

22 October 2019

Eyeopener

Weaker retail sales in Poland

Positive market sentiment at the start of the week
 Polish retail sales below forecasts
 EURPLN and EURUSD stable
 Bonds weaker following Bund
 Today another data in Poland, abroad Hungary central bank decision and US data

On Monday the FX market volatility was limited, apart from the pound, which was gaining on hopes for a positive final of debate in the British parliament. European and US equities were supported by positive information on trade wars. White House economic advisor Larry Kudlow said that tariffs on China, scheduled to jump in December, could be abandoned if trade negotiations continue to advance.

Yesterday in the afternoon the Speaker of the House of Commons declined the government's motion to vote the Withdrawal Agreement Bill agreed with the EU last week and justified this decision with the fact that voting circumstances are the same on Monday as they were on Saturday, and MPs have already voted this bill. PM Johnson still hopes to conduct necessary votes in the parliament so that Brexit happens on 31 October. Today in the evening (1900 London time) Johnson will get to know whether there is a chance to push the new bills through the parliament before the deadline. The parliament has to vote on two issues: about general conditions of the deal in a so-called "second reading vote" and about quick implementation of the deal. If the government wins both votes, then the third, final one, could be carried out on Thursday evening. If it passes, then the House of Lords will work on it. Ahead of these events the market is quite optimistic – the pound gained 6.3% in one week versus the dollar and GBPUSD is starting today at 1.298, the highest level since May 2019.

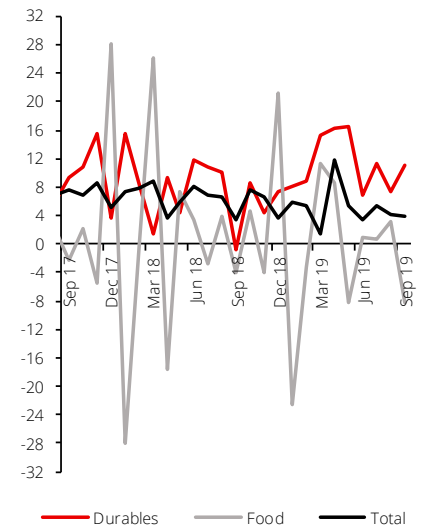
Polish retail sales decelerated to 4.3% y/y in September from 4.4% y/y in August, while an acceleration was broadly expected. Weak food sales was the main culprit, probably a one-off factor. In general the macro environment is favourable for consumption (low unemployment, high consumer confidence, new social benefits and tax cuts) and we see no reason for a major weakening in retail sales trend. The data confirm our expectations that GDP decelerated further in 3Q19.

General government deficit for 2018 was revised by GUS to 0.2% GDP from 0.4%, mostly due to lower assessment of central budget deficit. The result for 2017 was left at -1.5% GDP. We expect that next year the GG deficit will grow to c1% GDP, while the government plan pointed to 0.3%. Revision of GG debt numbers did not cause a change of the measure relative to GDP (48.9% in 2018, down from 50.6% in 2017).

EURUSD was hovering in a narrow range around 1.116 amid lack of any important data releases and awaiting more Brexit news. EURPLN neared 4.275 in the first part of the session while USDPLN fell temporarily below 3.83. Today CHFPLN opens at 3.89 and GBPLN at 4.98. The other CEE currencies benefited more from the positive global market mood – EURHUF fell to slightly below 330 from 330.8, EURCZK to 25.6 from 25.65, and USDRUB to 63.61 from 63.8. **EURPLN** is approaching important support at 4.27 and it seems that more positive news would be required to break this level.

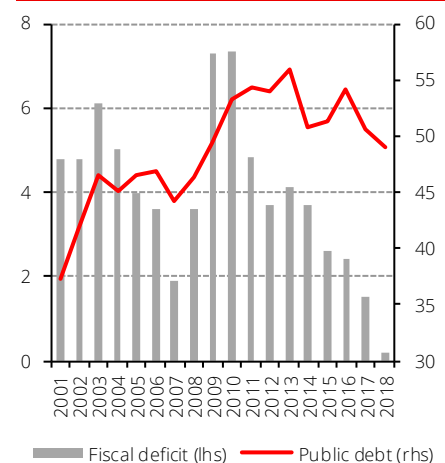
On the **Polish interest rate market**, yields rose by c2-3bp in the middle and on the long end of the curve. IRS rates moved up slightly less. Short end of both curves fell a bit. Polish debt was under selling pressure coming from core markets, where 10Y Bund yield approached the highest level since the end of July, reached in the end of last week, i.e. c-0.34bp and Treasuries remained close to the October maximum of 2.0%. **Today at 1000CET** GUS will release data on September construction output (our forecast is below market consensus) and at 1400CET NBP will release M3 money supply data.

Real retail sales, % y/y



Source: GUS, Santander

Public debt and budget deficit, %GDP



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.2782	CZKPLN	0.1672
USDPLN	3.8354	HUFPLN*	1.2968
EURUSD	1.1155	RUBPLN	0.0601
CHFPLN	3.8873	NOKPLN	0.4202
GBPPLN	4.9804	DKKPLN	0.5727
USDCNY	7.0766	SEKPLN	0.3978

*for 100HUF

Last session in the FX market 21/10/2019

	min	max	open	close	fixing
EURPLN	4.276	4.287	4.282	4.277	4.2775
USDPLN	3.826	3.845	3.843	3.835	3.8307
EURUSD	1.114	1.118	1.115	1.115	-

Interest rate market 21/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
DS1021 (2L)	1.49	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.78	4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.03	2	21 mar 19	DS1029	2.877

IRS 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	1.74	0	1.65	3	-0.36	1
3L	1.74	0	1.61	4	-0.34	1
4L	1.74	0	1.60	4	-0.31	2
5L	1.76	1	1.60	4	-0.27	2
8L	1.76	1	1.68	5	-0.10	3
10L	1.77	1	1.74	5	0.03	3

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.61	0
SW	1.59	-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	-1
6x9	1.68	-1
9x12	1.65	0
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			2.38	-2
France	20	0	0.30	0
Hungary			2.38	-2
Spain	38	-1	0.63	0
Italy	109	2	1.33	2
Portugal	38	0	0.58	0
Ireland	31	-1	0.40	-2
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

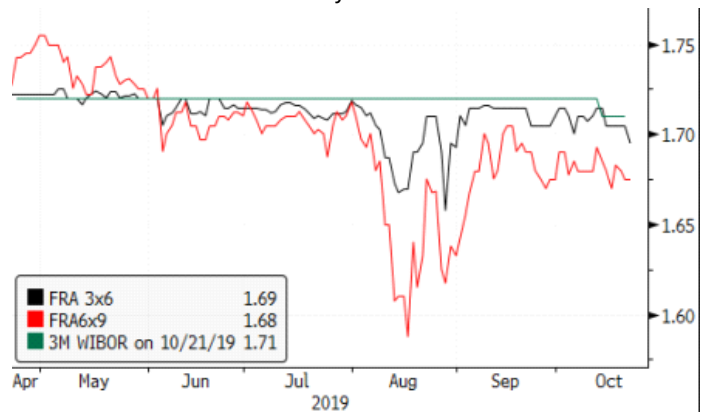
Zloty exchange rate



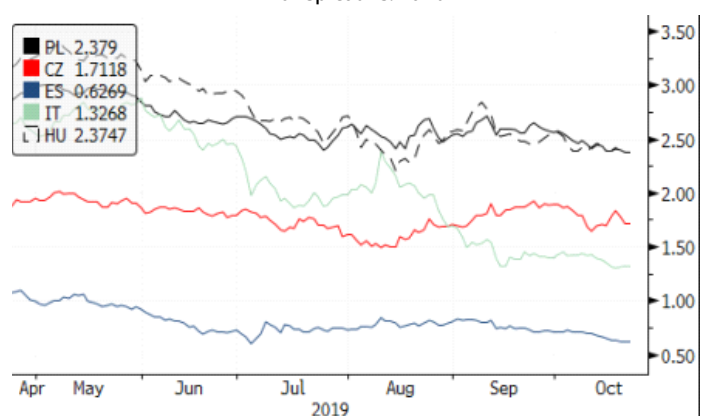
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				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	4.3	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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