

17 December 2019

Eyeopener

Mixed signals from PMIs

Plenty of market optimism despite poor industrial PMIs
 EURPLN sets a new December low
 EURUSD slightly up
 Bond yields more less unchanged
 Today Hungarian central bank meeting, important US data

The new week started with a robust performance of the stock indexes amid positive news flow from Friday – agreement of terms of the ‘phase one’ trade deal and victory of the Conservative Party in the UK general elections. In the market’s view, the two important risk factors to the global economy ease substantially and this lead to a rise in demand for risky assets. The majority of the EM currencies gained vs the dollar and half of them appreciated vs the euro (including the zloty). At the same time, bonds performed surprisingly well despite that jump of optimism – the 10Y UST yield rose but only marginally while its German peer remained stable near the Friday’s closing. No weakening of bonds might have been caused by not too encouraging readings of the flash December manufacturing PMIs for euro zone and Germany – both declined significantly after two encouraging months. On the other hand, indexes for services rose. Optimism prevailed during the Asian session which was however accompanied by the core yields down move.

In October, **C/A balance** in Poland was +€529mn vs +€287mn market expectations, thanks to stronger than expected export of services. The goods trade balance was +€440mn, close to what had been expected. Export grew by 4% y/y and import by -0.1% y/y. Export was slightly stronger than we assume – this might be a reflection of the improvement in Eurozone business sentiment from previous months. In general, export growth shows a gradual negative tendency linked to EU slowdown and without a rebound in the EU (which we expect next year) it will in our view be descending further. Import results seem consistent with weaker domestic demand (which slowed down from 4.6% y/y to 3.3% in 3Q). 12M rolling sum of C/A balance may have turned marginally positive after October and we expect this measure to hold very close to zero in the following months.

All the **core inflation** measures went up in November, with inflation ex food and energy prices at 2.6% y/y versus 2.4% y/y in October. We are expecting the upward march of core inflation to continue. It could reach a peak near 2.8% y/y in 1Q20 and then go down.

Yesterday we released our year-ahead report “MACROscope – 2020 Outlook: Gear down to three” with the updated forecasts for the Polish GDP, inflation and exchange rates. Enjoy the reading.

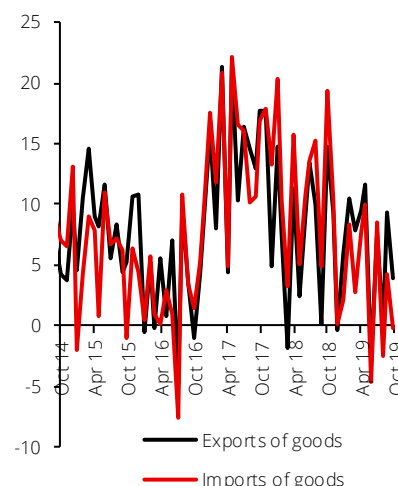
EURUSD rose yesterday to slightly above 1.115 despite the mixed European data. The dollar might have been pressured by the lower demand for the risky assets after the positive news emerged at the end of the last week. On Friday, EURUSD broke resistance at slightly below 1.12 for a while and this might make the upside move easier in the coming weeks. Today we will see important US data on industrial output and the real estate market.

EURPLN fell yesterday for the second session in a row and set the daily low at c4.26, its lowest since first decade of November. USDPLN fell as well but did not manage to break the Friday’s low of 3.82 and closed the day near this level. We think that in the short term the zloty could remain strong and EURPLN could ease towards 4.25 gradually.

In the case of **other CEE currencies**, the forint, koruna and ruble gained. EURHUF and EURCZK managed to reach their fresh December lows of 328 and 25.48, respectively. USDRUB did not manage to break the Friday’s low despite higher oil price and weaker dollar.

On the domestic **interest rate market** bond yields rose by no more than 2bp along the curve while changes on the IRS curve were mixed but still smaller than on the bond curve. The 10Y Bund did not change much so the respective bond yield spread remained fairly stable around 230bp, hovering at the lowest level since late 2015.

Poland exports and imports, % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2598	CZKPLN	0.1677
USDPLN	3.8225	HUFPLN*	1.2970
EURUSD	1.1144	RUBPLN	0.0611
CHFPLN	3.8870	NOKPLN	0.4234
GBPPLN	5.0714	DKKPLN	0.5721
USDCNY	7.0051	SEKPLN	0.4096

*for 100HUF

Last session in the FX market 16/12/2019

	min	max	open	close	fixing
EURPLN	4.258	4.284	4.269	4.258	4.2747
USDPLN	3.820	3.850	3.839	3.822	3.8234
EURUSD	1.112	1.116	1.113	1.114	-

Interest rate market 16/12/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.41	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.77	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	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	1.68	0	1.77	2	-0.34	0
2L	1.71	0	1.69	4	-0.32	0
3L	1.66	0	1.67	6	-0.28	0
4L	1.66	1	1.68	6	-0.24	1
5L	1.67	0	1.70	7	-0.18	1
8L	1.70	0	1.77	7	-0.01	2
10L	1.73	0	1.83	7	0.11	3

WIBOR rates

Term	%	Change (bps)
O/N	1.60	3
T/N	1.60	2
SW	1.59	1
2W	1.60	0
1M	1.63	0
3M	1.70	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	0
3x6	1.68	0
6x9	1.66	0
9x12	1.62	-1
3x9	1.77	0
6x12	1.75	-1

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.30 2
France	18 -1	0.29 0
Hungary		2.12 1
Spain	41 2	0.70 0
Italy	125 1	1.56 -1
Portugal	37 4	0.66 0
Ireland	22 -1	0.29 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



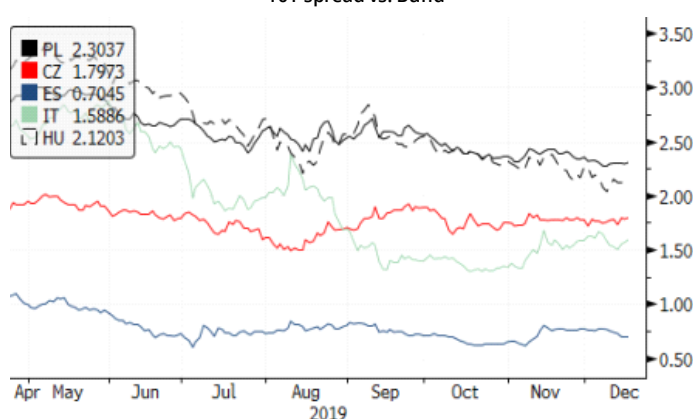
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (13 December)								
10:00	PL	CPI	Nov	% y/y	-	2.6	2.6	2.6
14:30	US	Retail Sales Advance	Nov	% m/m	0.5	-	0.2	0.4
MONDAY (16 December)								
09:30	DE	Flash Germany Manufacturing PMI	Dec	pts	44.7	-	43.4	44.1
09:30	DE	Flash Markit Germany Services PMI	Dec	pts	52.0	-	52.0	51.7
10:00	EZ	Flash Eurozone Manufacturing PMI	Dec	pts	47.2	-	45.9	46.9
10:00	EZ	Flash Eurozone Services PMI	Dec	pts	52.0	-	52.4	51.9
14:00	PL	CPI Core	Nov	% y/y	2.5	2.6	2.6	2.4
14:00	PL	Current Account Balance	Oct	€mn	358	702	529	172
14:00	PL	Trade Balance	Oct	€mn	556	585	440	468
14:00	PL	Exports	Oct	€mn	22 000	21 755	21 791	19 279
14:00	PL	Imports	Oct	€mn	21 648	21 170	21 351	18 811
TUESDAY (17 December)								
14:00	HU	Central Bank Rate Decision		%	0.90	-		0.90
14:30	US	Housing Starts	Nov	% m/m	1.9	-		3.8
15:15	US	Industrial Production	Nov	% m/m	0.8	-		-0.8
WEDNESDAY (18 December)								
10:00	DE	IFO Business Climate	Dec	pts	95.4	-		95.0
10:00	PL	Employment in corporate sector	Nov	% y/y	2.5	2.5		2.5
10:00	PL	Average Gross Wages	Nov	% y/y	6.2	5.9		5.9
11:00	EZ	HICP	Nov	% y/y	1.0	-		1.0
13:00	CZ	Central Bank Rate Decision		%	2.0	-		2.0
THURSDAY (19 December)								
10:00	PL	Sold Industrial Output	Nov	% y/y	0.6	1.6		3.5
10:00	PL	PPI	Nov	% y/y	0.2	0.4		-0.1
14:30	US	Initial Jobless Claims	week	k	214	-		252
14:30	US	Index Philly Fed	Dec	pts	9.0	-		10.4
16:00	US	Existing Home Sales	Nov	% m/m	-0.2	-		1.9
FRIDAY (20 December)								
10:00	PL	Retail Sales Real	Nov	% y/y	3.9	4.3		4.6
14:30	US	GDP Annualized	3Q	% Q/Q	2.1	-		2.1
16:00	US	Michigan index	Dec	pts	99.2	-		99.2
16:00	US	Personal Spending	Nov	% m/m	0.4	-		0.3
16:00	US	Personal Income	Nov	% m/m	0.3	-		0.0
16:00	US	PCE Deflator SA	Nov	% m/m	0.2	-		0.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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