

18 December 2019

Eyeopener

Electricity price up, gas down

Pound losses and sentiment back to neutral after PM Johnson's remarks
 EURPLN stable after appreciation, EURUSD slightly higher
 Domestic bonds stabilised
 Today Polish labour market data, German Ifo and Czech central bank decision

After an optimistic beginning of the week, on Tuesday the market was rather calm amid mild decline of the stock indexes, small changes on the debt market and main exchange rates. The pound underperformed in this environment as it gave up gains recorded last week after the UK election results were announced. PM Boris Johnson said after the weekend that he intends to introduce law that would eliminate the option of extending the transition period (that would start at the end of January 2020 if UK leaves the EU by then) beyond 2020. The outlook for a very short time to negotiate a new trade deal and other issues might have been one of the factors behind a drop of demand for risky assets as it shows that the risk of hard Brexit is not completely off the table. The US data did not manage to improve the mood - building permits, house starts and industrial output rose more than expected in November.

Yesterday **Energy Regulatory Office (URE) approved the new electricity price tariff** of Tauron Sprzedaż (supplying around 1/3 of Polish households) with the price of electricity rising by 20% which translates into 12% hike of electricity bill for the households (electricity bill includes also some other elements). Motions to increase the electricity price submitted by other electricity companies were rejected as URE considered them too high. Now, these companies have time to submit corrected motions and we should expect them to call for a similar hike as approved for Tauron. This means that our assumption of an average increase of energy price in 2020 of c10% looks pretty realistic. However, the effect of this rise could differ somewhat in terms of timing of the impact on CPI vs our initial assumptions - the remaining companies will not manage to have their motions approved in time to increase electricity prices already in January. **URE announced also its decision regarding gas price for households** - it approved a price cut by 2.9% which means the average bill could fall by 1.8%. The weight of gas expenses in statistical household's budget is more than two times smaller than in the case of electricity so this would only marginally offset the rise of electricity price. PM Mateusz Morawiecki said that some kind of mechanism would be introduced to mitigate the effect of higher electricity price to households

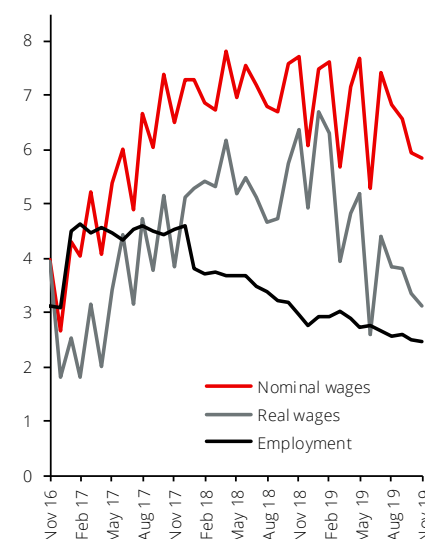
EURUSD continued the gradual upside move and closed the day slightly above 1.115. We sustain our view that the euro could gain vs the dollar in the coming days with the volatility holding low.

EURPLN stabilised after two sessions of a decline and on Tuesday it was hovering slightly above 4.255. USDPLN eased somewhat (temporarily to nearly 3.81) owing to EURUSD rise. EURPLN approached the 4.24-4.25 support area that we expect would prevent the zloty from further appreciation.

In case of the **other CEE currencies**, we also saw a pause in the appreciation trend with the forint underperforming its peers. Yesterday the Hungarian central bank left interest rates unchanged but said it could extend its corporate bond buying program in 2020 (aimed at improving transmission mechanism of monetary policy decisions into the economy). EURHUF jumped to nearly 331 from 328.5 but this was yet before the bank's decision. Today, the Czech central bank will decide about the interest rates. We expect them to stay unchanged but the motion for a hike is likely to be submitted.

On the domestic **interest rate market** IRS and bond yields did not change much and were no more than 2bp away from the Monday's closing levels. Changes on the Bund and UST market were even smaller than a day earlier and it seems that the remaining days of this week are the last chance to see any bigger move before the year-end.

Polish labour market data, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2630	CZKPLN	0.1677
USDPLN	3.8290	HUFPLN*	1.2970
EURUSD	1.1133	RUBPLN	0.0611
CHFPLN	3.9044	NOKPLN	0.4240
GBPPLN	5.0166	DKKPLN	0.5721
USDCNY	7.0051	SEKPLN	0.4096

*for 100HUF

Last session in the FX market 17/12/2019

	min	max	open	close	fixing
EURPLN	4.255	4.266	4.258	4.261	4.2747
USDPLN	3.812	3.833	3.822	3.821	3.8234
EURUSD	1.113	1.118	1.114	1.115	-

Interest rate market 17/12/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.43	2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.74	-3	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	0	-0.34	0
2L	1.70	0	1.68	0	-0.32	0
3L	1.66	-1	1.67	-1	-0.29	0
4L	1.65	-1	1.68	-1	-0.24	0
5L	1.66	-1	1.70	-1	-0.19	0
8L	1.69	-1	1.77	0	-0.01	-1
10L	1.72	-1	1.83	0	0.11	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-1
SW	1.59	0
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	1.65	-1
9x12	1.62	0
3x9	1.77	0
6x12	1.75	0

Measures of fiscal risk

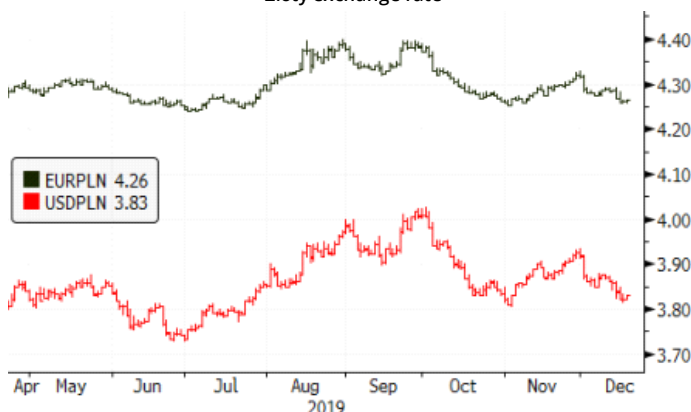
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.30	0
France	18	1	0.30	0
Hungary			2.13	1
Spain	42	-1	0.69	0
Italy	126	-1	1.56	-1
Portugal	38	-1	0.64	-1
Ireland	23	0	0.31	1
Germany	9	2	-	-

* 10Y treasury bonds over 10Y Bunds

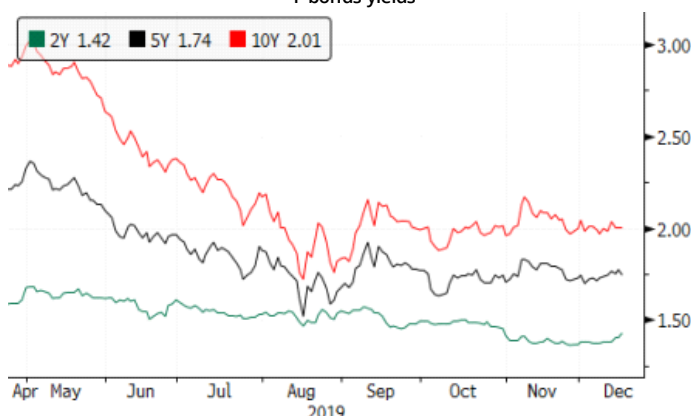
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



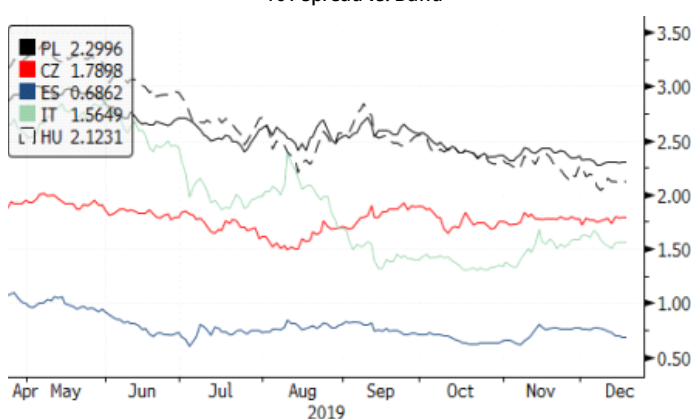
T-bonds yields



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	0.90
14:30	US	Housing Starts	Nov	% m/m	1.9	-	3,2	4.5
15:15	US	Industrial Production	Nov	% m/m	0.8	-	1.1	-0.9
WEDNESDAY (18 December)								
10:00	DE	IFO Business Climate	Dec	pts	95.5	-		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	5.9	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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