

26 November 2019

Eyeopener

Retail sales improved

Markets remain optimistic

According to Kropiwnicki, the MPC may more often mention rate cuts

Fx markets were calm

Bond yields in Poland and abroad unchanged

Today Polish money supply, consumer confidence in the USA

On Monday stock indices gained globally (increases of order of magnitude of 0.5%) after early morning gains in Asia as pro-democratic candidates won the majority seats in HK local elections. Also, German Ifo index beat expectations but also news that China is about to strengthen intellectual property rights, which was read by markets as increasing the likelihood of a deal. On Tuesday morning the Chinese Ministry of Commerce said that top negotiators (Liu He, Mnuchin, Lighthizer) „reached consensus” on how to resolve some problems. The talks continue and negotiators remain in touch which should support market optimism. Core market yields have not changed by much (slightly lower yields on the US bond curve), while emerging market currencies weakened after dollar index tried to break higher. Brent oil closed unchanged on the day, while gold slightly cheapened to US\$1458/oz.

Fed governor **Jerome Powell** said that Federal Reserve is strongly committed to the 2% inflation goal to be achieved symmetrically meaning that policymakers would be happy with inflation running a little above or below the 2% level. Powell underscored that it is essential that the Fed use their tools to make sure they do not permit an unhealthy downward drift in inflation expectations and inflation.

MPC member **Jerzy Kropiwnicki** said in an interview for Reuters that the voices for rate cuts could now intensify in the MPC while hikes could be mentioned less often. He said he would not go for a rate cut since there is no optimistic assessment of situation in companies and no strong willingness to invest. Thus, rate cuts would not prevent an economic slowdown.

In October, Polish **retail sales** grew 4.6% y/y in real terms vs 4.3% market consensus. Such result eases somewhat the worries about consumer spending that arose after the disappointing previous reading, but confirms outlook of continuing slowdown. In our view, additional social transfers and cut of the PIT tax rate should prevent retail sales from a major deceleration. More in our [economic comment](#).

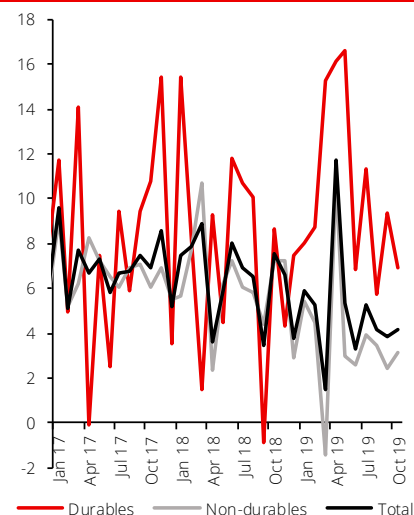
EURUSD was quite stable on Monday after it fell noticeably on Friday – yesterday the exchange rate opened and closed at c.1.102 after it tried to break 1.10 intraday. The realised volatility of EURUSD is historically low ahead of the Thanksgiving Day in the US (on Thursday). Continuation of this situation pulls implied volatilities below levels from summer 2014. We think the dollar could gain even 1% in the coming days (with the dollar index climbing to 99.5, its September peak).

EURPLN is consolidating around 4.30 in its very gradual upside trend and amid very low realised volatility. However, implied volatilities are not falling which might imply that some market participants are still concerned about further zloty depreciation. We think that before December (that historically was positive for the zloty, with only a few exceptions) we might see weaker zloty with EURPLN climbing to around 4.32. USDPLN closed at 3.90, CHFPLN at 3.915 and GBPPLN at 5.037.

On the domestic **interest rate market** Monday was a calm day with the yields holding near Friday's closing. Bund yields were pretty stable as well and thus the PL-DE spread remained fairly unchanged. Only the IRS rates moved down by 1bp on the front end and by 3bp on the long end leading to widening of the 10Y asset swap spread to 30bp. As regards the core markets, only the UST yields moved and the 10Y yield eased to 1.76%.

Today in the US we will see new home sales data and the consumer confidence index. In Poland, M3 money supply data will be published and the government will discuss the private pension funds liquidation bill.

Retail sales, broad categories, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2967	CZKPLN	0.1685
USDPLN	3.9010	HUFPLN*	1.2787
EURUSD	1.1015	RUBPLN	0.0610
CHFPLN	3.9141	NOKPLN	0.4251
GBPPLN	5.0306	DKKPLN	0.5751
USDCNY	7.0300	SEKPLN	0.4051

*for 100HUF

Last session in the FX market 25/11/2019

	min	max	open	close	fixing
EURPLN	4.291	4.303	4.295	4.298	4.299
USDPLN	3.892	3.907	3.899	3.905	3.9036
EURUSD	1.100	1.103	1.103	1.101	-

Interest rate market 25/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.38	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.77	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.05	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	1.75	1	-0.35	0
2L	1.72	-1	1.61	0	-0.34	-1
3L	1.69	-2	1.57	0	-0.31	0
4L	1.69	-2	1.55	0	-0.27	-2
5L	1.70	-3	1.55	0	-0.23	-2
8L	1.73	-3	1.61	0	-0.06	-3
10L	1.75	-3	1.67	0	0.05	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	2
T/N	1.59	1
SW	1.58	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	1.64	-1
3x9	1.78	-1
6x12	1.77	1

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.40 -1
France	18 -1	0.31 -1
Hungary		2.18 -4
Spain	40 -1	0.76 -1
Italy	132 -2	1.51 -3
Portugal	38 -1	0.73 -3
Ireland	24 0	0.42 -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

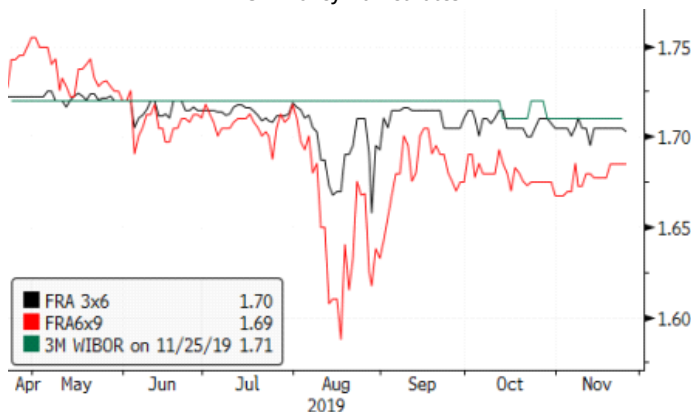
Zloty exchange rate



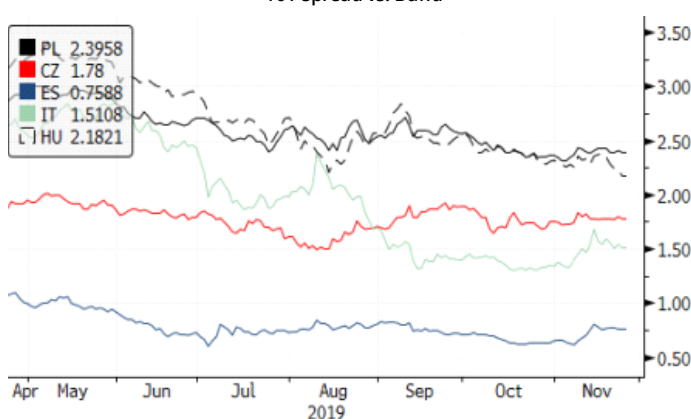
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (22 November)								
08:00	DE	GDP WDA	3Q	% y/y	0.5	-	0.5	0.5
09:30	DE	Germany Manufacturing PMI	Nov	pts	42.8	-	43.8	42.1
09:30	DE	Markit Germany Services PMI	Nov	pts	52.0	-	51.3	51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	46.4	-	46.6	45.9
10:00	EZ	Eurozone Services PMI	Nov	pts	52.4	-	51.5	52.2
10:00	PL	Sold Industrial Output	Oct	% y/y	2.5	2.0	3.5	5.6
10:00	PL	Construction Output	Oct	% y/y	6.2	8.8	-4.0	7.6
10:00	PL	PPI	Oct	% y/y	0.2	0.1	-0.1	0.9
16:00	US	Michigan index	Nov	pts	95.7		96.8	95.7
MONDAY (25 November)								
10:00	DE	IFO Business Climate	Nov	pts	95.0	-	95.0	94.7
10:00	PL	Retail Sales Real	Oct	% y/y	4.3	4.8	4.6	4.3
TUESDAY (26 November)								
14:00	PL	Money Supply M3	Oct	% y/y	9.0	9.0		9.4
16:00	US	Consumer Conference Board	Nov	pts	126.8	-		125.9
16:00	US	New Home Sales	Oct	% m/m	0.8	-		-0.7
WEDNESDAY (27 November)								
10:00	PL	Unemployment Rate	Oct	%	5.1	5.0		5.1
14:30	US	Durable Goods Orders	Oct	% m/m	-0.5	-		-1.2
14:30	US	GDP Annualized	3Q	% q/q	1.9	-		1.9
14:30	US	Initial Jobless Claims	week	k	218	-		227
16:00	US	Personal Spending	Oct	% m/m	0.3	-		0.2
16:00	US	Personal Income	Oct	% m/m	0.3	-		0.3
16:00	US	Pending Home Sales	Oct	% m/m	0.2	-		1.5
16:00	US	PCE Deflator SA	Oct	% m/m	0.3	-		0.0
20:00	US	Fed Beige Book						
THURSDAY (28 November)								
11:00	EZ	ESI	Nov	pct.	101.0	-		100.8
14:00	DE	HICP	Nov	% m/m	-0.6	-		0.1
FRIDAY (29 November)								
08:00	DE	Retail Sales	Oct	% m/m	-0.1	-		0.0
09:00	CZ	GDP SA	3Q	% y/y	2.5	-		2.5
09:00	HU	GDP	3Q	% y/y	5.0	-		5.0
10:00	PL	CPI	Nov	% y/y	2.5	2.7		2.5
10:00	PL	GDP	3Q	% y/y	-	3.9		3.9
11:00	EZ	Flash HICP	Nov	% y/y	0.8	-		0.7
11:00	EZ	Unemployment Rate	Oct	%	7.5	-		7.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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