

2 December 2019

Eyeopener

Weaker domestic demand in 3Q

Weaker consumption and investments in Polish GDP, no surprise in CPI
Zloty slightly stronger, 1.10 tested by EURUSD
Domestic debt stable, core bonds weaker this morning
Today industrial sentiment indicators

On Friday the market trade was relatively calm. Stock markets were hovering around the Thursday close, bonds lost somewhat and the FX market did not post any major moves. Flash euro zone HICP surprised to the upside only slightly, and CEE GDP data did not deviate much from flash readings. Manufacturing PMI for China in November climbed for the fifth time in a row and surprised to the upside again, which seems to be solid ground to build some market optimism today and this has already translated into rise of core bond yields.

Polish manufacturing PMI rose in November to 46.7 from 45.6, which still is a very low level (second lowest since July 2009). Main components of the index, albeit a bit better than in October, were still pointing to gloomy outlook for production, new orders, and employment. Firms' expectations of future output were the lowest since 2012, amid reported declining demand and worsening economic forecasts. Slowing costs growth and weakening price pressure were also reported. Overall, the PMI index still heralds significant slowdown in the manufacturing sector. Other business climate surveys (GUS, ESI) signal the same direction for industry, although of smaller magnitude. The key issue for Polish manufacturers will be situation in the euro zone, where recent months showed first signals of shy improvement.

GDP growth decelerated to 3.9% y/y in 3Q, confirming the flash estimate. The slowdown was driven by softer main components of domestic demand: investments, private consumption and inventories, while net exports surprised positively, adding 0.8pp to GDP growth. We expect Polish economy to keep slowing in the coming quarters at a moderate pace, as the impact of external shocks will gradually filter to investments and trade. **CPI inflation** inched up to 2.6% y/y in November, a bit less than we estimated and we think the final reading may be revised higher after taking into account rise of fuel and food prices at the end of the month. Core inflation rose to 2.6%, according to our estimate. We still think that the peak for both CPI and core inflation will take place 1Q20. Read more in our [Economic Comment](#).

EURUSD on Friday tested the important short-term support at 1.100. Late in the afternoon the volatility increased vs 1H of the day. Last week the EURUSD moved within the narrowest range in many years due to lower activity of US-based investors (holiday on Thursday) and lack of news on US-China trade negotiations. This week the volatility might increase even further because of the incoming important US data (ISM, Non-farm payrolls). The break of the 1.100 would open the possibility for a EURUSD move towards 1.090 in the short-term.

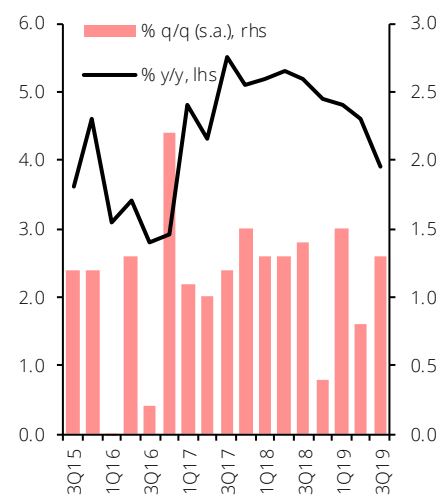
EURPLN was climbing since the start of Friday session and reached a new local top at 4.33, but corrected to 4.312 at the end of the day thanks to a major appreciation of the koruna and the forint and despite stronger dollar. USDPLN increased slightly to 3.93. EURPLN is currently in the middle of 4.25-4.40 range, where it has stayed for many months. We have just entered December – month which is statistically favourable for the zloty – in the last 20 years the zloty versus the euro lost only five times in the last month of the year. In our view the upward momentum of EURPLN could continue towards 4.34.

On the **domestic interest rate market**, on Friday the IRS and bond yields did not move more than 1bp from Thursday close. Core markets rates were even more stable since the global data did not deviate much from the consensus. Bunds and Treasuries have still not decided about the direction for the coming weeks. This week's data releases (ISM, nonfarm payrolls) could help trigger directional impulse that will affect Polish debt as well. One cannot exclude that today's morning core yields' jump after the Chinese PMI data could be a good hint.

The Ministry of Finance said it will not hold a standard auctions in December, only on switch auction (on December 13). At the end of October, nonresidents held PLN4bn less of Polish PLN-denominated marketable bonds than at the end of September (the stock fell below PLN160bn, its lowest since April 2012). The biggest sellers were entities from Asia (excluding Middle East, -PLN1.5bn) and non-EZ UE countries (PLN-1.2bn). Foreign banks sold more than PLN1.5bn and insurance companies PLN1.3bn of Polish bonds. Among domestic investors, Polish banks cut exposure by PLN6bn while mutual funds added PLN2.6bn. Big impact on the October holdings came from maturities (incl. more than PLN7bn of DS1019).

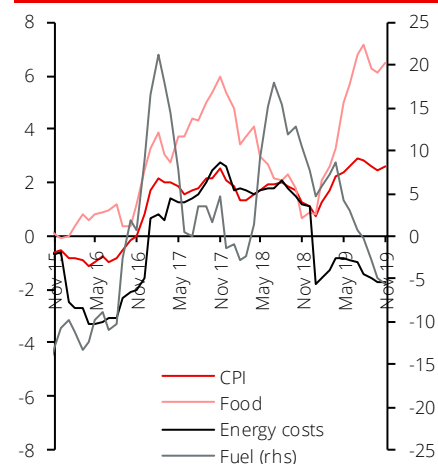
The week will start with the publication of manufacturing PMI in many countries and will end with a monthly US labour market report. On Wednesday there is a meeting of Polish MPC where we do not expect market moving events. The seating will be the last one for Jerzy Osiatyński. His successor will be appointed by the president.

Polish GDP growth



Source: GUS, Santander

Selected inflation components, % y/y



Source: GUS, 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	4.3125	CZKPLN	0.1688
USDPLN	3.9140	HUFPLN*	1.2886
EURUSD	1.1018	RUBPLN	0.0608
CHFPLN	3.9141	NOKPLN	0.4250
GBPPLN	5.0561	DKKPLN	0.5772
USDCNY	7.0326	SEKPLN	0.4089

*for 100HUF

Last session in the FX market 29/11/2019

	min	max	open	close	fixing
EURPLN	4.311	4.329	4.321	4.317	4.3236
USDPLN	3.910	3.933	3.925	3.916	3.9288
EURUSD	1.098	1.103	1.101	1.102	-

Interest rate market 29/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.37	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.72	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	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	1.69	-1	1.74	-2	-0.35	0
2L	1.68	0	1.62	-1	-0.35	0
3L	1.65	0	1.58	0	-0.31	1
4L	1.65	1	1.58	1	-0.28	0
5L	1.65	1	1.59	0	-0.24	1
8L	1.68	2	1.65	1	-0.07	1
10L	1.70	2	1.70	1	0.05	1

WIBOR rates

Term	%	Change (bps)
O/N	1.52	24
T/N	1.59	4
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	-1
6x9	1.67	0
9x12	1.62	-1
3x9	1.77	0
6x12	1.73	-2

Measures of fiscal risk

Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.36	2
France	18	1	0.31	0
Hungary			2.26	9
Spain	40	0	0.79	2
Italy	137	-1	1.59	0
Portugal	38	0	0.76	0
Ireland	22	3	0.40	0
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

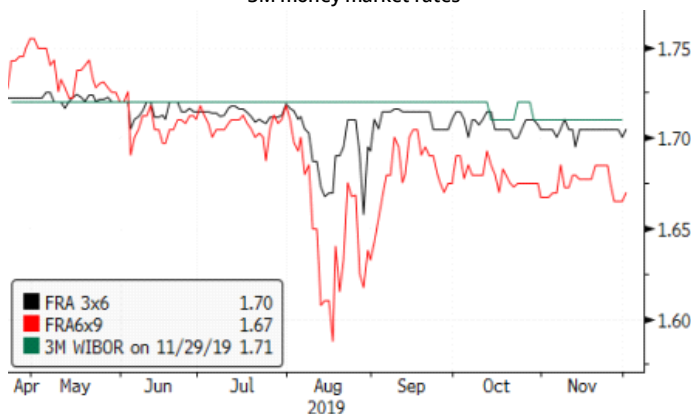
Zloty exchange rate



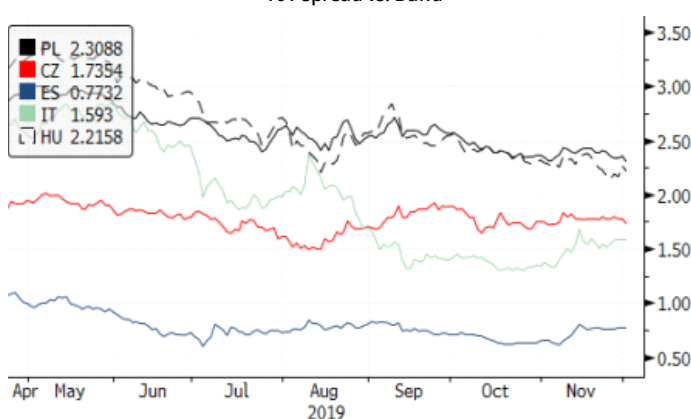
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (29 November)								
08:00	DE	Retail Sales	Oct	% m/m	0.2	-	-1.9	0.1
09:00	CZ	GDP SA	3Q	% y/y	2.5	-	2.5	2.5
09:00	HU	GDP	3Q	% y/y	5.0	-	5.0	5.0
10:00	PL	Flash CPI	Nov	% y/y	2.6	2.8	2.6	2.5
10:00	PL	GDP	3Q	% y/y	3.9	3.9	3.9	3.9
11:00	EZ	Flash HICP	Nov	% y/y	0.9	-		0.7
11:00	EZ	Unemployment Rate	Oct	%	7.5	-		7.5
MONDAY (2 December)								
09:00	PL	Poland Manufacturing PMI	Nov	pts	46.2	46.9	46.7	45.6
09:55	DE	Germany Manufacturing PMI	Nov	pts	43.8	-		43.8
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	46.6	-		46.6
16:00	US	ISM manufacturing	Nov	pts	49.5	-		48.3
TUESDAY (3 December)								
No important data releases								
WEDNESDAY (4 December)								
	PL	MPC decision		%	1.50	1.50		1.50
02:45	CN	Caixin China PMI Services	Nov	pts	51.2	-		51.1
09:55	DE	Markit Germany Services PMI	Nov	pts	51.3	-		51.3
10:00	EZ	Eurozone Services PMI	Nov	pts	51.5	-		51.5
14:15	US	ADP report	Nov	k	140	-		125
16:00	US	ISM services	Nov	pts	54.5	-		54.7
THURSDAY (5 December)								
08:00	DE	Factory Orders	Oct	% m/m	0.6	-		1.3
11:00	EZ	GDP SA	3Q	% y/y	1.2	-		1.2
11:00	EZ	Retail Sales	Oct	% m/m	0.0	-		0.1
14:30	US	Initial Jobless Claims	week	k	220	-		213
16:00	US	Durable Goods Orders	Oct	% m/m	-0.9	-		0.6
16:00	US	Factory Orders	Oct	% m/m	0.1	-		-0.6
FRIDAY (6 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.2	-		-0.6
09:00	HU	Industrial Production SA	Oct	% y/y	6.7	-		8.98
14:30	US	Change in Nonfarm Payrolls	Nov	k	190	-		128
14:30	US	Unemployment Rate	Nov	%	3.6	-		3.6
16:00	US	Michigan index	Dec	pts	97.0	-		96.8

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.