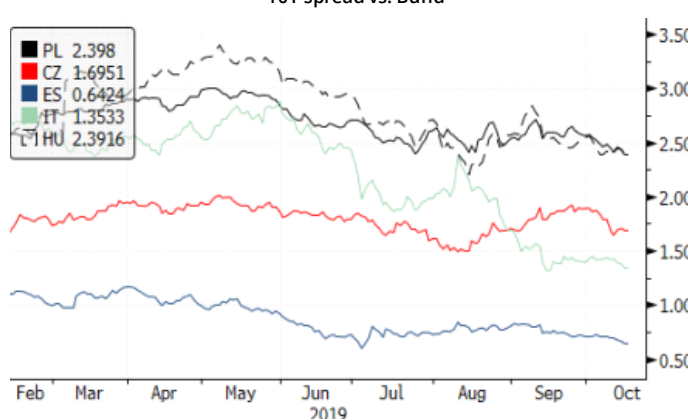
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (11 October)								
08:00	DE	HICP	Sep	% m/m	-0.1	-0.1	-0.1	
16:00	US	Michigan index	Oct	pts	92.0	96.0	93.2	
MONDAY (14 October)								
11:00	EZ	Industrial Production SA	Aug	% m/m	0.3	0.4	-0.4	
14:00	PL	Current Account Balance	Aug	€mn	-568	-703	-606	
14:00	PL	Trade Balance	Aug	€mn	-440	-360	-55	
14:00	PL	Exports	Aug	€mn	17650	17240	17646	
14:00	PL	Imports	Aug	€mn	18108	17600	17001	
TUESDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	2.6	2.6	2.6	
11:00	DE	ZEW Survey Current Situation	Oct	pts	-23.6	-25.3	-19.9	
WEDNESDAY (16 October)								
11:00	EZ	HICP	Sep	% y/y	0.9	-	0.9	
14:00	PL	CPI Core	Sep	% y/y	2.3	2.4	-	
14:30	US	Retail Sales Advance	Sep	% m/m	0.3	-	0.4	
THURSDAY (17 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	2.6	2.6	-	
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	7.5	-	
14:30	US	Initial Jobless Claims	Oct.19	k	220.0	-	210.0	
14:30	US	Housing Starts	Sep	% m/m	-3.23	-	12.3	
14:30	US	Index Philly Fed	Oct		7.1	-	12.0	
15:15	US	Industrial Production	Sep	% m/m	-0.1	-	0.65	
FRIDAY (18 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	5.0	5.0	-	
10:00	PL	PPI	Sep	% y/y	0.5	0.4	-	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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