

14 November 2019

Eyeopener

Balance of payments a chance for GDP

Less of optimism on the market
 EURPLN slowly up amid stronger dollar
 Polish bonds gain thanks to lower yields abroad
 Today Poland GDP and CPI

On Wednesday markets were in worse mood after president Trump day earlier in the evening said that in the case of lack of progress of US-China talks the tariffs would be increased by a lot. On top of that, China said they do not want to commit to specific numbers regarding purchases of the US agriculture products. Emerging market currencies weakened, dollar gained, core market yields fell. On Wednesday Fed governor Jerome Powell spoke in Congress, said that the „current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with outlook“. He stressed, however, that there are risks to this outlook.

Poland September current account showed a surplus of EUR0.2bn while the consensus expected a deficit (-EUR0.2bn). Imports were the main source of surprise, as they grew by a mere 4.3% y/y, while exports added 9.3% y/y. Poland's balance of payments seems to behave counterintuitively, as the current account is improving amid weakening foreign demand and still strong domestic demand. This pattern is likely to hold in the months to come, so current account is likely to remain fairly balanced. These numbers are a positive for 3Q19 GDP growth estimates, suggesting some upward risk for our forecast (we are expecting 4.1% y/y in 3Q19 vs 4.5% y/y in 2Q19).

Yesterday a group of PiS MPs put forward a draft **bill abolishing the cap on social contributions in 2020**. According to the draft bill, the legislation will support the Social Security Fund with PLN7bn per annum. MPs from Porozumienie, who are 18 out of 235 total in the ruling coalition Zjednoczona Prawica, announced they will not support the bill. Another PiS proposal assumes that the 13. pension will be financed by the Solidarity Fund, which would be created from the current Solidarity Fund for Support of the Disabled. The new fund would be able to take loans in order to finance payouts, and this would not burden the central budget, but only the borrowing needs.

EURUSD traded in a tight 1.100 – 1.102 range trying to break the support several times without success. The likely reason being slightly weaker core inflation in the US. We expect that soon 1.10 will be broken and EURUSD will trade lower towards 1.093.

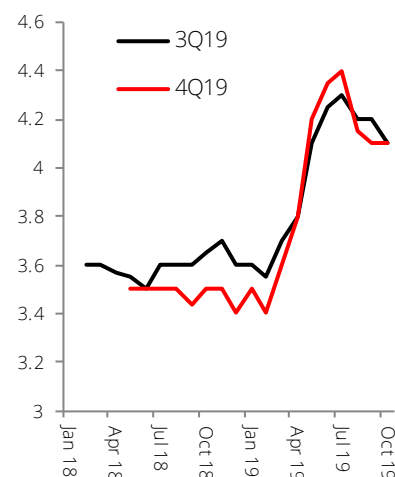
EURPLN traded higher for a 4th day in a row and reached a daily high at 4.293. The zloty weakened despite better than expected current account data and owing to poor market sentiment. USDPLN closed at 3.894, CHFPLN at 3.933, GBPPLN 4.995. We think the current EURPLN upside move might extend into the nearest future and the exchange rate may reach 4.30-4.31 in the coming days.

In the case of other CEE currencies, we saw mix behaviour. EURHUF stayed long around 334.8 and only in late afternoon is started to fall significantly, to 333.9. EURCZK rose to 25.6 for a while. USDRUB traded near 64.3 after the morning rise from 64.1.

On the domestic interest rate market, yields fell in line with core markets. Polish bond yield curve flattened (2x10 down to 71bp from 76bp), mostly due to the decline of 10Y yield to 2.09% from 2.15%, while the 2Y segment stayed in place. The IRS curve also flattened (to 13bp from 16bp), but with the whole curve moving down (10Y rate to 1.87% from 1.94%). Benchmark 10Y bond yields on the core markets went down in a similar scale: by 5bp to -0.30% in the case of Bunds and to 1.88% in the case of Treasuries. Polish spread to Bund and asset swap spread did not move (22bp and 239bp, respectively).

Today there will be releases of GDP in euro zone and in the region (Poland, Hungary, Czechia) and of Polish inflation. We and the market consensus see Polish 3Q GDP at 4.1% y/y after 4.5% in 2Q. Unfortunately, there are recently a growing number of negative signals regarding the growth outlook and GDP components (investments in particular). The detailed structure of 3Q GDP will be released in late November. Inflation data should confirm a decline to 2.5% y/y and stabilisation of core CPI at 2.4%. The peak of inflation is still ahead of us (in 1Q20).

Bloomberg consensus – GDP growth in 3Q and 4Q19



Source: Bloomberg, 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 Łuziński +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	4.2928	CZKPLN	0.1679
USDPLN	3.9018	HUFPLN*	1.2853
EURUSD	1.1002	RUBPLN	0.0607
CHFPLN	3.9450	NOKPLN	0.4241
GBPPLN	5.0087	DKKPLN	0.5745
USDCNY	7.0227	SEKPLN	0.4001

*for 100HUF

Last session in the FX market 13/11/2019

	min	max	open	close	fixing
EURPLN	4.278	4.293	4.280	4.289	4.285
USDPLN	3.885	3.902	3.887	3.899	3.8902
EURUSD	1.100	1.102	1.101	1.100	-

Interest rate market 13/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.37	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.79	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.08	-6	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	1.76	-1	-0.35	-1
2L	1.74	-3	1.67	-2	-0.34	-1
3L	1.74	-3	1.65	-3	-0.31	-2
4L	1.76	-4	1.65	-3	-0.27	-2
5L	1.79	-5	1.66	-4	-0.19	-1
8L	1.84	-5	1.73	-4	-0.03	-3
10L	1.86	-5	1.79	-4	0.10	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.60	-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	1.68	0
9x12	1.65	-2
3x9	1.78	0
6x12	1.76	-1

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	-5
France	19	1	0.31	0
Hungary			2.30	-9
Spain	35	2	0.75	0
Italy	117	10	1.55	0
Portugal	35	2	0.67	0
Ireland	26	1	0.41	-3
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

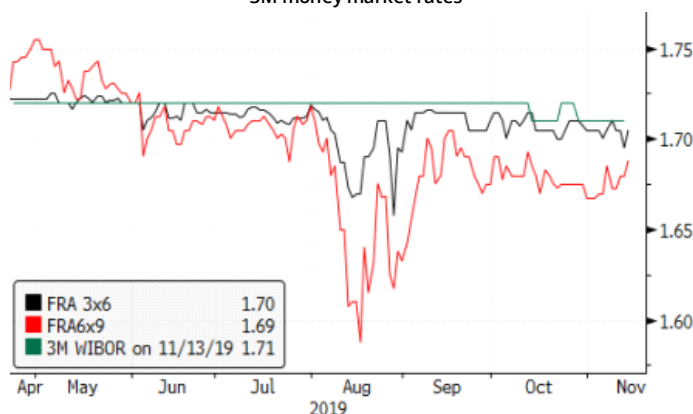
Zloty exchange rate



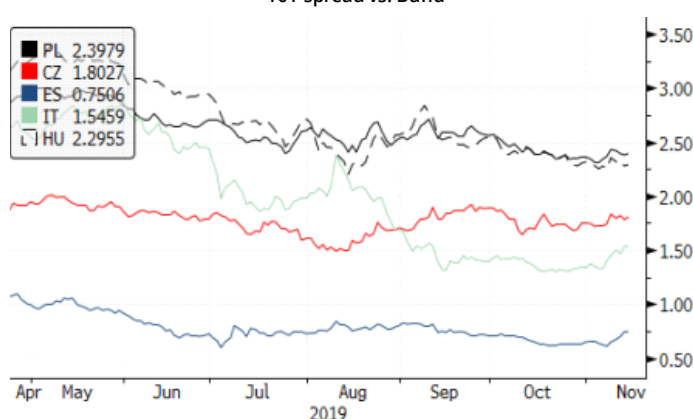
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar:

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
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	-	0.1	0.4
14:00	PL	Current Account Balance	Sep	€mn	-219	-1 224	+171	-657
14:00	PL	Trade Balance	Sep	€mn	7.5	-366	+468	-104
14:00	PL	Exports	Sep	€mn	19 291	19 049	19279	17 646
14:00	PL	Imports	Sep	€mn	19 265	19 415	18811	17 701
14:30	US	CPI	Oct	% m/m	0.3	-	0.4	0.0
THURSDAY (14 November)								
08:00	DE	GDP WDA	3Q	% y/y	0.5	-	0.5	0.3
09:00	CZ	GDP SA	3Q	% y/y	2.6	-	2.5	2.8
09:00	HU	GDP	3Q	% y/y	4.2	-	5.0	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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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>.