

3 January 2020

Eyeopener

Another improvement of manufacturing PMI

Calm markets at the end of the year; risk aversion up after US airstrike in Iraq
 Polish manufacturing PMI increased for the second straight month
 Gradual strengthening of the zloty, EURUSD above 1.12 at the year-end
 Bond yields higher in Poland and abroad

The holiday period was calm for financial markets, which remained in positive mood amid continued stimulation from main central banks and awaiting for the official confirmation of the US-China trade deal (to be signed on January 15). In the last week of the year the price of gold rose, CHF and JPY appreciated, which usually takes place in the periods of higher risk aversion. But this time it was not accompanied with slump in equity prices or higher demand for bonds. Yesterday's cut of reserve requirement in China gave a boost for stock markets in the first day of trading this year. But the risk aversion quickly returned after information that Iranian general was killed by US airstrike – it triggered strengthening of the dollar and bonds, higher prices of gold and crude oil.

In December the **Polish manufacturing PMI** increased again to 48.0. Best improvement was seen in the current output and new orders (albeit both remained below 50.0). Improvement was also seen in the production forecasts, while employment and purchasing activity of companies further deteriorated. The **GUS business cycle indicators** have not confirmed the abovementioned improvements – the current production and new orders indicators fell to the lowest levels seen in this cycle. Hard data on the value of new orders also fell. We expect the trend in Polish industry to change this year into a positive one, but not yet.

Construction output fell by 4.7% y/y in November. The seasonally adjusted growth was 1% y/y – the second worst since February 2017. We think these data confirm a significant slowdown in investments, infrastructural investments in particular.

In the January-November, the **central budget result** was -PLN1.9bn, so in November alone there was a surplus of PLN1.3bn. It was the second month in a row when revenues did not show a meaningful y/y rise (in November total revenues were up 0.7% y/y while VAT revenues 1.8% y/y). On the spending side a double-digit growth rate was maintained (11.9% y/y after 15.1% in October and 21.1% in September). We estimate that the full-year central budget deficit will be cPLN14bn, a half of the planned size.

The **new draft of 2020 budget** includes zero deficit, like the September's version, despite the fact that social security contributions' limit will not be removed and there will be a payout of the 13th pension. This has been achieved with some creative accounting (e.g. moving some expenses to the new Solidarity Fund) and addition of large transfer of NBP profit. The GG balance is shown at -1.2% GDP vs -0.3% in the September's version.

The President has officially nominated **Cezary Kochalski for the MPC member**. Łukasz Hardt is concerned about the services price growth and called for a 15bp rate hike in 1Q20. Grażyna Ancyparowicz is against rising the cost of credit (since the pace of credit growth is not worrying), she does not exclude rate cuts but only when the economic growth decelerates more than expected. Eryk Łon said he will stop submitting rate cuts motions when PMI returns above 50pts.

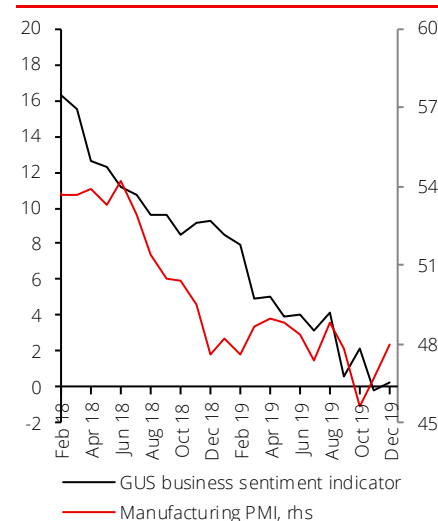
According to **quarterly balance of payments data**, in 3Q19 the C/A balance reached -€181mn while the monthly data were showing -€1284mn. The 2Q balance was revised to +€859mn from +€430mn.

EURUSD was on the rise in late 2019 amid positive global mood. As a result, the rate broke the upper end of the range in which it has been holding since mid-October and neared 1.125, its highest since August. Yesterday the dollar recovered somewhat and at the end of the day EURUSD was below 1.12 but in the mid-term the euro may still gain further vs the greenback.

EURPLN was stable in a 4.25-4.27 range in the second half of December and in early 2020 it fell slightly below the lower end of this range. Only yesterday the zloty benefited more noticeably from the positive global market mood and new all-time-highs set by the US stock indexes. EURPLN closed near 4.247 and the next reference level to watch is the 2019 low of 4.236. In case of the other CEE currencies, the end of 2019 was also quite calm and only the first days of 2020 saw slight appreciation of the koruna and forint. The ruble is stable so far.

On the **Polish fixed income market** both IRS and bond yields significantly increased in the second half of December, by 5-15bp. 10Y POLGB yield continued its increase after breaking higher from the narrow range and at yesterday's close remained above 2.10% (highest since 1st half of November). Polish bonds traded under pressure from the core markets, especially the German one, where the 10Y yields broke the November high and reached -0.15% (vs -0.35% at the start of December).

Industrial business sentiment indexes: PMI vs GUS



Source: GUS, Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2491	CZKPLN	0.1676
USDPLN	3.8082	HUFPLN*	1.2894
EURUSD	1.1157	RUBPLN	0.0613
CHFPLN	3.9213	NOKPLN	0.4320
GBPPLN	4.9861	DKKPLN	0.5686
USDCNY	6.9717	SEKPLN	0.4045

*for 100HUF

Last session in the FX market 02/01/2020

	min	max	open	close	fixing
EURPLN	4.243	4.326	4.257	4.244	4.2571
USDPLN	3.789	3.806	3.797	3.799	3.8
EURUSD	1.116	1.123	1.122	1.117	-

Interest rate market 02/01/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.45	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.78	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.10	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	0	1.76	-1	-0.32	0
2L	1.75	0	1.67	-2	-0.30	-1
3L	1.74	0	1.66	-3	-0.25	-2
4L	1.76	1	1.67	-3	-0.20	-3
5L	1.79	1	1.70	-3	-0.15	-4
8L	1.84	-1	1.79	-4	0.04	-4
10L	1.86	0	1.85	-4	0.17	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.50	0
T/N	1.56	4
SW	1.55	0
2W	1.59	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	1
3x6	1.68	0
6x9	1.67	0
9x12	1.65	0
3x9	1.78	1
6x12	1.77	1

Measures of fiscal risk

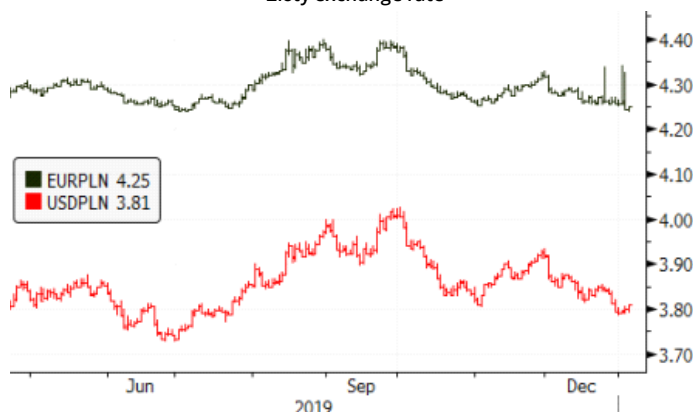
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.37 3
France	18 1	0.31 0
Hungary		2.26 3
Spain	41 1	0.68 1
Italy	126 3	1.62 -2
Portugal	38 -1	0.65 1
Ireland	22 1	0.32 1
Germany	9 -1	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

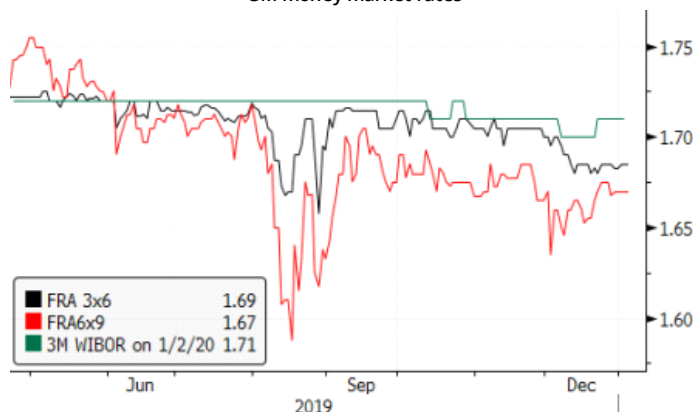
Zloty exchange rate



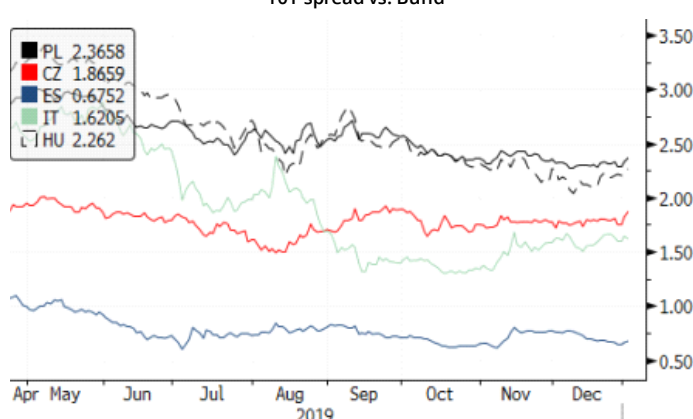
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
MONDAY (23 December)								
10:00	PL	Construction Output	Nov	% y/y	-6.4	-2.42	-4.7	-4.0
10:00	PL	Unemployment Rate	Nov	%	5.1	5.1	5.1	5.0
14:00	PL	Money Supply M3	Nov	% y/y	9.15	9.36	9.4	9.3
14:30	US	Durable Goods Orders	Nov	% m/m	1.5	-	-2.0	0.2
16:00	US	New Home Sales	Nov	% m/m	-0.41	-	1.3	-2.7
THURSDAY (26 December)								
14:30	US	Initial Jobless Claims	Dec.19	k	220	-	222	235
FRIDAY (27 December)								
	DE	Retail Sales	Nov	% m/m	1.0	-	-1.88	-3.19
MONDAY (30 December)								
16:00	US	Pending Home Sales	Nov	% m/m	1.5	-	1.2	-1.3
TUESDAY (31 December)								
16:00	US	Consumer Conference Board	Dec	pts	128.0	-	126.5	126.8
THURSDAY (2 January)								
09:00	PL	Poland Manufacturing PMI	Dec	pts	46.75	47.6	48.0	46.7
09:55	DE	Germany Manufacturing PMI	Dec	pts	43.4	-	43.7	44.1
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	45.9	-	46.3	46.9
FRIDAY (3 January)								
14:00	DE	HICP	Dec	% m/m	0.5	-		-0.8
16:00	US	ISM manufacturing	Dec	pts	49.0	-		48.1
20:00	US	FOMC Meeting Minutes	Dec.19					

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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