

23 October 2019

# Eyeopener

## Brexit drives market sentiment

Brexit optimism decreases  
Construction output data above expectations  
EURPLN tests 4.27, polish bonds gain  
Today in Poland unemployment rate

On Tuesday the optimism regarding chances for quick approval of the Brexit deal faded somehow after PM Johnson warned against snap elections if in the evening vote the parliament does not accept the timetable allowing to exit the EU by October 31st. In the evening, the parliament for the first time accepted the Withdrawal Act, but did not agree for tight schedule of further legislation. As a result, the UK's exit from the EU on October 31st became less likely. The EU has yet to decide whether to extend the Brexit process and by how much.

**Construction Output** added 7.6% y/y in September, a bit stronger than expected. We are expecting construction growth to remain in one-digit area in the months to come, given that the peak in EU funds utilisation is already behind us. Still, housing sector is likely to continue to deliver high growth rates. The data are in line with our forecast of GDP growth decelerating to about 4% y/y in 3Q19 and slightly below 4% in 4Q from 4.5% y/y in 2Q19.

First **business sentiment indicators** for October showed a rebound in industry, but further deterioration in retail trade and services. Importantly, the rebound in industry came from the most severe depletion of stocks of finished products since 2008, while new orders and expected output gauges remained depressed. Retail trade and services sectors turned even more bearish on future demand (the lowest readings of these sub-indexes in c6 years). As a consequence, the current assessment part of the overall sentiment index rose to the highest level since March, while the prognostic part of the index kept declining and went below the long-term average for the first time since January 2017. The publication does not look like a positive turning point.

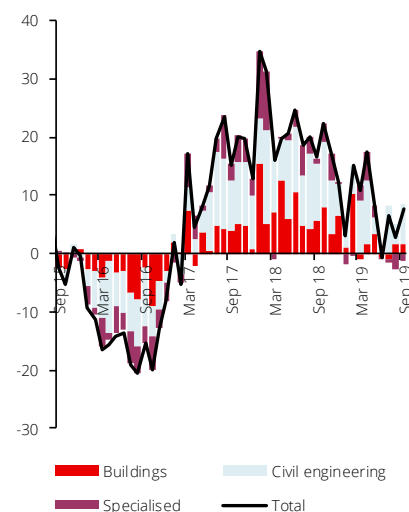
**Money Supply M3** M3 money supply decelerated to 9.4% y/y in September from 9.9% y/y in August. Growth rate of cash in circulation and deposits remained roughly unchanged versus the previous month and the slowdown was due to lower value of buy-sell back transactions and outstanding bonds with maturity below 2 years. As regards deposit breakdown, current deposits were still rising at a fast pace (15.5% y/y) amid stagnation on term deposits (0.5% y/y). Loans recorded a slight slowdown to 6.7% y/y from 7.1% y/y (data corrected for FX effects), mostly due to a slower rise in corporate loans (4.2% y/y in September versus 5.7% y/y in August). Loans for households accelerated to 6.7% y/y from 6.4% y/y (the fastest growth since 2011). PLN-denominated loans rose by 12.1% y/y (the highest since 2015).

**EURUSD** fell by c0.3% after five consecutive sessions of a rise but the trading range was narrower than on Monday. At the end of the day, EURUSD was near 1.112 amid weaker optimism related to Brexit.

**EURPLN** was long hovering around 4.275 and only just before the end of the Polish session it managed to fall to an important support at 4.27. USDPLN was trading near 3.84. In case of the **other CEE currencies**, the koruna and ruble remained fairly stable while the forint gained. EURHUF fell despite the fact that the Hungarian central bank maintained its accommodative bias and said that the downside risks for inflation strengthened since the economic activity in the euro zone remains sluggish. EURPLN is testing 4.27 and the decision regarding Brexit could be key if this level is broken.

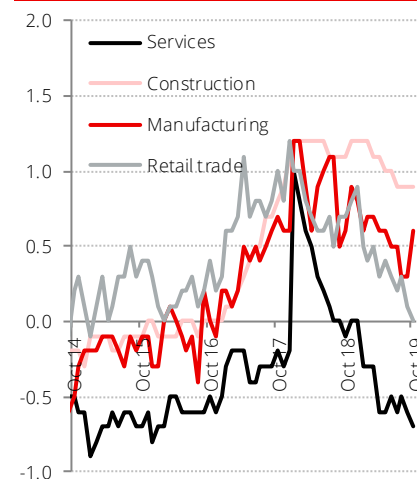
On the **domestic interest rate market** IRS and bond yields fell 2-5bp, the most on the belly and long end and at a similar scale in case of both curves. Polish debt again outperformed core bonds and the 10Y PL-DE spread fell to c235bp, its lowest since 2015/2016 turn. Polish 10Y asset swap spread inched down to 24bp.

Growth structure of construction output, % y/y



Source: GUS, Santander

GUS business sentiment indicators by sector



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2720	CZKPLN	0.1671
USDPLN	3.8421	HUFPLN*	1.2980
EURUSD	1.1119	RUBPLN	0.0602
CHFPLN	3.8820	NOKPLN	0.4191
GBPPLN	4.9425	DKKPLN	0.5718
USDCNY	7.0829	SEKPLN	0.3973

\*for 100HUF

### Last session in the FX market 22/10/2019

	min	max	open	close	fixing
EURPLN	4.268	4.281	4.277	4.269	4.2792
USDPLN	3.831	3.845	3.835	3.832	3.8408
EURUSD	1.112	1.116	1.115	1.114	-

## Interest rate market 22/10/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.48	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.72	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	1.98	-6	21 mar 19	DS1029	2.877

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	-1	1.75	-1	-0.36	0
2L	1.72	-2	1.64	-1	-0.36	1
3L	1.71	-3	1.60	-1	-0.34	0
4L	1.71	-4	1.59	-1	-0.30	1
5L	1.72	-4	1.60	-1	-0.25	2
8L	1.73	-4	1.66	-1	-0.06	3
10L	1.73	-4	1.72	-2	0.07	4

### WIBOR rates

Term	%	Change (bps)
O/N	1.61	1
T/N	1.62	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	0
3x6	1.70	0
6x9	1.67	0
9x12	1.64	-1
3x9	1.78	0
6x12	1.76	1

### Measures of fiscal risk

Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.35	-3
France	20	0	0.30	0
Hungary			2.33	-5
Spain	37	-1	0.63	0
Italy	111	-2	1.29	-3
Portugal	38	0	0.58	0
Ireland	30	1	0.41	1
Germany	10	1	-	-

\* 10Y treasury bonds over 10Y Bunds

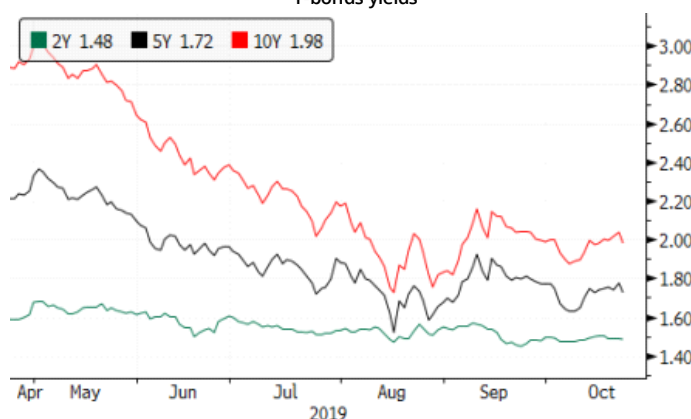
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

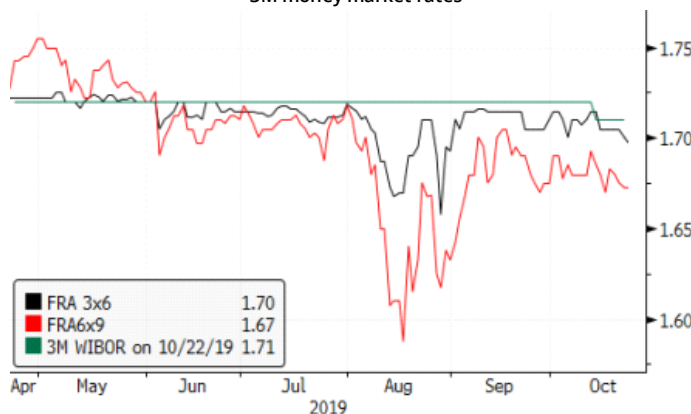
## Zloty exchange rate



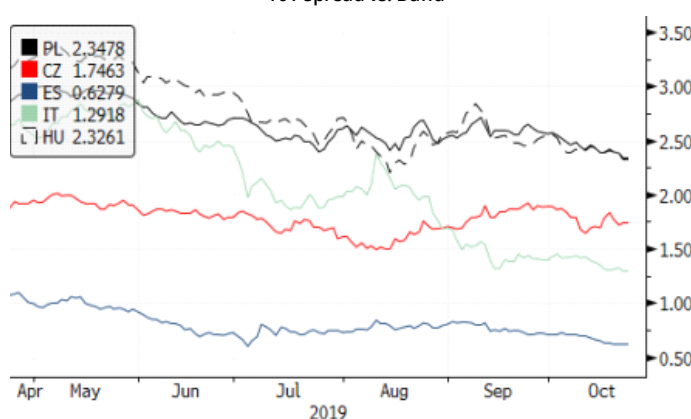
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
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	7.6	2.7
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
14:00	PL	Money Supply M3	Sep	% y/y	9.8	9.8	9.4	9.9
16:00	US	Existing Home Sales	Sep	% m/m	-0.5	-	-2.2	1.5
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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