

28 October 2019

Eyeopener

UK considers snap elections

Another German confidence indicator stabilised

Adam Glapiński thinks new NBP projection no argument for rate changes

Zloty and major currencies stable

Today UK votes on snap elections' motion, EU considers extension of the Brexit date

Market mood was quite positive on Friday, with S&P500 surpassing 3000 pts. Core yields climbed but only slightly, similarly as Polish yields. The dollar index climbed only a bit, by 0.1% to 97.8. EM currencies – with a few exceptions including the zloty – were gaining, especially these viewed as high-yielders (BRL, ZAR, RUB – by about 0.5% each). Interestingly, despite rising risk appetite, precious metals' prices also went up strongly intraday: gold by 1% to USD1520 per ounce and silver by 4% to USD18.3 per ounce (today the prices are already lower). Oil ended the day with no major price movements, with Brent noted at USD61.3 per barrel. The main Ifo index did not change vs September, by which it slightly surprised to the upside. USA and China informed about 'basically completed' works on the first phase of the trade agreement. In Sunday elections in Argentina, the centre-left candidate Alberto Fernández won 47.8% of votes (which means no need for the second round) and the current conservative president Mauricio Macri won 40.7% of votes, according to data from 91.2% of voting precincts. Fernández is viewed as populist candidate and his victory could be negative for EM assets. Today the British House of Commons is to vote on PM's motion for snap elections (approval requires 2/3 of votes, which we find unlikely). The vote will take place after 15:30 CET. Also today the EU leaders are to consider delaying the Brexit date from 31 October to – possibly – end of January.

NBP governor Adam Glapiński said when asked about the new GDP/CPI projection the MPC will analyse at its November meeting that "we have slight economic growth deceleration and slightly higher inflation". In his view, this will give no arguments for any change of the interest rates. According to Glapiński, inflation may rise at the turn of the year but shall not leave the 1.5-3.5% MPC tolerance range. **Łukasz Hardt** said that interest rates in Poland are so low that further cuts could have an adverse impact on the banks' credit activity. Thus, in his view it is the fiscal policy that should play the main role in the economic stimulus, particularly in the environment of very low bond yields and more fiscal space should be granted to the government. Hardt thinks that to achieve this, easing spending rules could be considered.

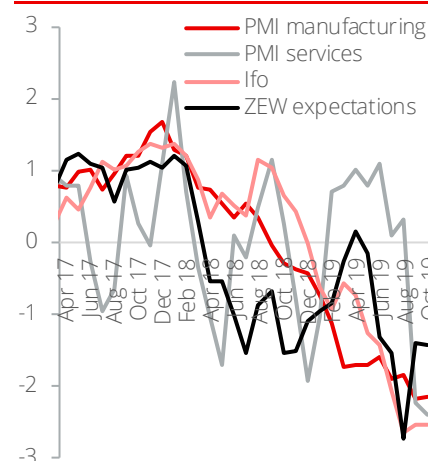
The Monetary Policy Council released the **opinion about 2020 budget draft**, in which it assessed the macroeconomic assumptions as realistic and wrote that realisation of fiscal policy in the planned shape would be neutral for business climate. MPC noted that planned revenues from OFE liquidation and elimination of 30x average wage threshold for social security contributions have not been legislated yet, and the estimate of inflows from the latter may be too optimistic. According to the MPC, although in 2018 the structural fiscal deficit was below the medium-term objective (1% of GDP), in the next two years it can exceed this limit, therefore actions to lower this gap are desirable, unless they slow economic growth substantially.

On Friday session **EURUSD**, as opposed to Thursday, was relatively stable with daily range of around 50 pips and closed near 1.109. The plausible reason for the quiet session was lack of major news from Great Britain (GBPUSD remained stable throughout the day) at 1.284.

On Friday **EURPLN** and **USDPLN** also had a very low volatility, EURPLN traded whole day in the vicinity of 4.277, while USDPLN rose only slightly towards the end of the day at 3.86. CHFPLN closed at 3.88, while GBPPLN at 4.945. As to the **other regional currencies**, Hungarian forint strengthened vs euro by 0.2% to 328.8. Czech koruna showed similar behaviour – it fell vs euro by 0.2% to 25.55 after hawkish comments from one of CNB board members Tomáš Holub that there are discussions within CNB whether to pause or hike rates further (currently CNB main rate stands at 2.00%). Russian Ruble gained 0.6% vs the euro and dollar basket after CBR cut main rates more than expected – by 50bp to 6.5%, lowered 2019 inflation forecast to 3.2-3.7% from 4.0-4.5% and said that further cuts are possible at the next meeting. USDRUB closed lower by 0.5% at 63.75.

On Polish **fixed income market**, yields slowly increased for another day in a row – Polish 10Y bonds closed at 1.98% or 2bp higher. Polish 10Y swaps closed at 1.75% or 4bp higher. As a result the 10Y asset swap narrowed again to 23bp, a 2bp move. On Friday yields on the core markets also increased by a few bps (and even more so on Monday open) – the German 10Y Bund closed at -0.38%, or 2bp higher (opens at -0.36% on Monday), while 10Y UST closed at 1.78% or 3bp (opens at 1.82%). The 10Y PL-DE spread widened to 236bp.

Standardised indexes of German business sentiment



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2823	CZKPLN	0.1676
USDPLN	3.8620	HUFPLN*	1.3032
EURUSD	1.1088	RUBPLN	0.0605
CHFPLN	3.8800	NOKPLN	0.4203
GBPPLN	4.9530	DKKPLN	0.5733
USDCNY	7.0609	SEKPLN	0.3988

*for 100HUF

Last session in the FX market 25/10/2019

	min	max	open	close	fixing
EURPLN	4.273	4.281	4.275	4.279	4.2762
USDPLN	3.843	3.865	3.849	3.861	3.8452
EURUSD	1.107	1.112	1.111	1.108	-

Interest rate market 25/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.47	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.71	0	21 mar 19	PS0424	2.209
DS1029 (10L)	1.98	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	1	1.76	3	-0.37	0
2L	1.73	1	1.65	4	-0.37	0
3L	1.72	2	1.61	5	-0.33	1
4L	1.72	2	1.59	4	-0.31	0
5L	1.73	2	1.59	4	-0.27	0
8L	1.75	3	1.65	4	-0.11	0
10L	1.75	2	1.71	5	0.01	0

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	-1
SW	1.58	0
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	0
6x9	1.68	0
9x12	1.66	2
3x9	1.79	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			2.34	-4
France	19	-1	0.30	0
Hungary			2.30	-7
Spain	35	-1	0.63	-1
Italy	112	1	1.31	0
Portugal	35	1	0.58	-1
Ireland	27	-1	0.41	0
Germany	10	-1	-	-

* 10Y treasury bonds over 10Y Bunds

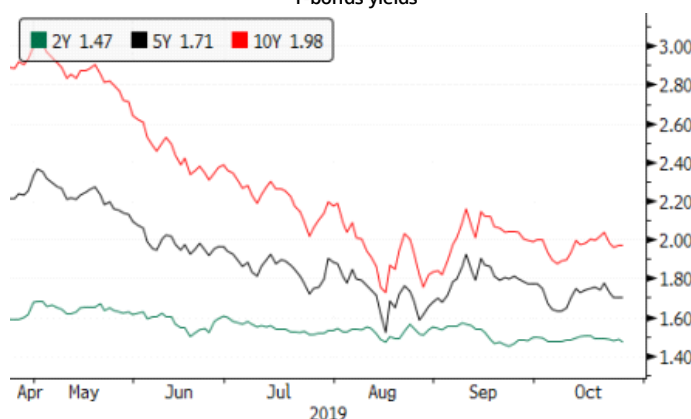
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

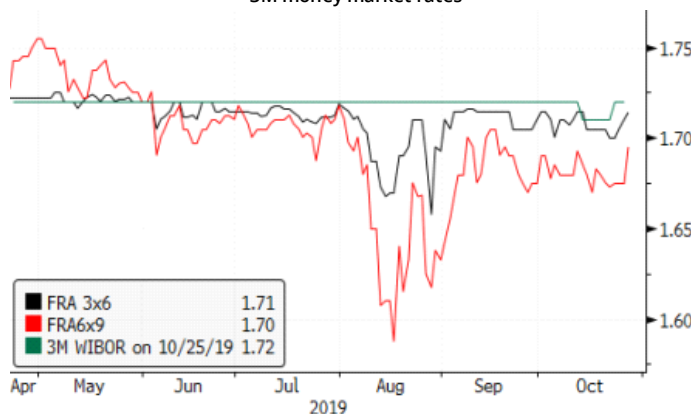
Zloty exchange rate



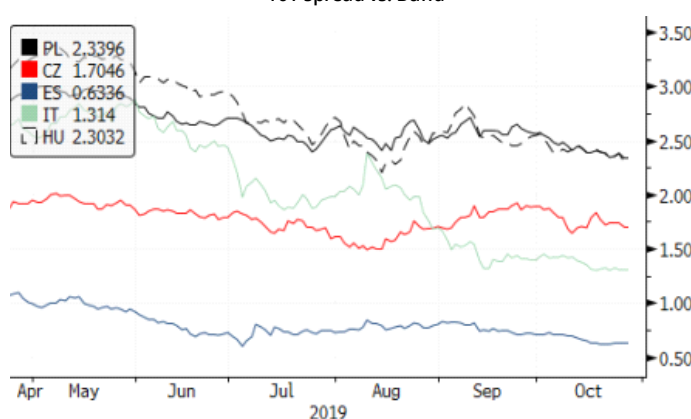
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (25 October)								
10:00	DE	IFO Business Climate	Oct	pts	94.5		94.6	94.6
16:00	US	Michigan index	Oct	pts	96.0		95.5	96.0
MONDAY (28 October)								
No major releases								
TUESDAY (29 October)								
15:00	US	Consumer Conference Board	Oct	pts	127.8		-	125.1
15:00	US	Pending Home Sales	Sep	% m/m	1.0		-	1.6
WEDNESDAY (30 October)								
11:00	EZ	ESI	Oct	pct.	101.1		-	101.7
13:15	US	ADP report	Oct	k	132.0		-	134.9
13:30	US	GDP Annualized	3Q	% Q/Q	1.6		-	2.0
14:00	DE	HICP	Oct	% m/m	0.0		-	-0.1
19:00	US	FOMC decision	Oct.19		2.0		-	2.0
THURSDAY (31 October)								
08:00	DE	Retail Sales	Sep	% m/m	0.25		-	-0.1
10:00	PL	CPI	Oct	% y/y	2.5	2.65	-	2.6
11:00	EZ	Flash HICP	Oct	% y/y	0.7		-	0.9
11:00	EZ	GDP SA	3Q	% y/y	1.1		-	1.2
11:00	EZ	Unemployment Rate	Sep	%	7.4		-	7.4
13:30	US	Initial Jobless Claims	Oct.19	k	215.0		-	212.0
13:30	US	Personal Spending	Sep	% m/m	0.3		-	0.1
13:30	US	Personal Income	Sep	% m/m	0.3		-	0.4
13:30	US	PCE Deflator SA	Sep	% m/m	0.0		-	0.0
FRIDAY (1 November)								
13:30	US	Change in Nonfarm Payrolls	Oct	k	95.0		-	136.0
13:30	US	Unemployment Rate	Oct	%	3.6		-	3.5
15:00	US	ISM manufacturing	Oct	pts	49.0		-	47.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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