

7 November 2019

Eyeopener

China and US want to lift tariffs

New positive data from Europe
Rates and NBP forecasts unchanged
Zloty stable, EURUSD slightly up
Polish debt stable, no reaction to strengthening abroad
Today decision of Czech central bank

At the beginning of the Wednesday session the market sentiment was neutral but has been turning more positive with every passing hour. Similarly to manufacturing PMIs, the final euro zone and German services PMIs were slightly above the preliminary data and showed a slight rebound after strong declines in September. The Eurozone retail sales data was also decent – the September reading did not disappoint while the August one was revised higher. Positive data from Europe made EURUSD stop falling, while stock exchange indices increased. Bonds partially made for losses from the previous days. The summit Trump-Xi where the trade deal „Phase 1” was expected to be signed got postponed from November to December. However, today in the morning the news came out that China and US agreed to lift tariffs in phases as deal progresses, which added to the positive mood.

The **International Monetary Fund** downgraded the 2020 euro zone growth forecasts to 1.4% from 1.5%, its latest estimate from April 2019. Lower growth in Germany and Italy were named as the main reasons for the downgrade. IMF called on countries which have this possibility to increase fiscal spending in order to limit the slowdown.

Minister of Finance Jerzy Kwieciński informed that the planned **date for transfer of funds from OFE** (public pension funds) to IKE (private pension accounts) is 1 July 2020. It means that for the first 6 months of 2020, the FUS (social security fund) will be receiving transfers from OFE (thanks to so called „zipper” mechanism – transfer of funds of savers who are shortly before the retirement age to FUS) and simultaneously will be paying current contributions to OFE. Historically speaking, in 2018 the „zipper” payments equaled PLN7.8bn while current contributions amounted to PLN2.8bn (net PLN5.0bn). Hence we estimate that the delay will support public finance balance by PLN2.5bn. We would like to underscore that the asymmetric nature of the transformation fee (PLN 13.5bn in 2020, PLN5.5 bn in 2021) which was unveiled recently in the regulatory assessment, was already fully taken under consideration in the budget draft. As a result it will not help to fill the potential gap in public finances which is likely to occur after the idea to resign from limit on social insurance contribution has been scrapped.

In line with expectations, **the MPC left interest rates unchanged** and the statement did not differ significantly in the key points vs the previous one. The relatively slow economic growth abroad and uncertainty related to the future developments were stressed again. At the same time the MPC – relying on the new NBP projections – still thinks that despite some expected economic slowdown in 2020 the pace of Poland GDP growth shall stay decent and inflation should not leave the range of allowed fluctuations around the target. Adam Glapiński sustained his view that he sees high probability of the interest rates staying unchanged until the MPC's term. This view was shared by Rafał Sura who pointed to the downside risk to the inflation forecasts. Majority of the MPC members supports the wait-and-see approach and we do not expect any rate changes in 2019 and 2020. Read more [here](#).

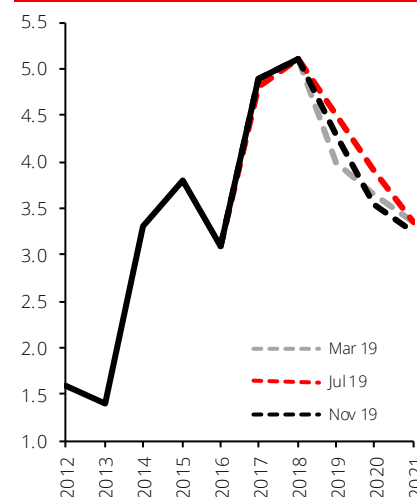
EURUSD stabilised yesterday around 1.108 after two days of significant declines. The data from Europe were better than expectations, but failed to send the exchange rate higher. As we approach the end of the week, there will be less important releases. We think EURUSD may stay above 1.105 in the remaining part of the week.

EURPLN went above 4.27 in the first phase of the session, but the move was not continued and the exchange rate ended the day around 4.265. USDPLN was moving around 3.85 for the whole day. After the Monday rise, EURPLN stabilised, but in our view a correction after the recent appreciation of the zloty is still more probable than a return to the downward trend of the fx pair.

In the case of **other CEE currencies**, the forint lost vs the euro for a third session in a row, but yesterday it lost less than on Tuesday. The koruna was stable yesterday, while the ruble was weakening vs the dollar. EURCZK and USDRUB remain close to their local minima.

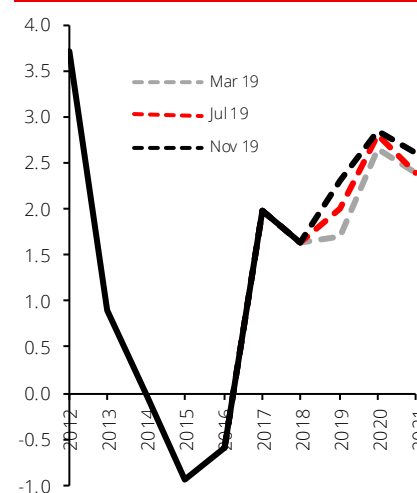
On the domestic interest rate market, IRS and bond yields at the end of the session were near the Tuesday close. Polish 10Y benchmark bond yield remains in a tight range, 1.95%-2.05%, since the middle of October and in our view a moment of a larger move is approaching. The change of global environment to less negative for economic growth suggests that soon bond yields may start to grow.

GDP growth in NBP forecasts, % y/y



Source: NBP, Santander

CPI inflation in NBP forecasts, % y/y



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luzziński +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	4.2661	CZKPLN	0.1671
USDPLN	3.8566	HUFPLN*	1.2853
EURUSD	1.1062	RUBPLN	0.0604
CHFPLN	3.8858	NOKPLN	0.4205
GBPPLN	4.9528	DKKPLN	0.5711
USDCNY	7.0145	SEKPLN	0.4004

*for 100HUF

Last session in the FX market 06/11/2019

	min	max	open	close	fixing
EURPLN	4.263	4.274	4.265	4.268	4.2697
USDPLN	3.846	3.858	3.854	3.857	3.8497
EURUSD	1.106	1.109	1.107	1.107	-

Interest rate market 06/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.39	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.74	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	0	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	-2	-0.35	0
2L	1.75	0	1.64	-3	-0.35	0
3L	1.74	-1	1.61	-3	-0.32	0
4L	1.75	-1	1.60	-3	-0.29	-1
5L	1.78	-2	1.61	-3	-0.24	-1
8L	1.82	-2	1.68	-4	-0.05	-2
10L	1.84	-2	1.74	-4	0.07	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.61	1
SW	1.59	0
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 1
France	19 1	0.30 0
Hungary		2.28 0
Spain	35 -1	0.63 0
Italy	115 -1	1.33 -1
Portugal	35 0	0.55 0
Ireland	27 0	0.39 -1
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

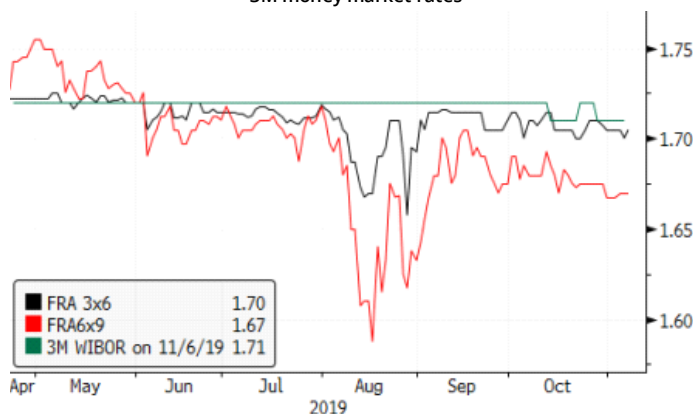
Zloty exchange rate



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	-	54.7	52.6
WEDNESDAY (6 November)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
08:00	DE	Factory Orders	Sep	% m/m	0.1	-	1.3	-0.4
09:00	CZ	Industrial Production	Sep	% y/y	4.5	-	4.9	-3.8
09:55	DE	Markit Germany Services PMI	Oct	pts	51.2	-	51.6	51.2
10:00	EZ	Eurozone Services PMI	Oct	pts	51.8	-	52.2	51.8
11:00	EZ	Retail Sales	Sep	% m/m	0.0	-	0.1	0.6
THURSDAY (7 November)								
08:00	DE	Industrial Production SA	Sep	% m/m	-0.4	-	-0.6	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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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.