

21 October 2019

# Eyeopener

## Still no Brexit decision

UK has not voted on a new deal on Saturday  
 Polish industrial output rebounds  
 Zloty stable, EURUSD slightly higher  
 Bonds sell-off following Bund  
 Today in retail sales in Poland

On Friday the FX market was much calmer than on Thursday, when volatility was boosted by Brexit news. At the end of the week the optimism related to chances for approving the Brexit deal has faded, and moreover the weaker than expected data from China were released. In the core debt markets US Treasuries were stable, and German Bunds were under pressure and their yields were rising.

The British parliament was supposed to vote on the new Brexit deal on Saturday, October 19th. But before that happened, the Letwin Amendment has been passed, which essentially withholds the vote on the deal before the legislation implementing soft Brexit is passed. On Saturday PM Johnson sent the letter asking for Brexit delay to the EU, but without his signature. Brussels does not have to accept the request to extend the deadline. On Monday PM Johnson will ask parliament to vote again on the new withdrawal agreement, but it is uncertain if such vote will be allowed by the House Speaker John Bercow. On Tuesday the parliament will start voting on legislation implementing Brexit. On Monday at the opening GBP/USD fell by just 0.3% to 1.2910. GBP/PLN opened at 4.96.

**Polish industrial output** rose in September by 5.6% y/y vs 5.0% market expectations after three negative surprises. In seasonally adjusted terms there was a rebound from 1.7% y/y to 3.5%, but this is still far below 1H average at almost 6%. So industry is slowing down, but in a gradual manner in line with our expectations, and so is in our view the whole economy. PPI inflation showed 0.9% y/y in September, markedly surprising to the upside (consensus at 0.5% y/y).

**Fitch rating agency** signalled that the second term will be more challenging for PiS due to economic slowdown and receding boost from better tax collection enhancements. According to Fitch, in the short term the 2020 presidential elections could be an important factor influencing the fiscal policy. Fitch forecasts that in 2020 fiscal deficit will amount to 2.3% of GDP vs 1.7% predicted for 2019. The agency assumes the GDP would expand 3.3% in 2020 and 2.9% in 2021. Fitch said it could downgrade Poland for not respecting the 3% of GG deficit or unsuccessful action aimed at the public debt stabilization vs GDP.

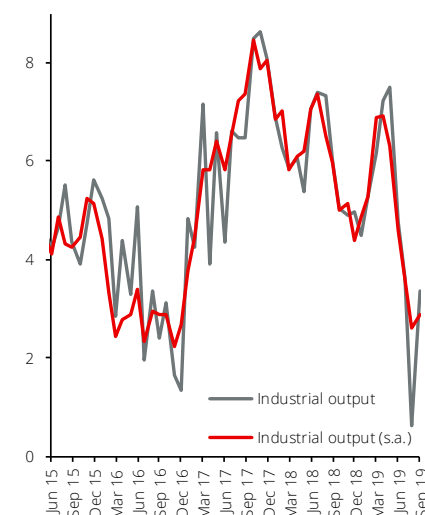
**EURUSD** has been climbing since the start of Friday session, but somewhat slower than on Thursday. The last week was the third one in a row with the euro gaining against the dollar – last time such a long streak happened at the turn of 2017 and 2018 (the rate was climbing for seven consecutive weeks).

**EURPLN** stabilised slightly above 4.28 and remain between Thursday's peak and low, while USDPLN stayed above weekly minimum at 3.84 reached on Thursday. As regards **other CEE currencies**: the forint did not change versus the euro (331.1), the koruna gained versus the euro by 0.3% to 25.63 and USDRUB remained stable at 63.9.

On the **Polish interest rate market**, IRS and bond curve did not change much, only 10Y benchmark was under pressure and yields climbed by 3bps to 2.03%.

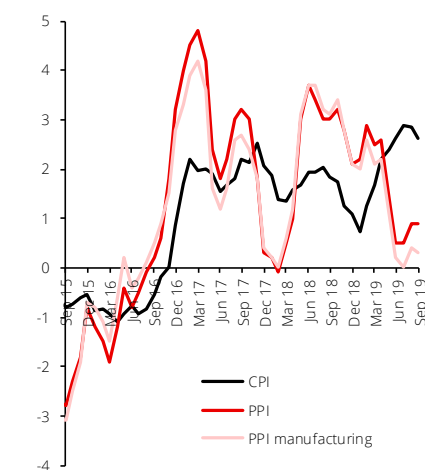
The Brexit issue is likely to occupy the market at the start of the week and **events planned for the following days** will be overshadowed by the British politics. If Brexit deal is accepted, EURPLN will be likely to fall to support at 4.24 and 10Y bond yields climb to 2.40% on a temporary overshoot basis. Otherwise, EURPLN could rebound to 4.32 and bond yields to 2.20%. The ECB meeting is scheduled for Thursday and on the same day we will get to see flash PMIs for manufacturing and services in October. The ECB has recently taken some bold decisions to cut deposit rate and to restart the bond purchases programme and we do not expect the upcoming meeting to provide any significant information in terms of the monetary policy outlook in the euro zone. As far as the PMIs are concerned, indexes are in a strong down trend and the market (again) hopes for at least a minor rebound. We may also get to know who voted for a rate cut in September – if there was more than one supporter of this motion. Today at 10:00CET Poland's retail sales data are due for release. We are expecting a rebound after a weaker August, but this will be mainly driven by statistical base effect.

Industrial production, %y/y, 3M moving average



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2813	CZKPLN	0.1671
USDPLN	3.8372	HUFPLN*	1.2936
EURUSD	1.1157	RUBPLN	0.0601
CHFPLN	3.8927	NOKPLN	0.4192
GBPPLN	4.9484	DKKPLN	0.5731
USDCNY	7.0706	SEKPLN	0.3977

\*for 100HUF

### Last session in the FX market 18/10/2019

	min	max	open	close	fixing
EURPLN	4.280	4.287	4.281	4.282	4.2844
USDPLN	3.830	3.854	3.848	3.830	3.8503
EURUSD	1.112	1.117	1.113	1.117	-

## Interest rate market 18/10/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.49	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.74	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.02	2	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	1.74	-1	-0.37	0
2L	1.74	0	1.62	0	-0.38	0
3L	1.74	0	1.57	0	-0.35	1
4L	1.74	0	1.56	1	-0.33	0
5L	1.75	0	1.56	2	-0.29	0
8L	1.75	-1	1.63	3	-0.12	-2
10L	1.76	-1	1.69	4	0.00	-3

## WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.61	1
SW	1.60	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	0
3x6	1.70	0
6x9	1.68	0
9x12	1.65	0
3x9	1.78	0
6x12	1.76	0

## Measures of fiscal risk

Measures of risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	-1
France	20	0	0.31	1
Hungary			2.39	-2
Spain	37	1	0.63	-1
Italy	111	-2	1.31	1
Portugal	38	0	0.58	0
Ireland	31	-1	0.42	-1
Germany	10	1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

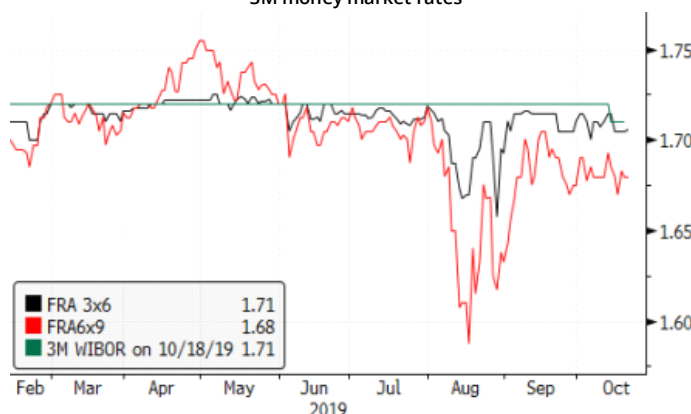
## Zloty exchange rate



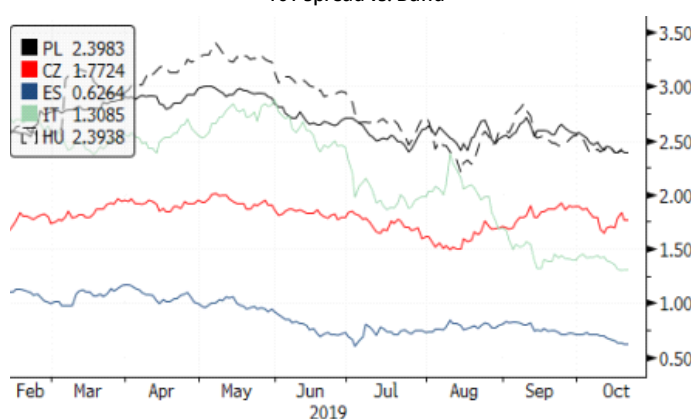
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (18 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	5.0	5.0	5.6	-1.3
10:00	PL	PPI	Sep	% y/y	0.5	0.4	0.9	0.9
MONDAY (21 October)								
10:00	PL	Retail Sales Real	Sep	% y/y	6.2	6.7		4.4
TUESDAY (22 October)								
10:00	PL	Construction Output	Sep	% y/y	6.5	6.0		2.7
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
14:00	PL	Money Supply M3	Sep	% y/y	9.8	9.8		9.9
16:00	US	Existing Home Sales	Sep	% m/m	-0.5	-		1.29
WEDNESDAY (23 October)								
10:00	PL	Unemployment Rate	Sep	%	5.1	5.1		5.2
THURSDAY (24 October)								
09:30	DE	Flash Germany Manufacturing PMI	Oct	pts	42.0	-		41.7
09:30	DE	Flash Markit Germany Services PMI	Oct	pts	51.7	-		51.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Oct	pts	46.0	-		45.7
10:00	EZ	Flash Eurozone Services PMI	Oct	pts	52.0	-		51.6
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Sep	% m/m	-0.5	-		0.2
14:30	US	Initial Jobless Claims	week	k	215	-		214
16:00	US	New Home Sales	Sep	% m/m	-0.42	-		7.1
FRIDAY (25 October)								
10:00	DE	IFO Business Climate	Oct	pts	94.5	-		94.6
16:00	US	Michigan index	Oct	pts	96.0	-		96.0

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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