

5 November 2019

# Eyeopener

## PMI lowest since the financial crisis

Market optimism fuelled by hopes for trade deal  
 Polish PMI strongly down  
 Zloty trimmed its gains, EURUSD stable  
 Polish debt robust to weakening abroad  
 Today ISM for US services

On Monday global markets mood was very good as a result of the weekend news about the progress of US-China talks. On top of that, on early Monday the final readings of euro zone, Germany and France manufacturing PMIs were published and surprised positively versus preliminary readings. The October bounce fuelled hopes that the strong downtrend from early 2018 might be close to an end. Bid for risk assets pushed equities higher and bonds lower. However, not all emerging market currencies gained due to better global risk sentiment.

**Polish PMI for manufacturing** declined to 45.6pts from 47.8pts, while a rebound was widely expected. The index fell by most in 3.5 years and reached the lowest level since mid-2009. The fall was driven by all main subindices – new orders (12<sup>th</sup> decline in a row and the lowest reading since April 2009), output (12<sup>th</sup> decline in a row and the lowest reading since June 2009) and employment. Weaker sentiments were explained by slowing demand from Europe (export shrank for 15 months in a row and at the fastest pace since June 2009) and rising competition from China. Expectations about future output fell to the lowest level in the history of the survey (2012). The data confirmed that the Polish economy was slowing down in 4Q19, but the pessimistic picture drawn by the PMI survey is in our view exaggerated and is giving guidance about the direction of the economy, not about the scale of the slowdown.

According to the **NBP credit survey**, in 3Q commercial banks tightened their lending criteria for the SMEs and in case of mortgages and consumer loans. Banks intend to further tighten criteria in these areas in 4Q. As a reason for actions taken in 3Q regarding SMEs, banks mentioned their capital situation and strong emphasis on the higher industry risk. In both SMEs and consumer loans, the reason for tighter criteria was the deterioration of the loan's book quality. In 3Q, the demand for loans to finance fixed investments, inventories and working capital fell markedly. In the banks' view, the demand for mortgages rises and the main reasons for this are: forecasts for the real estate market (this is the seventh consecutive quarter when the situation on the market – with fast rising prices – encourages demand for loans), positive economic situation of households and macroeconomic environment. In case of the consumption loans, for more than a year banks observe higher demand to finance fixed goods. Overall, the results of the survey spur concerns about the pace of investments growth but suggest the households are doing fine.

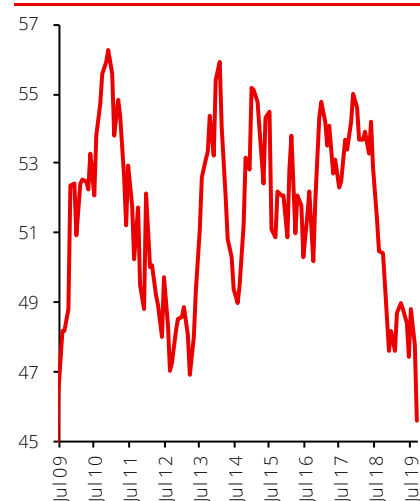
**EURUSD** after having risen on Friday, fell on Monday to 1.114 from 1.116. The scale of the move was small despite macroeconomic data from Europe beating expectations. After the jump recorded in October, the pair remains at elevated level slightly below 1.12. Lack of correction after the significant move higher suggests euro might still gain versus the dollar, especially after recent decent data from Europe and the hard Brexit risk significantly lower.

**EURPLN** bounced back to 4.27 from 4.25 giving away the its Friday's gains. USDPLN rose to 3.83 from 3.81. Polish zloty might have been under pressure after much worse than expected manufacturing PMI reading which could encourage profit taking for zloty longs after 5 consecutive weeks of gains and close to the important support at 4.24-4.25. We think the most probable scenario in the near future for the zloty is to range trade as opposed to further rally or a bounce back. As to the **other CEE currencies** the Hungarian forint significantly weakened to above 329 from 328 per euro, despite better manufacturing PMI readings. The Russian ruble and the Czech koruna were stable.

**Local fixed income market** was surprisingly quiet in the beginning of the week despite higher core yields abroad. As a result the 10Y spread vs Bund narrowed even further (to around 232 bp) and vs Treasuries as well (to around 20bp). We expect that the resilience of the Polish government debt to rises in core yields might not last in the weeks to come.

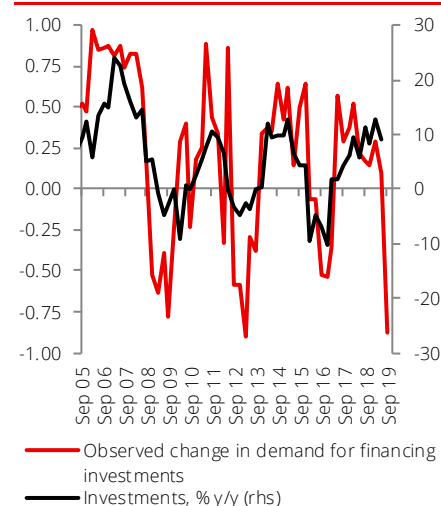
Yesterday we published November **MACROscope Lite** where we summarised our forecasts for the economy and the markets in the nearest months.

Polish PMI in manufacturing, pts



Source: Markit, Santander

Signals from senior loan officers' survey vs investment growth



Source: NBP, GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2712	CZKPLN	0.1673
USDPLN	3.8361	HUFPLN*	1.2970
EURUSD	1.1134	RUBPLN	0.0606
CHFPLN	3.8788	NOKPLN	0.4204
GBPPLN	4.9463	DKKPLN	0.5717
USDCNY	7.0051	SEKPLN	0.3996

\*for 100HUF

### Last session in the FX market 04/11/2019

	min	max	open	close	fixing
EURPLN	4.251	4.268	4.253	4.267	4.2539
USDPLN	3.804	3.831	3.809	3.830	3.8099
EURUSD	1.114	1.118	1.117	1.114	-

## Interest rate market 04/11/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.39	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.72	1	21 mar 19	PS0424	2.209
DS1029 (10L)	1.96	0	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	1.69	0	1.75	3	-0.36	0
2L	1.74	0	1.64	5	-0.36	0
3L	1.73	0	1.60	6	-0.33	1
4L	1.73	0	1.58	6	-0.29	1
5L	1.76	0	1.58	7	-0.24	1
8L	1.80	1	1.65	7	-0.06	2
10L	1.82	2	1.70	8	0.07	3

### WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.61	1
SW	1.59	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

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.30	-1
France	20	-1	0.31	0
Hungary			2.26	-2
Spain	35	0	0.65	-1
Italy	119	-3	1.34	-1
Portugal	35	1	0.58	-1
Ireland	26	2	0.40	0
Germany	9	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



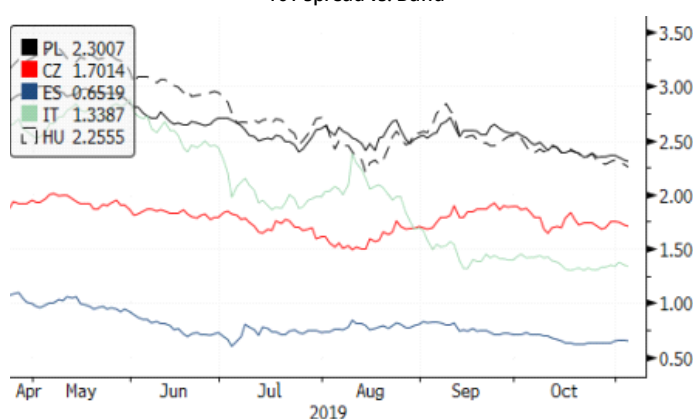
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
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	45.6	47.8
09:55	DE	Germany Manufacturing PMI	Oct	pts	41.9	-	42.1	41.7
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	45.7	-	45.9	45.7
16:00	US	Durable Goods Orders	Sep	% m/m	-	-	-1.2	-1.1
16:00	US	Factory Orders	Sep	% m/m	-0.5	-	-0.6	-0.1
TUESDAY (5 November)								
02:45	CN	Caixin China PMI Services	Oct	pts	51.5	-	51.1	51.3
16:00	US	ISM services	Oct	pts	53.5	-		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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