

22 November 2019

Eyeopener

More signs of weakness

Data from Poland pointing to economic slowdown
 EURPLN slightly higher again, EURUSD stable
 Polish bond yields higher, following Bund
 Today industrial production data in Poland, flash PMI in Europe

On Thursday morning European stock indices fell by 1% which supported bonds prices. Worse market sentiment resulted from unclear comments regarding US-China trade talks and the fact that a deal could not be reached for so long. In the remaining part of the day, however, the mood improved and at Polish close the stock indices were down only -0.2% while bonds gave back most of morning gains and even more. The US data was pretty good – existing home sales close to as expected, while Philly Fed gained more than expected. Today in the morning German GDP confirmed the initial reading of +0.1 q/q.

Yesterday, a **set of Polish data was released**. Wage and employment growth eased somewhat in October, to 5.9% y/y and 2.5% respectively. Employment declined in absolute terms for the third month in a row, confirming that the labour demand in Poland is weakening. Consumer sentiment deteriorated once again, and weaker growth rate of labour income and consumer optimism could mean some slowdown of private consumption in the upcoming quarters. Data on 3Q19 company results provide evidence of further decline of profit margins and signal a slowdown in private investments. In our view, the situation of companies will be curbing wage growth and fueling inflation. See more in our [Economic Comment](#).

OECD updated its growth forecasts for Poland, last released in May. The pace of the GDP growth was revised up to 3.8% from 3.5% for 2020 and in 2021 OECD expects 3.0%. The main driver of the 2020 change was stronger private consumption (to 4.7% from 4.2% owing to further social transfers and under assumption that the labour market would still struggle with labour supply shortages) and higher net exports (amid lower forecasts for exports and imports). Investment growth in 2020 was cut to 4.6% from 5.6%. OECD still thinks that in 2020 inflation will be at 3% and in 2021 at 2.8%. The Organization advises Poland to consider rate hikes earlier than in two years. Regarding fiscal policy, some tightening is advised in order to neutralize the mid-term costs related to population aging. As regards the global outlook, OECD did not cut GDP forecast and said that easing of the trade wars would help the global economic activity to revive.

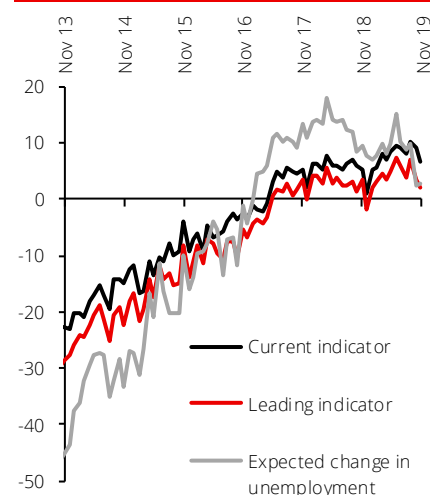
During the **November MPC meeting**, the motion to cut rates appeared for the third time a row and failed again. Despite some earlier suggestions from MPC hikes, there was no motion to hike rates. Most MPC members think that they agree with the new GDP forecasts, while some central bankers gathered that CPI forecasts are underestimated, given the strong demand pressure in the economy. Still, the MPC was a whole still sees keeping rates unchanged as an optimal solution.

EURUSD rose yesterday during the day to almost 1.11, but at the end of the session it returned – similar to the previous three days – to c1.107. In the recent days there were no clear signals about trade talks, which might be one of the reasons why so far the weekly trading range of EURUSD (the difference between maximum and minimum) is the lowest since December 1985. Today at 10:00CET we will see flash PMIs for euro zone industry and services in November. The market hopes that after the rise in October, this time the indexes will also go up. If this is the case, this will be a euro-positive factor.

EURPLN rose yesterday to almost 4.30 setting a new November high, USDPLN ended the day above 3.88. Today the key factor for the zloty may be the reaction of EURUSD to the European data, but also the upcoming reading of domestic production (another disappointment could weigh on the currency, our forecast is lower than the market consensus).

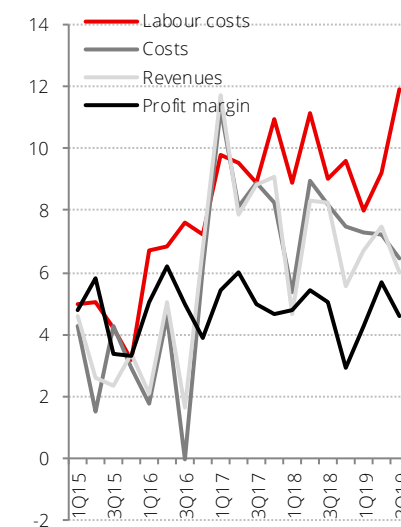
On the domestic interest rate market, IRS and bond yield curves moved up by 1-2bp due to the gradual rise of yields on core markets. The size of changes was similar in Poland and on core markets. Today the debt market may focus on euro zone flash PMIs, if these give hope that the slowdown in Europe is not going to deepen. If this is the case then there could be a rise of yields in Poland and abroad.

Consumer sentiment measures



Source: GUS, Santander

Results of big companies, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2980	CZKPLN	0.1683
USDPLN	3.8835	HUFPLN*	1.2841
EURUSD	1.1068	RUBPLN	0.0609
CHFPLN	3.9096	NOKPLN	0.4248
GBPPLN	5.0155	DKKPLN	0.5751
USDCNY	7.0374	SEKPLN	0.4039

*for 100HUF

Last session in the FX market 21/11/2019

	min	max	open	close	fixing
EURPLN	4.292	4.300	4.296	4.299	4.2948
USDPLN	3.872	3.887	3.882	3.886	3.8737
EURUSD	1.106	1.110	1.107	1.106	-

Interest rate market 21/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.38	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.79	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.07	2	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	1.71	1	-0.34	0
2L	1.74	1	1.58	2	-0.33	1
3L	1.73	1	1.55	2	-0.30	2
4L	1.73	1	1.54	2	-0.26	2
5L	1.75	2	1.55	3	-0.21	2
8L	1.80	3	1.61	3	-0.03	2
10L	1.82	2	1.67	3	0.09	2

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-1
T/N	1.57	-1
SW	1.57	-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	1.69	0
9x12	1.65	0
3x9	1.79	0
6x12	1.77	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	0
Hungary			2.24	-2
Spain	39	1	0.78	0
Italy	131	-2	1.53	3
Portugal	37	1	0.75	0
Ireland	26	-2	0.42	2
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

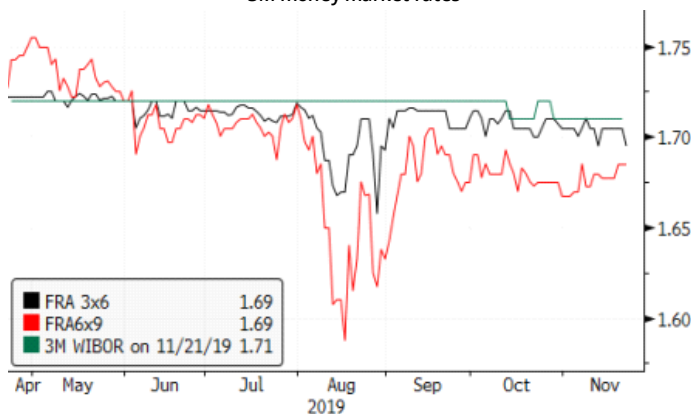
Zloty exchange rate



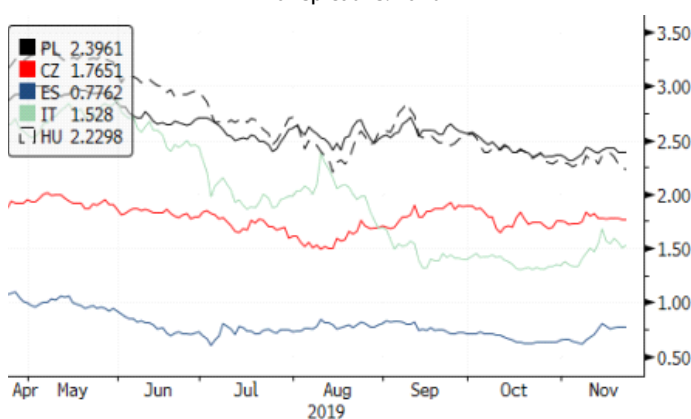
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (15 November)								
11:00	EZ	HICP	Oct	% y/y	0.7	-	0.7	0.8
14:00	PL	CPI Core	Oct	% y/y	2.4	2.5	2.4	2.4
14:30	US	Retail Sales Advance	Oct	% m/m	0.2	-	0.3	-0.3
15:15	US	Industrial Production	Oct	% m/m	-0.4	-	-0.8	-0.3
MONDAY (18 November)								
No important data releases								
TUESDAY (19 November)								
14:00	HU	Central Bank Rate Decision	Nov.19	%	0.9	-	0.9	0.9
14:30	US	Housing Starts	Oct	% m/m	5.1	-	3.8	-7.9
WEDNESDAY (20 November)								
20:00	US	FOMC Meeting Minutes						
THURSDAY (21 November)								
10:00	PL	Employment in corporate sector	Oct	% y/y	2.6	2.6	2.5	2.6
10:00	PL	Average Gross Wages	Oct	% y/y	6.3	6.0	5.9	6.6
14:30	US	Initial Jobless Claims	week	k	215	-	227	225
14:30	US	Index Philly Fed	Nov	pts	6.5	-	10.4	5.6
16:00	US	Existing Home Sales	Oct	% m/m	2.1	-	1.9	-2.5
FRIDAY (22 November)								
08:00	DE	GDP WDA	3Q	% y/y	0.5	-		0.5
09:30	DE	Flash Germany Manufacturing PMI	Nov	pts	42.8	-		42.1
09:30	DE	Flash Markit Germany Services PMI	Nov	pts	52.0	-		51.6
10:00	EZ	Flash Eurozone Manufacturing PMI	Nov	pts	46.4	-		45.9
10:00	EZ	Flash Eurozone Services PMI	Nov	pts	52.4	-		52.2
10:00	PL	Sold Industrial Output	Oct	% y/y	2.5	2.0		5.6
10:00	PL	Construction Output	Oct	% y/y	5.6	8.7		7.6
10:00	PL	PPI	Oct	% y/y	0.6	0.1		0.9
16:00	US	Michigan index	Nov	pts	95.7	-		95.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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