

4 November 2019

Eyeopener

Progress in trade talks

Rise in optimism about the trade deal
Polish CPI down to target, PMI lowest since 2009
Zloty and bonds stronger
Today final PMIs for euro zone

Thursday's post-FOMC optimism on the markets quickly gave way to worries about the prospects of US-China trade talks. Bloomberg quoted anonymous Chinese officials saying that long-term trade deal might be difficult to achieve given Trump's unpredictability. As a result, European stock indices gave back the morning gains while core bonds continued to rise in price. Friday's US data were pretty good, however market did not read it as such: non-farm payrolls surprised to the upside, with upside revisions for the previous month. ISM manufacturing bounced back, but less than expected. Over the weekend the optimism regarding trade negotiations increased: both sides claimed that progress has been made, Americans said that the deal is possible still in November. Thanks to those informations today's market opens in a slightly positive mood. Today Christine Lagarde is to hold her first speech as the ECB Governor.

According to flash estimate, Polish CPI went down again in October, to 2.5% y/y from 2.6% in line with our forecast. For the second time in a row headline inflation decreased due to non-core elements. We estimate that core inflation stayed at 2.4% y/y and expect it to climb to c3% y/y at the turn of the year. Decision on electricity prices will most likely determine if CPI stays below 4% y/y early next year. The data do not change the monetary policy outlook: interest rates in Poland are likely to remain on hold for long.

According to DGP (Dziennik Gazeta Prawna) daily newspaper, the **new tax on shops** will be introduced only after 2020, as the government is waiting for a binding ECJ ruling on that matter.

On Thursday **EURUSD** offset less than a half of the Wednesday's rise recorded after the evening FOMC decision and was near 1.113 at the end of the Polish session. Thursday's data were quite in line with the consensus and did not trigger any meaningful moves, the weaker global market mood proved key. The decent US labour market data released on Friday boosted the dollar but this proved only temporary since the manufacturing ISM disappointed. Overall, on Friday EURUSD rose from 1.113 to 1.117 and is near that level today in the morning.

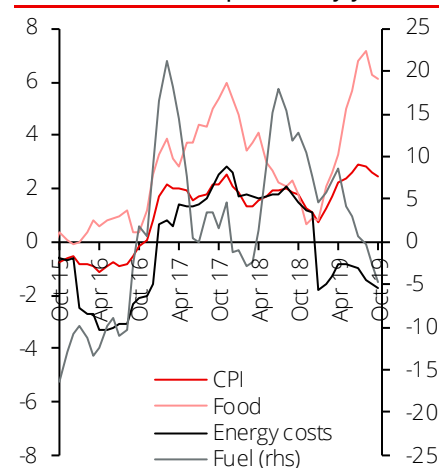
EURPLN was hovering around 4.26 and ended the Thursday's session slightly below this level. USDPLN rose slightly to 3.825 from 3.81 amid lower EURUSD. In case of other CEE currencies, the forint gained vs the euro, the ruble lost vs the dollar and the koruna was fairly stable. On Friday, the zloty continued to gain amid thin liquidity and today at the opening EURPLN is at c4.251 and USDPLN at 3.805.

On the domestic interest rate market the IRS and bond curves shifted 1-5bp down, the smallest change was recorded in case of the 2Y IRS. Debt strengthening was a reaction of a pretty big yield's drop abroad which was a function of not that hawkish Fed rate cut and weaker market mood amid US-China trade news. On Friday, the market was pretty calm.

The Ministry of Finance announced that in November it will hold two switch auctions (on 7 and 21 of November) and the next year's gross borrowing needs are covered in 28%. The Ministry released data that showed that in September nonresidents sold Polish PLN-denominated marketable bonds for the nominal value of PLN2.8bn and the total nominal value of bonds in their hands reached PLN163.2bn, the lowest since April 2012. The most active seller in this group in September were the commercial banks (-PLN2.1bn) while in the remaining categories changes were rather minor. Under the geographical criteria, the entities located in the euro zone were the biggest sellers (-PLN2.4bn). Taking a detailed look at a particular bond series, the nonresidents sold PLN1.1bn of DS0727, PLN1.8bn of WS0428 and purchased PS0721 for PLN1.1bn. As regards the domestic investors, Polish banks and mutual funds were the biggest buyers (PLN2bn and PLN1.8bn, respectively) while the insurance companies were the biggest sellers (-PLN1.3bn).

Polish PMI declined to 45.6pts, while a rebound was widely expected. The index fell to the lowest level since 2009, driven by decline in subindices for output, new orders and new export orders. Expectations about future output fell to the lowest level in the history of the survey (2012). Weaker sentiments were explained by slowing demand from Europe and rising competition from China. The data confirms that the Polish economy was slowing down in 4Q19.

CPI and non-core components, %y/y



Source: GUS, Santander

CPI and core inflation, %y/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.2515	CZKPLN	0.1666
USDPLN	3.8070	HUFPLN*	1.2963
EURUSD	1.1168	RUBPLN	0.0600
CHFPLN	3.8605	NOKPLN	0.4188
GBPPLN	4.9235	DKKPLN	0.5691
USDCNY	7.0253	SEKPLN	0.3980

*for 100HUF

Last session in the FX market 01/11/2019

	min	max	open	close	fixing
EURPLN	4.251	4.264	4.260	4.253	4.2617
USDPLN	3.806	3.824	3.822	3.809	3.8174
EURUSD	1.113	1.117	1.115	1.117	-

Interest rate market 01/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.41	-4	21 mar 19	OK0521	1.633
PS1024 (5L)	1.71	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	1.96	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.70	0	1.69	-6	-0.36	-1
2L	1.74	0	1.59	4	-0.36	-1
3L	1.73	0	1.54	4	-0.34	0
4L	1.73	0	1.52	4	-0.30	-3
5L	1.75	0	1.52	4	-0.26	-3
8L	1.78	0	1.57	4	-0.10	-4
10L	1.80	0	1.63	4	0.02	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-4
T/N	1.60	-1
SW	1.58	-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	0
6x9	1.67	0
9x12	1.64	0
3x9	1.78	0
6x12	1.75	0

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.35 -8
France	19 1	0.31 0
Hungary		2.28 -3
Spain	36 -1	0.66 1
Italy	115 4	1.38 5
Portugal	36 -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

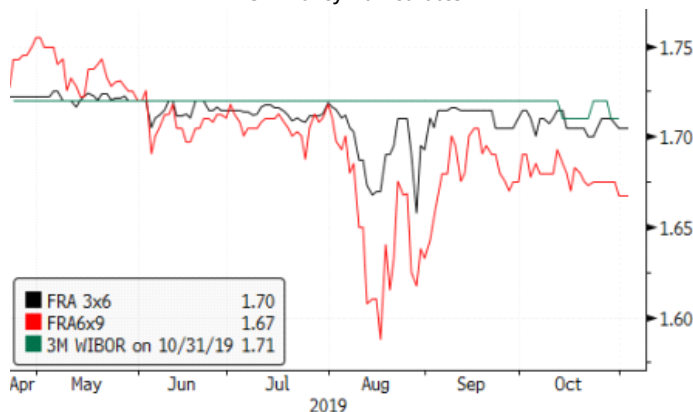
Zloty exchange rate



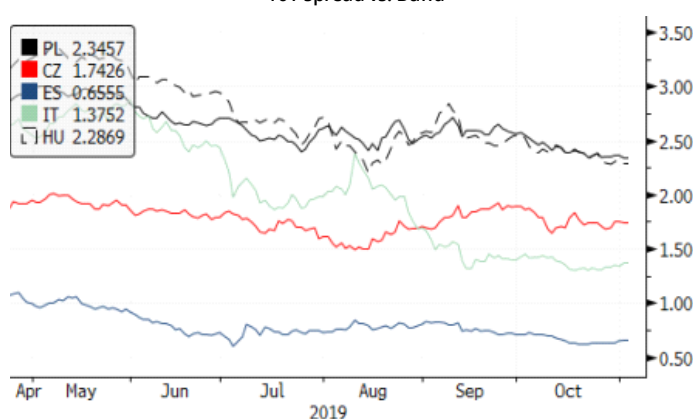
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
THURSDAY (31 October)								
08:00	DE	Retail Sales	Sep	% m/m	0.2	-	0.1	-0.1
10:00	PL	CPI	Oct	% y/y	2.5	2.5	2.5	2.6
11:00	EZ	Flash HICP	Oct	% y/y	0.7	-	0.7	0.8
11:00	EZ	GDP SA	3Q	% y/y	1.1	-	1.1	1.2
11:00	EZ	Unemployment Rate	Sep	%	7.4	-	7.5	7.5
13:30	US	Initial Jobless Claims	week	k	215	-	218	213
13:30	US	Personal Spending	Sep	% m/m	0.3	-	0.2	0.2
13:30	US	Personal Income	Sep	% m/m	0.3	-	0.3	0.5
13:30	US	PCE Deflator SA	Sep	% m/m	0.0	-	0.0	0.0
FRIDAY (1 November)								
13:30	US	Change in Nonfarm Payrolls	Oct	k	85	-	128	180
13:30	US	Unemployment Rate	Oct	%	3.6	-	3.6	3.5
15:00	US	ISM manufacturing	Oct	pts	49.0	-	48.3	47.8
MONDAY (4 November)								
09:00	PL	Poland Manufacturing PMI	Oct	pts	48.1	48.1		47.8
09:55	DE	Germany Manufacturing PMI	Oct	pts	41.9	-		41.7
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	45.7	-		45.7
16:00	US	Durable Goods Orders	Sep	% m/m	-	-		-1.1
16:00	US	Factory Orders	Sep	% m/m	-0.5	-		-0.1
TUESDAY (5 November)								
02:45	CN	Caixin China PMI Services	Oct	pts	51.5		-	51.3
16:00	US	ISM services	Oct	pts	53.4		-	52.6
WEDNESDAY (6 November)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	Factory Orders	Sep	% m/m	-	-		-0.6
09:00	CZ	Industrial Production	Sep	% y/y	0.0	-		-3.8
09:55	DE	Markit Germany Services PMI	Oct	pts	-	-		51.2
10:00	EZ	Eurozone Services PMI	Oct	pts	-	-		51.8
11:00	EZ	Retail Sales	Sep	% m/m	-	-		0.3
THURSDAY (7 November)								
08:00	DE	Industrial Production SA	Sep	% m/m	-	-		0.3
13:00	CZ	Central Bank Rate Decision		%	2.0	-		2.0
FRIDAY (8 November)								
08:00	DE	Exports SA	Sep	% m/m	-	-		-1.5
09:00	HU	Industrial Production SA	Sep	% y/y	-	-		2.7
09:00	HU	CPI	Oct	% y/y	0.0	-		2.8
16:00	US	Michigan index	Nov	pts	-	-		95.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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