

24 October 2019

Eyeopener

Markets calm before ECB meeting

Still no decision about Brexit extension
 EURPLN stable, Polish bonds gain
 Oil higher after decline in U.S. crude stockpiles
 Today ECB meeting

Wednesday session passed in a similar manner as on Tuesday. Market's hopes for an imminent solution of the Brexit issue weakened after Boris Johnson lost a vote on timetable of Brexit-related bills. Johnson said that the Brexit deal bill will be withdrawn and if the EU agrees to postpone the Brexit date again, then he will call for a snap election (which has to be approved by the parliament). As a result, European stock markets remained stable, while bonds gained. The euro has lost to the dollar for the second day in a row, while CEE currencies but the forint weakened. Oil prices went up by about 4% after news on lower crude inventories in the USA. During the Asian trading time, PMIs for Japan and Australia came out below consensus but did not trigger a major price movements.

GUS data on **registered unemployment rate** confirmed the estimates of the Labour Ministry at 5.1%. This is the lowest reading since transformation in the 90s. Monthly change in unemployed amounted to -14.3k, i.e. the decline was slightly higher than in September 2018. In our view, in the months to come the unemployment rate could stay stable and climb to 5.3% at the year-end due to seasonal factors.

October consumer sentiment indexes deteriorated vs September but held pretty close their record high levels reached in the previous month. The current situation index fell to 9.3pt from 10.2pt and the leading index to 3.6pt from 7.0pt. The majority of the subindexes eased with only index for assessment of the country's economic situation in next 12 months that picked up. The biggest drop was recorded for the change of unemployment (-7.3pt to 2.5pt, its lowest January 2017) and conditions for saving money (-4.9pt). Lower optimism regarding change of unemployment is coherent with our forecast of stabilization of employment and unemployment on the months to come. We think that consumers optimism might fall in the coming months but the cut in PIT tax rate (effective since October) might have some positive effect on that index.

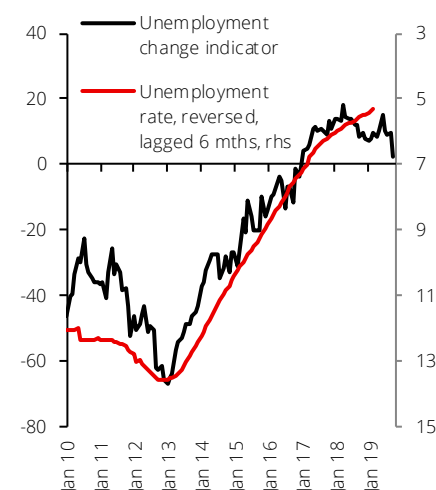
Yesterday **EURUSD** declined by 0.2% to 1.111 as the solid Brexit deal effort came to a halt in the British parliament. Today in the morning the rate returned to 1.113.

EURPLN rebounded to 4.28 and **USDPLN** to c3.85 as the market was disappointed with no improvement in handling Brexit. On Thursday morning EURPLN opened at 4.273. In the last three weeks the zloty gained substantially, which was linked to recovery after the ECJ ruling and rising optimism about the Brexit deal. As for **other CEE currencies**, yesterday there was additional pressure on the zloty coming from the depreciation of the Czech koruna, which lost c0.4% vs the euro to 25.67 after a dovish remark by one of the Czech central bankers. In the region, yesterday the forint strengthened to 328.3 vs the euro, or by 0.3%. Despite more expensive oil, the ruble weakened (USDRUB down 0.5% to 63.9).

On the **domestic interest rate market** yields and IRS rates declined by another 1-3bp under the influence of the core markets, where expectations for a quick and orderly Brexit had shrunk. 10Y Bund yield dropped to -0.39% from -0.37%, hitting -0.42% intraday, while 10Y Treasuries stayed at 1.75%, getting down to 1.73% during the day. As a consequence the POLGB-Bund spread remained at 235bp..

Today, apart from the further EU-UK developments, the market will be watching the last ECB press conference to be chaired by Mario Draghi. The central bank 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. Before the conference, flash October PMIs for manufacturing and services will be out. The indexes are in a strong down trend and the market (again) hopes for at least a minor rebound.

Unemployment rate vs consumer unemployment indicator



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2734	CZKPLN	0.1669
USDPLN	3.8381	HUFPLN*	1.3020
EURUSD	1.1134	RUBPLN	0.0600
CHFPLN	3.8742	NOKPLN	0.4206
GBPPLN	4.9569	DKKPLN	0.5720
USDCNY	7.0676	SEKPLN	0.3980

*for 100HUF

Last session in the FX market 23/10/2019

	min	max	open	close	fixing
EURPLN	4.269	4.282	4.269	4.273	4.2778
USDPLN	3.831	3.853	3.832	3.842	3.8473
EURUSD	1.111	1.115	1.114	1.112	-

Interest rate market 23/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.47	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.70	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.96	-2	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	1.70	0	1.74	-1	-0.37	0
2L	1.72	-1	1.61	-3	-0.37	-1
3L	1.69	-1	1.57	-3	-0.35	-1
4L	1.69	-2	1.56	-3	-0.30	0
5L	1.70	-2	1.56	-4	-0.25	-1
8L	1.71	-2	1.62	-4	-0.08	-2
10L	1.71	-2	1.68	-5	0.04	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.62	0
SW	1.59	0
2W	1.60	0
1M	1.63	0
3M	1.72	1
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	1.64	1
3x9	1.78	1
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	1
France	20	0	0.30	0
Hungary			2.36	4
Spain	37	-1	0.64	1
Italy	109	3	1.33	4
Portugal	38	-2	0.59	1
Ireland	30	-1	0.41	1
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

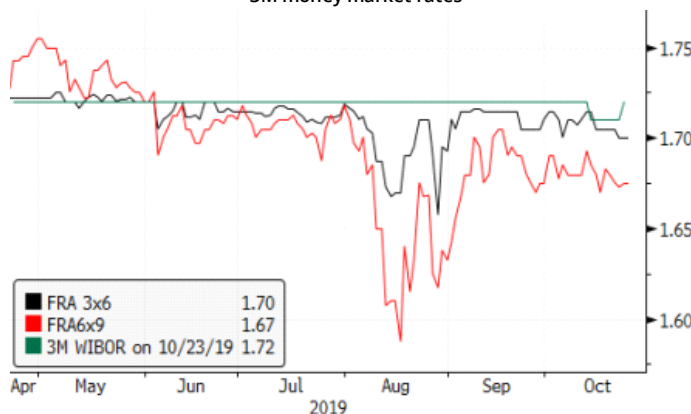
Zloty exchange rate



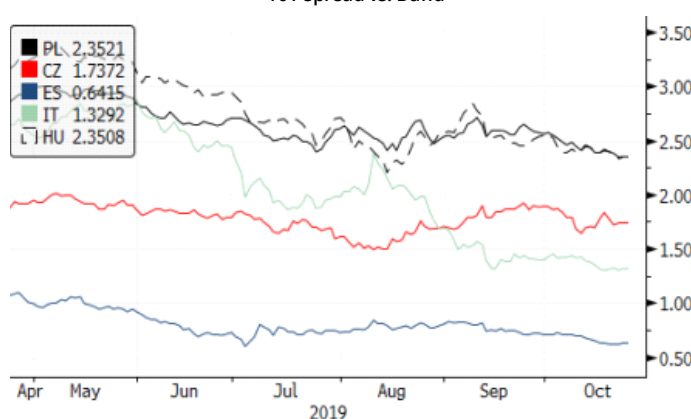
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					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	4.3	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	5.1	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	52.0	-		51.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Oct	pts	46.0	-		45.7
10:00	EZ	Flash Eurozone Services PMI	Oct	pts	51.9	-		51.6
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Sep	% m/m	-0.7	-		0.2
14:30	US	Initial Jobless Claims	week	k	215	-		214
16:00	US	New Home Sales	Sep	% m/m	-1.6	-		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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