

25 October 2019

# Eyeopener

## Further Brexit complication

Flash PMIs not so bad, US data better than expected  
 EURPLN and EURUSD unchanged  
 Domestic and foreign bonds quite stable  
 Today Ifo and US consumer confidence index

On Thursday the global market moods was moderately positive. Flash estimates of October PMIs for Germany, France and the euro zone were suggesting mostly a stabilisation or slower decline, sometimes even some rebound. Initial jobless claims from the US also surprised to the upside, while US durable goods disappointed. UK PM Boris Johnson suggested snap election on 12 December. Motion in this matter is to be voted in the House of Commons on Monday, but it has to gather support of 2/3 of the house, and the opposition announced it will support the motion only provided that no-deal Brexit is ruled out.

In line with expectations, the **ECB did not change interest rates** or other monetary policy parameters. At his last meeting as the ECB head, Mario Draghi read a statement reiterating that the central bank is ready to take additional measures if necessary and that the risk balance for economic growth is still skewed downwards. According to the ECB, there is still a need to maintain loose monetary policy. Draghi said that some decline of hard Brexit probability improved the outlook, but the timing of exit from non-conventional measures moved away. The ECB meeting did not affect the trade.

Minister of Entrepreneurship and Technology Jadwiga Emilewicz said **there will be no hike of energy prices for households "with a high dose of probability"**. In our view, this is a key factor determining whether inflation will jump above 4% y/y at the start of 2020. If electricity prices stay unchanged, then inflation could go above the upper limit of tolerance band (3.5% y/y) only slightly. If additionally there are no agriculture-negative weather conditions next year, then inflation will likely go back to 2.5% in 2Q20. Emilewicz also suggested that instead of abolition on 30 average wages cap on social contributions, the limit could be extended to 40-45 wages, which would decrease the assumed budget revenues of cPLN5bn.

**NBP released September voting records** when the motion for a 25bp rate cut was submitted. The only supporter of this idea was Eryk Łon. We think that the same might have happened in October when there was also a motion to cut rates.

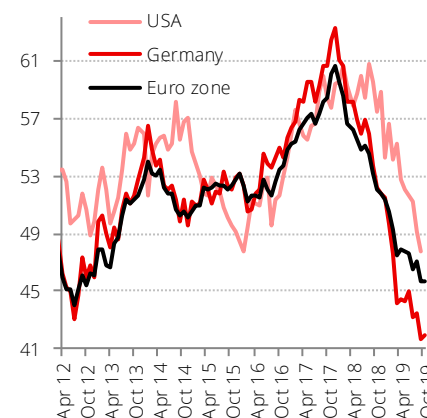
**MPC member Kamil Zubelewicz** said in the interview for Reuters that keeping interest rates too low artificially fuels demand on the real estate market, encourages households to take loans, leads to noticeable prices growth and it is a mistake for some members to keep looking abroad for the source of higher Polish inflation. He added, however, that given the current balance of votes, interest rates are likely to stay on hold until the end of MPC's term (early 2022) which we find a possible scenario. In our view, there could be an (unsuccessful) attempt to hike rates at the next meeting.

On Thursday **EURUSD** was more volatile than on Wednesday and closed at 1.111 down from 1.116. The euro gained slightly at the beginning of the day, but in the afternoon the dollar was bid after the better-than-expected US data. EURUSD remains quite stable after the significant rise in 1H of October. In case of lack of more positive news today supporting the euro, then we might see more profit taking from the recent rise.

On Thursday **EURPLN** and **USDPLN** traded at levels similar to the day before: EURPLN at 4.27 and USDPLN at 3.84. As for other regional currencies, the forint after gaining on Wednesday lost even more on Thursday vs the euro (+0.4% to 329.3), while the ruble lost vs the dollar (+0.3% to 64.0). The Czech koruna was stable vs the euro at 25.6. EURPLN downtrend stopped for a while at an important support level at 4.27 and going forward will trade as a function of global market sentiment and Brexit news. Lack of progress regarding the latter might encourage profit taking after the recent zloty appreciation.

On Polish **fixed income market** bond yields and IRS rates have not changed by much, both barely budged by up to 2bp higher. In this month's context, yields on the Polish market as well as those on the core markets remain below the local maxima from September. Lack of positive news regarding Brexit and the likely rate cut at next Fed meeting (Wednesday next week) might generate downside pressure on yields in the short term.

### Manufacturing PMIs and ISM



Source: Bloomberg, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Łuziński +48 22 534 18 85  
 Wojciech Mazurkiewicz +48 22 534 18 86  
 Grzegorz Ogonek +48 22 534 19 23  
 Marcin Sulewski, CFA +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.2789	CZKPLN	0.1671
USDPLN	3.8526	HUFPLN*	1.2995
EURUSD	1.1106	RUBPLN	0.0602
CHFPLN	3.8812	NOKPLN	0.4214
GBPPLN	4.9480	DKKPLN	0.5728
USDCNY	7.0677	SEKPLN	0.3987

\*for 100HUF

### Last session in the FX market 24/10/2019

	min	max	open	close	fixing
EURPLN	4.271	4.283	4.273	4.275	4.28
USDPLN	3.829	3.858	3.842	3.849	3.8448
EURUSD	1.109	1.116	1.112	1.111	-

## Interest rate market 24/10/2019

### 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)	1.70	0	21 mar 19	PS0424	2.209
DS1029 (10L)	1.97	1	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	1.73	-1	-0.37	0
2L	1.72	1	1.61	-1	-0.37	0
3L	1.70	1	1.56	-1	-0.35	0
4L	1.70	1	1.55	-1	-0.32	-2
5L	1.71	2	1.55	-1	-0.27	-2
8L	1.72	1	1.61	-1	-0.11	-3
10L	1.73	2	1.67	-1	0.01	-4

### WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.62	0
SW	1.58	-1
2W	1.60	0
1M	1.63	0
3M	1.72	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	1.71	1
6x9	1.68	0
9x12	1.64	0
3x9	1.78	0
6x12	1.75	-1

### Measures of fiscal risk

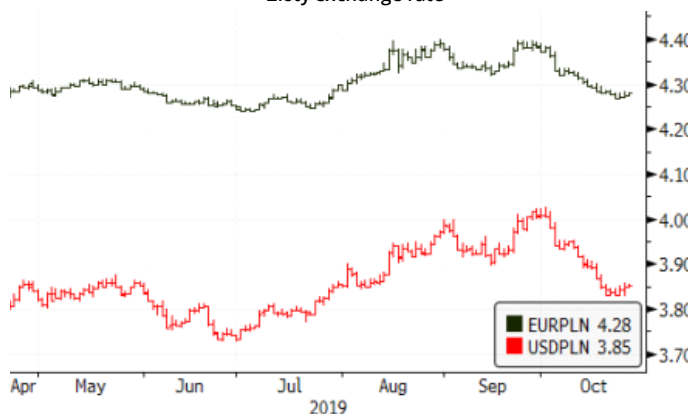
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.38	2
France	20	-1	0.30	0
Hungary			2.38	2
Spain	36	-1	0.64	0
Italy	112	0	1.31	-2
Portugal	36	-1	0.59	0
Ireland	29	-2	0.41	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

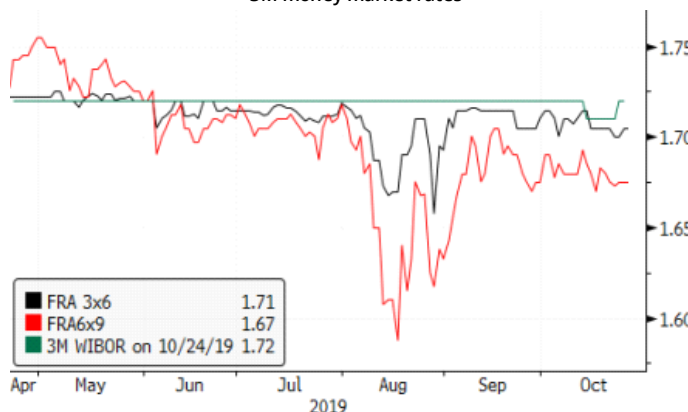
## Zloty exchange rate



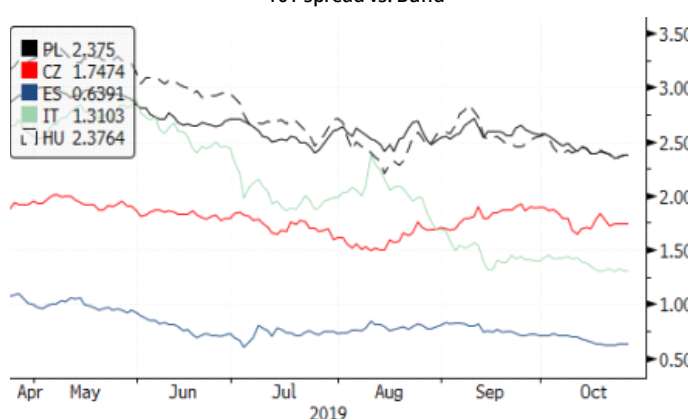
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

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	5.1	5.2
THURSDAY (24 October)								
09:30	DE	Flash Germany Manufacturing PMI	Oct	pts	42.0	-	41.9	41.7
09:30	DE	Flash Markit Germany Services PMI	Oct	pts	52.0	-	51.2	51.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Oct	pts	46.0	-	45.7	45.7
10:00	EZ	Flash Eurozone Services PMI	Oct	pts	51.9	-	51.8	51.6
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Durable Goods Orders	Sep	% m/m	-0.7	-	-1.1	0.2
14:30	US	Initial Jobless Claims	week	k	215	-	212	214
16:00	US	New Home Sales	Sep	% m/m	-1.6	-	-0.7	6.2
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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.