

18 October 2019

Eyeopener

New deal on Brexit

EU-UK have a new agreement, to be voted over weekend
 Lower wage growth in Poland
 Zloty stronger intraday, bonds unchanged
 Today Polish industrial output

On Wednesday the markets were positive, following the news flow from the EU – UK summit. Information that the deal is imminent fuelled optimism, pushing EURUSD up by 0.6%, GBPUSD towards 1.30 by 1.3%, supporting EM currencies and undermining bonds in Poland and core markets. The summit agreed a new Brexit deal and this document will be debated and voted on weekend. In the second part of the day the optimism waned slightly, this morning's Chinese GDP for 3Q19 proved weaker than expected, and the USA introduced tariffs on selected EU goods (based on WTO assessment on illegality of EU subsidies).

October **MPC minutes** revealed that again (second month in a row) there was a motion for an interest rate cut, most likely from Eryk Łon. The motion was not accepted. Description of the discussion was similar to the one from the previous month (weak growth abroad, especially in Germany, still relatively high albeit slowing Polish GDP growth). Majority of the MPC members were in favour of unchanged interest rates. Description of the views of the hawks changed somewhat – instead of mentioning that some of the MPC members see a risk of significant inflation rise which would enable interest rates increases, an additional sentence has been introduced that „the likelihood of such a scenario decreased”. The minutes also mentioned the too high dynamics of consumer credit and money supply. The minutes have not changed our view regarding Polish monetary policy – we expect no interest changes in 2019-2020.

MPC's **Rafał Sura** said in an interview with PAP that currently he does not consider neither cuts (provided there is no sudden economic collapse) nor hikes (because inflation is supply-driven). According to Sura, electricity prices will remain unchanged in 2020, inflation will not exceed 3.5% y/y at the start of 2020 and will return to 2.5% in 2H20.

Wages in the corporate sector slowed down to 6.6% in September from 6.8% y/y in August as compared to consensus at 7.1% y/y, while employment advanced by 2.6% y/y in September, in line with expectations. Employment growth is sluggish this year, but with wage growth still decent and unemployment at record low, we expect labour market situation to be generally supportive for the private consumption, which is likely to remain main growth driver in the quarters to come.

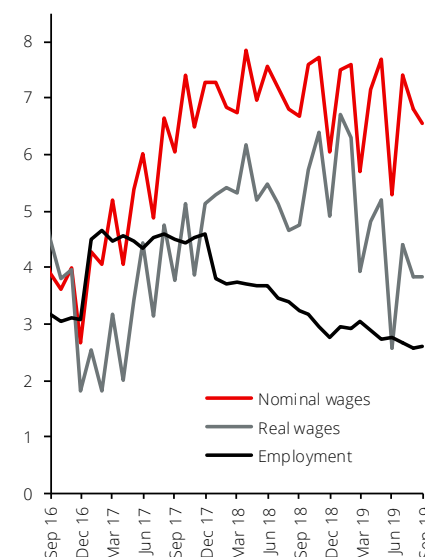
According to the **NBP housing market report**, in 2Q19 the market was still expanding and the demand was strong. Even though the number of finished houses was at record high, the supply proved not enough to satiate the demand, which was increasingly moving to the secondary market, so prices were growing at two-digit pace on both markets (10.7% y/y on the primary and 11.9% y/y on the secondary market in 10 biggest cities, respectively). At the same time, the affordability of flats was moving down as prices outpaced the wage growth. In our view, the housing market situation is becoming imbalanced and a further acceleration of price growth and decline of affordability would be a negative phenomenon.

EURUSD increased to 1.112 from 1.108 (+0.6%), temporarily trading as high as 1.114. FX option markets are increasingly pricing the fact that the likelihood of a move higher is greater than the likelihood of a move lower.

EURPLN opened at 4.283 and rose during the Asian session and later dropped to 4.278 amid positive Brexit news. The exchange rate closed at slightly above 4.28, flat on daily basis as the Brexit optimism faded somewhat. USDPLN closed at 3.848 (-0.6%) thanks to weaker dollar, CHFPLN ended the day at 3.896 and GBPPLN at 4.94 after a yet another volatile day (-0.5%). The **other CEE currencies** gained: EURHUF fell 0.5% to 331.1, EURCZK by 0.4% to 25.68, and USDRUB by 0.4% to 63.88 (amid stable oil price).

On the **domestic interest rate market** yields and IRS ended the day nearly flat vs the Wednesday's closing but the intraday volatility was quite big. The 10Y bond yield first rose to 2.06% from 2% and ended the session at 1.99%. Polish IRS curve and Bunds together with Treasuries performed in the similar pattern – the initial rate rise was neutralised at the end of the day. The 10Y UST climbed temporarily to 1.80% and closed at 1.76%. The 10Y PL-DE yield spread and Poland asset swap spread did not change much and held at 238bp and 21bp, respectively.

Polish labour market data, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2827	CZKPLN	0.1665
USDPLN	3.8514	HUFPLN*	1.2931
EURUSD	1.1119	RUBPLN	0.0602
CHFPLN	3.9007	NOKPLN	0.4191
GBPPLN	4.9524	DKKPLN	0.5733
USDCNY	7.0842	SEKPLN	0.3968

*for 100HUF

Last session in the FX market 17/10/2019

	min	max	open	close	fixing
EURPLN	4.278	4.295	4.285	4.281	4.2849
USDPLN	3.841	3.877	3.867	3.848	3.8638
EURUSD	1.107	1.114	1.108	1.113	-

Interest rate market 17/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.49	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.75	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	-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	1.70	0	1.76	-2	-0.37	0
2L	1.75	-1	1.62	-1	-0.38	0
3L	1.74	-1	1.57	-1	-0.36	0
4L	1.74	-2	1.55	-1	-0.33	0
5L	1.76	-2	1.55	-1	-0.29	0
8L	1.76	-2	1.60	-1	-0.12	-2
10L	1.77	-3	1.65	-1	0.03	2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.60	1
SW	1.60	1
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	0
3x6	1.70	0
6x9	1.68	1
9x12	1.65	-2
3x9	1.78	0
6x12	1.76	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	-2
France	20	0	0.29	0
Hungary			2.40	-2
Spain	37	0	0.63	0
Italy	115	-4	1.30	0
Portugal	37	1	0.58	-1
Ireland	31	1	0.42	-2
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

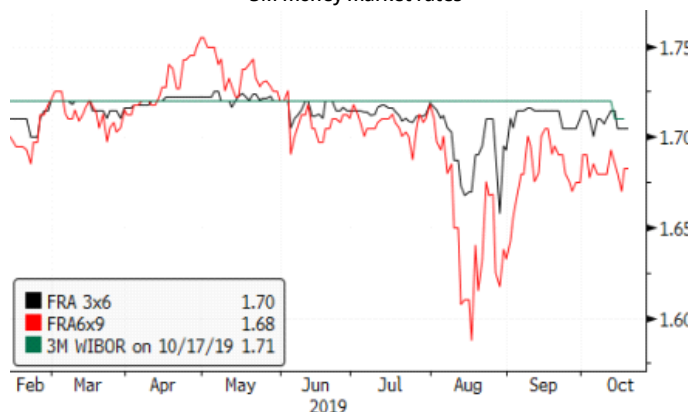
Zloty exchange rate



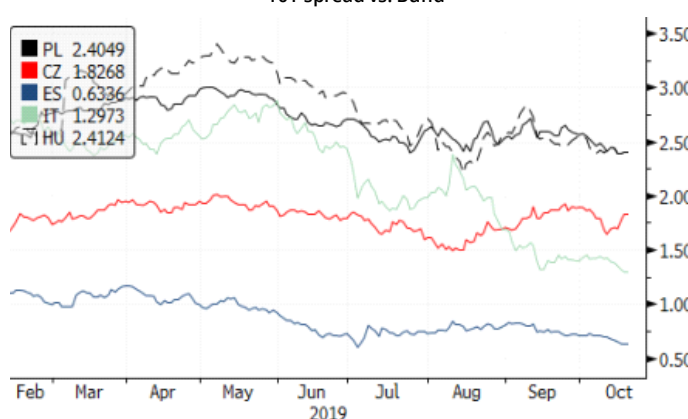
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
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	-797
14:00	PL	Trade Balance	Aug	€mn	-440	-360	-55	-345
14:00	PL	Exports	Aug	€mn	17650	17240	17646	19286
14:00	PL	Imports	Aug	€mn	18108	17600	17001	19631
TUESDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	2.6	2.6	2.6	2.9
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		0.8	1.0
14:00	PL	CPI Core	Sep	% y/y	2.3	2.4	2.4	2.2
14:30	US	Retail Sales Advance	Sep	% m/m	0.3		-0.3	0.4
THURSDAY (17 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	2.6	2.6	2.6	2.6
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	6.6	6.8	6.8
14:30	US	Initial Jobless Claims	Oct.19	k	220	214	210	210
14:30	US	Housing Starts	Sep	% m/m	-3.23	-9.4	15.1	12.3
14:30	US	Index Philly Fed	Oct		7.1	5.6	12.0	12.0
15:15	US	Industrial Production	Sep	% m/m	-0.1	-0.4	0.8	0.65
FRIDAY (18 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	5.0	5.0	-	-1.3
10:00	PL	PPI	Sep	% y/y	0.5	0.4	-	0.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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