

13 November 2019

Eyeopener

NBP sees downside risks to growth

Cautious optimism persists on the market
Weaker zloty, EURUSD down
Polish bonds recover slightly
Today Poland C/A data and US inflation

On Tuesday the market mood was quite positive – stock indices rose and EM currencies (apart from the Chilean peso) were stable, similarly as bond yields on the core markets. German data were quite positive – ZEW index describing the current situation rebounded slightly, while expectations index improved markedly to -2.1pts from -22.8pts. Donald Trump said that if the “phase one deal” with China is not agreed, tariffs on Chinese goods will go up significantly. At the same time, Trump admitted that the deal is close.

The NBP inflation report showed a slightly higher path of core inflation – raised by cost effect of hike in minimum wage, higher-than-expected housing costs, but on the other hand limited by weaker expectations about the economic growth. Expectations about energy prices went down (NBP assumed that energy prices will go up by 8% in 2020). CPI is expected to peak in 1Q20 at 3.5% y/y, but in 3Q19 it is expected to move back to 2.5% y/y and stay there until the end of the forecasting horizon (2021). The Report acknowledged risks for the economic growth: GDP growth abroad was significantly revised down and so was the investment (7.1% instead of 8.6% in 2019, 4.0% instead of 4.8% in 2020 and 1.9% instead of 2.6% in 2021). In our view the new forecasts give no reasons to change the MPC bias and this is in line with earlier words of Governor Adam Glapiński.

Yesterday **the first sitting of the new term's lower (Sejm) and upper (Senate) houses** of the Polish parliament took place. Elżbieta Witek, a ruling PiS candidate, became the Sejm marshal again. Tomasz Grodzki, an opposition coalition (KO) candidate, became a Senate marshal. He got 51 supporting votes which is exactly the number of the opposition senators. The outcome suggest that at least in the Senate and at least at the start of the new term, the opposition is united.

EURUSD dropped yesterday to 1.10, lowest level since mid-October and this despite the better than expected data from Germany. Today in the afternoon the exchange rate might be influenced by the US inflation. We expect further strengthening of the dolar in the coming days to 1.0930 (ok by 0.8%).

EURPLN rose yesterday to 4.28, the majority of the move took place in the evening after the close of the Polish market. USDPLN rose to 3.88, CHFPLN to 3.91 while GBPPLN to 4.983. We think that in the coming days the EURPLN will move slowly towards 4.30.

Other CEE currencies behaved roughly like the zloty. EURHUF and EURCZK were stable for a longer time and rose in the afternoon. The ruble was losing against the dollar since the start of the day, mainly due to local factors (weaker RUB basket). The CBR admitted that the net capital outflow in January-October equalled USD31.6bn.

On the domestic interest rate market bond yields fell slightly after their dynamic rise in the previous days: 10Y yield returned to 2.15% from 2.18% and 10Y IRS to 1.94% from 1.97%. At the short end of the curve a similar correction (3bp) took affected only bonds and thus the 2x10 spread remained at 76bp, whereas the IRS curve flattened, i.e. 2x10 spread moved from 19bp to 16bp. 10Y asset swap spread remained unchanged at 21bp and 2Y spread narrowed to -39bp. Core market yields did not change much on Tuesday, and so the 10Y bond spread to Bund narrowed to 240bp. From technical point of view, the German bond yields are at 200-day moving average, which for some investors may signal that the Bund may trim some losses soon. On the other hand, situation in the US debt market does not look so clear and there is a chance for further yields increase (to 2.14%) in the short term, which may put a pressure on other bond markets.

Today Poland balance of payments data for September will be released. We expect much higher current account and trade deficits than market consensus.

Poland imports and exports (% y/y)



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2839	CZKPLN	0.1677
USDPLN	3.8907	HUFPLN*	1.2795
EURUSD	1.1011	RUBPLN	0.0606
CHFPLN	3.9253	NOKPLN	0.4238
GBPPLN	4.9995	DKKPLN	0.5733
USDCNY	7.0207	SEKPLN	0.3999

*for 100HUF

Last session in the FX market 12/11/2019

	min	max	open	close	fixing
EURPLN	4.269	4.281	4.274	4.280	4.2788
USDPLN	3.870	3.888	3.872	3.887	3.878
EURUSD	1.100	1.104	1.104	1.101	-

Interest rate market 12/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.38	-3	21 mar 19 OK0521	1.633	
PS1024 (5L)	1.82	-2	21 mar 19 PS0424	2.209	
DS1029 (10L)	2.14	-3	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	1.77	-1	-0.34	0
2L	1.77	-1	1.69	-3	-0.34	0
3L	1.77	-2	1.68	-3	-0.30	0
4L	1.80	-3	1.68	-3	-0.25	-1
5L	1.84	-3	1.70	-3	-0.18	0
8L	1.90	-5	1.77	-3	0.01	-1
10L	1.92	-4	1.83	-2	0.15	1

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.61	0
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	1.68	1
9x12	1.67	1
3x9	1.78	0
6x12	1.78	0

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	-2
France	19	-1	0.31	1
Hungary			2.34	2
Spain	35	1	0.69	0
Italy	116	1	1.48	1
Portugal	35	1	0.62	1
Ireland	25	1	0.40	0
Germany	9	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

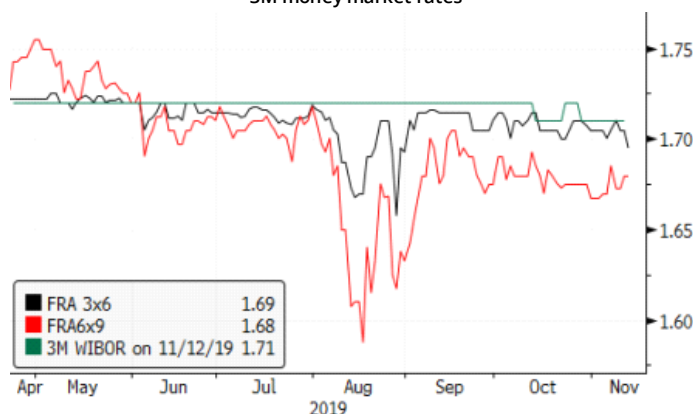
Zloty exchange rate



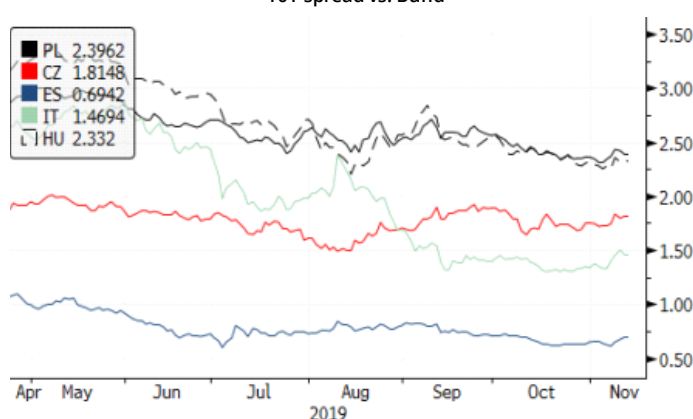
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (8 November)								
08:00	DE	Exports SA	Sep	% m/m	0.3	-	1.5	-1.8
09:00	HU	Industrial Production SA	Sep	% y/y	5.4	-	9.0	2.7
09:00	HU	CPI	Oct	% y/y	2.8	-	2.9	2.8
16:00	US	Michigan index	Nov	pts	95.5	-	95.7	95.5
MONDAY (11 November)								
09:00	CZ	CPI	Oct	% y/y	2.7	-	2.7	2.7
TUESDAY (12 November)								
11:00	DE	ZEW Survey Current Situation	Nov	pts	-22.3		-24.7	-25.3
WEDNESDAY (13 November)								
08:00	DE	HICP	Oct	% m/m	0.1	-	0/1	0.1
11:00	EZ	Industrial Production SA	Sep	% m/m	-0.2	-		0.4
14:00	PL	Current Account Balance	Sep	€mn	-219	-1 224		-606
14:00	PL	Trade Balance	Sep	€mn	7.5	-366		-55
14:00	PL	Exports	Sep	€mn	19 291	19 049		17 646
14:00	PL	Imports	Sep	€mn	19 265	19 415		17 701
14:30	US	CPI	Oct	% m/m	0.3	-		0.0
THURSDAY (14 November)								
08:00	DE	GDP WDA	3Q	% y/y	0.4	-		0.4
09:00	CZ	GDP SA	3Q	% y/y	2.6	-		2.8
09:00	HU	GDP	3Q	% y/y	4.2	-		4.9
10:00	PL	CPI	Oct	% y/y	2.5	2.5		2.5
10:00	PL	GDP	3Q	% y/y	4.1	4.1		4.5
11:00	EZ	GDP SA	3Q	% y/y	1.1	-		1.1
14:30	US	Initial Jobless Claims	week	k	215	-		211
FRIDAY (15 November)								
11:00	EZ	HICP	Oct	% y/y	0.7	-		0.7
14:00	PL	CPI Core	Oct	% y/y	2.45	2.4		2.4
14:30	US	Retail Sales Advance	Oct	% m/m	0.15	-		-0.3
15:15	US	Industrial Production	Oct	% m/m	-0.3	-		-0.39

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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