

MACROscope

Sum of All Fears

■ **The fears of looming global economic slowdown are on the rise.** The OECD and the IMF have just trimmed their global growth forecasts, blaming the escalating trade tensions, rising interest rates and stress in emerging markets for the deteriorating outlook. The downward forecast revisions have been modest to date, but at the same time there was a growing concern that the risks to global outlook have been strengthening and tilting to the downside.

■ Poland has been relatively well protected against rising pessimism about external situation, with consensus growth forecasts continuously trending higher. But still, 3Q18, which has just ended, was probably the first quarter in over a year when GDP growth was visibly below the 5% y/y mark. Looking ahead, **we remain moderately optimistic, assuming that economic growth will decelerate quite slowly, remaining above its potential rate (near 3% p.a.) for over a year.** Thus, Poland should remain one of the EU's top performers in terms of economic growth. The main risks to this sanguine scenario are still external, with the 'no-deal Brexit' being potentially the biggest elephant in the room (in this – still not the most likely – scenario, Poland would be among the most affected countries in the EU).

■ Last month we had suggested that August marked a turning point for Polish inflation, but September CPI data were lower than forecast again. Nevertheless, **we are not losing confidence that in 2019 inflation will be trending higher, reaching or even exceeding slightly the official 2.5% target,** with the risks increasingly tilted to the upside. Even if the energy market regulator (URE) does not allow for sharp hike in retail energy tariffs before elections, core inflation will be under increasing influence of growing cost pressure on companies.

■ **We do not change expectations regarding the monetary policy outlook: the first rate hike possible at the very end of 2019 at the earliest.** It is important to note that the NBP Governor Adam Glapiński has withdrawn from his earlier declaration about potential rate stability until the end of 2020, now mentioning only the end of 2019 or at most early 2020.

■ The Polish zloty has been quite resilient to swings in investors' moods in recent weeks and **we see some room for PLN strengthening until the end of the year,** assuming that the most extreme external risk factors do not materialise. Correlation between EURPLN and EURUSD has faded recently but it appears that euro strength still has a lot impact on the zloty. We keep our view that EURUSD should rise as the ECB has started to normalize its monetary policy and a great deal of the Fed rate hikes are already priced in.

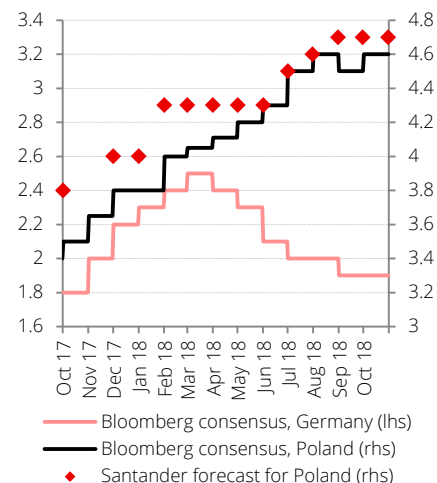
■ The sell-off in US Treasury market has pushed domestic yields higher recently, but **we expect the Polish bonds to strengthen in the coming weeks,** as the market will be flooded with cash due to the looming large bond redemptions and coupon payments at the end of October, plus the nearest data releases could be below consensus.

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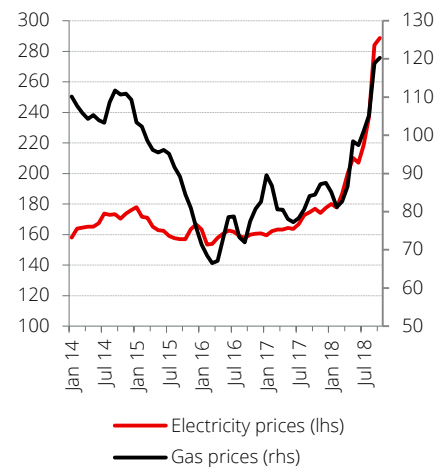
This report is based on information available until 09.10.2018.

2018 GDP growth forecasts, %



Source: Bloomberg, Santander Bank Polska

Energy futures prices, PLN/MWh



Source: TGE, Santander Bank Polska

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Economic Update

Leading indicators may be exaggerating the slowdown

The September move in Polish manufacturing PMI to 50.5 pts was the third drop and the third substantial negative surprise in a row. In 2004, 2008 and 2013, when a three-month PMI decline took place, the following months saw the index deteriorating further even two to four times more significantly. However, even if Polish PMI breaks below 50-pt breakeven level, it does not necessarily need to spell trouble for industry. Notice that Polish PMI has run below indices for regional peers and Germany since the beginning of 2017 and yet Poland systematically leads the pack in actual output growth. Also, the sizeable decline of German PMI has more to do with curbing excessive optimism in early 2018 as the economy entered a soft patch, rather than with outright recessionary signals. Other business sentiment indices for Poland (Stat Office, ESI) confirm a deterioration in recent months, but the current levels remain historically high. Also, while the decline is mostly seen in industry and, to a lesser extent, in services, construction and retail trade still look robust.

Slowdown in real data still limited

August output growth turned out equal to market expectations of 5% y/y, which means it was less than a half of July growth reading. And yet, correcting for working days and one-off spike in output of utilities in August 2017, we do not see much of a slowdown in the reading, despite the worsening sentiment indicators. Construction output, supported by exceptionally high demand ahead of the autumn local government elections, registered a stronger growth than expected. Real retail sales growth at 6.7% y/y in August was slightly weaker than in previous months, and we think is slowed down further in September but the pace is high enough to secure a higher average growth in 3Q (6.8% y/y) than in 2Q (6.1%).

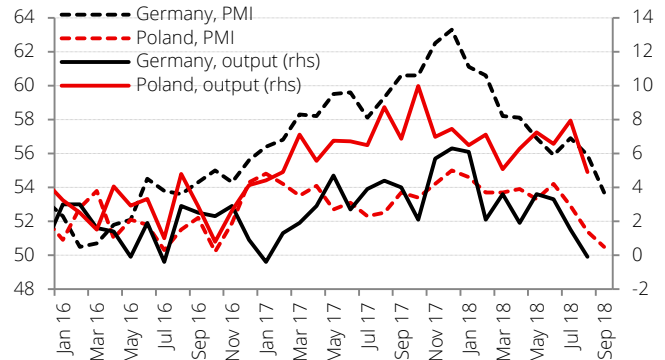
Global fears hit new orders

Figuring out if the slowdown might intensify, it is easy to spot the global decline of new order indices, particularly strong in Poland. The last two PMI reports signalled the weakest readings in four years in foreign new orders. From more detailed Stats office indices, we know the collapse was mainly seen among large companies, but breaking down the data by industries revealed that in many there has been a strong rebound instead. Stats office measure of value of orders has been recently rising at a growing pace. We may be at the stage when fears of escalating trade wars translate to less optimism, but it is not certain if it will mean less new business going forward. The export data are only available for July and by that time there was no confirmation in hard data of the drop in new foreign orders indices.

Keep Calm and Consume

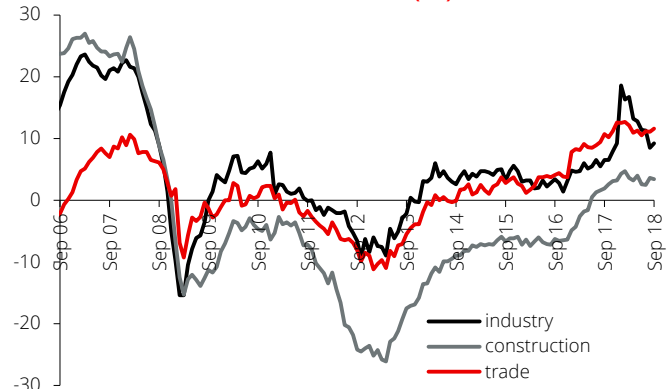
We stick to the view that private consumption, still rising at c5%, will remain the backbone of economic growth, while net exports will be mostly responsible for the economic slowdown in the next quarters. Still, some issues have shown up recently regarding consumption which we consider neutral when put together. Real wage bill growth, calculated from corporate sector data, seems to have switched to a slowdown phase (8.2% y/y in August vs 8.8% in July, 9.4% in June and a peak of 10.1% in April). We think there will be a rebound in the months to come, though, with 2018 ending at close to 10% y/y. A turning point may be forming in consumer sentiment, with September reading of the corresponding seasonally adjusted ESI index being the lowest this year and some tentative rise of unemployment worries from 10Y lows. Stats Office counterpart signalled softer household expectations of future financial situation. On the other hand, major purchases indices from both sources are close to/ at all-time highs, durable goods categories in retail sales data are showing 10%+ growth for three months now and consumer credit is finally starting to accelerate, to c10% y/y from c6% in mid-2017 and c7.5% in spring 2018. Retail trade sentiment indicators signalled a rebound of sales and orders expectations in September.

Industrial output (% y/y) vs. PMI



Source: Bloomberg, IHS Markit, Santander Bank Polska

Sectoral business sentiment indicators (SA)



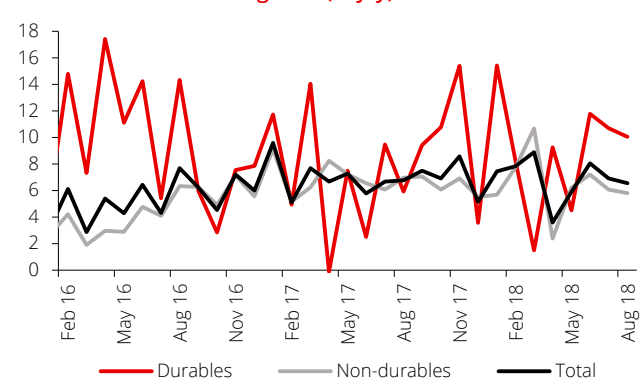
Source: Stats Office, Santander Bank Polska

ESI industry, assessment of export order-book levels



Source: European Commission, Santander Bank Polska

Retail sales in main categories (% y/y)



Source: NBP, Santander Bank Polska

Economic Update

Pack of pro-inflationary factors

We are expecting CPI inflation to average 2.6% in 2019 versus 1.8% in 2018. The risk is skewed upwards, given that all main components: core, food, energy and fuel are poised to face an upward pressure.

Apart from numerous direct effects, i.e. higher oil prices, introduction of fuel charge in January 2019, drought impact and spike in energy prices, we are likely to see indirect effects stemming from building cost pressure on companies. Corporate margin squeeze seems to be getting stronger due to tight labour market, more expensive materials and an incoming surge of electricity and gas bill.

As for core CPI, a year ago we believed it would be trending higher for the whole 2018. After three quarters we have seen many months of decline and only one with a significant rebound (August). The main measure is still below January's 1% y/y print. We thought it would move to 1% in September, but flash reading suggested 0.8-0.9%. Still, the current pro-inflationary environment should help it form an upward trend soon, in our view.

Energy to boost CPI, one way or another

Prices of energy commodities have gone through the roof: in October 2018, market gas prices were 45% higher than a year ago. Electricity jumped even more, by 80% y/y. This development will put a strong pressure on companies' margins and will be carried on to higher CPI inflation. Anecdotal evidence shows that local governments and companies were presented with new energy contracts with 40-70% higher offer prices.

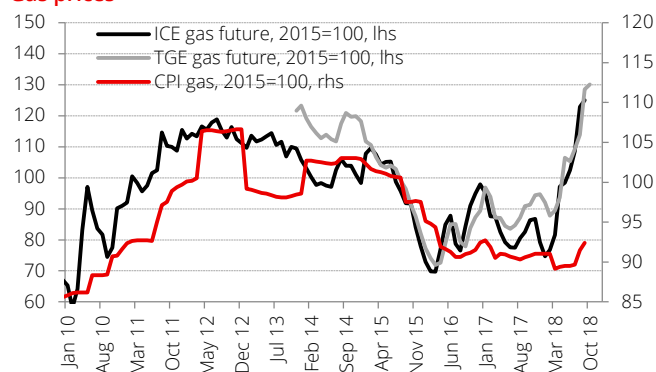
According to our estimates, changes of wholesale prices justify a hike of energy costs for households by about 20% in case of electrical current and by about 15% in the case of gas, adding a whopping 1.0-1.5 percentage points to headline CPI. However, energy prices for households are regulated and there seems to be political pressure on the energy market regulator (URE) to keep prices stable ahead of the coming elections (energy minister Krzysztof Tchórzewski has recently said that prices for households will not change). So, even though the change in the market environment justifies a significant rise in retail energy prices, we think that the actual hikes for households will be immaterial or will not take place at all in 2018/2019. Possibly, the lion's share of the hike will be passed onto the corporate sector and local governments, which then may seek compensation in households' pockets. One way or another, higher energy prices will find their way to CPI inflation. However, in case of no hike in retail prices, the effect will be smaller and spread in time.

Apart from URE's decision on retail energy prices, there are at least two other important risk factors for our inflation forecast, namely the path of crude oil prices and USDPLN. Our base-case scenario assumes Brent oil prices descending gradually in 2019 towards \$75/bbl, and USDPLN dropping below 3.45. If oil goes up to US\$100/bbl next year our CPI forecast would be 0.25pp higher. If the zloty goes to 4 per dollar, instead of appreciating next year this would mean another 0.13pp to inflation.

Drought already showing up in prices

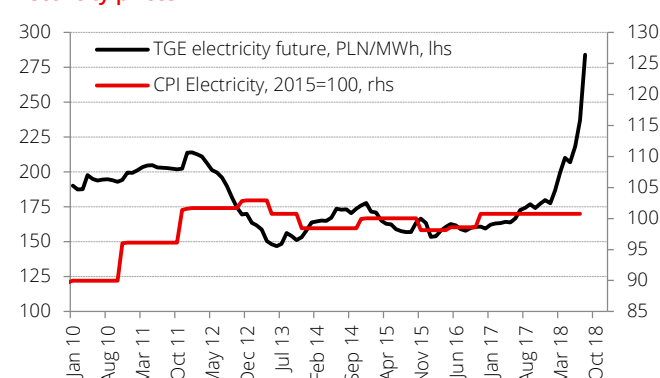
The main risk for prices coming from the severe drought in Poland this year was linked to supply of vegetables. Vegetable prices moved above the usual seasonal path already in July and August (when previous year's crops were still on the market). According to pricing at main food markets, wholesale price of parsley and carrot went up c80% y/y in September, cabbage, tomatoes and potatoes c40%, onion and lettuce c10%. Drought effects may also appear in milk and meat due to reduced supply of cereals (-16% y/y, the whole Europe was affected making it harder to import).

Gas prices



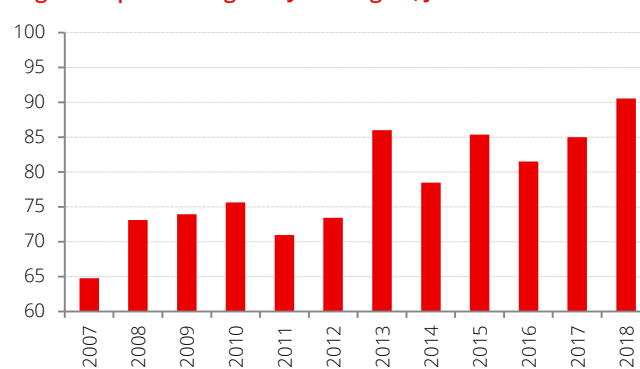
Source: TGE, Bloomberg, GUS, Santander Bank Polska

Electricity prices



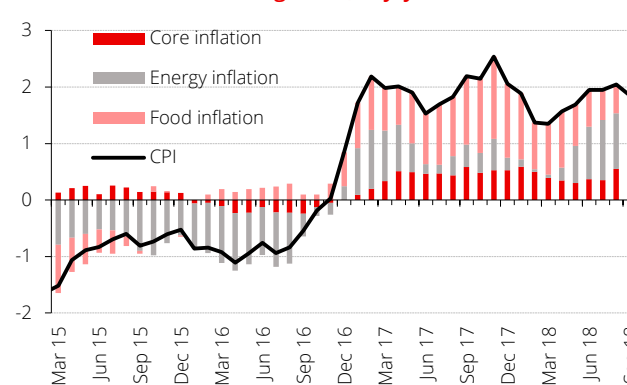
Source: TGE, GUS, Santander Bank Polska

Vegetable price changes in June-August, June=100



Source: GUS, Santander Bank Polska

Breakdown of annual CPI growth, % y/y



Source: GUS, Santander Bank Polska

Monetary Policy Watch

Shorter message, later decision

Monetary policy in Poland remains the “oasis of stability”, as described last month by the NBP Governor Adam Glapiński, so it came as no surprise that the October’s meeting of the Monetary Policy Council (MPC) ended without any changes in policy parameters.

The fact that the Polish central bankers’ job has been increasingly dull in recent months could be represented by the apparent trend of decreasing length of the official press release. In October the Polish-language version of the document fitted into a single page for the first time ever. Surprisingly, the length of the statement seems to be negatively correlated with the length of the MPC meeting, as the timing of the decision announcement is trending systematically towards later hours (see chart). Does it have any implications for the monetary policy outlook? We hope not. And we also hope it is not a good indicator of the productivity trends in the Polish economy.

Monetary policy outlook unchanged

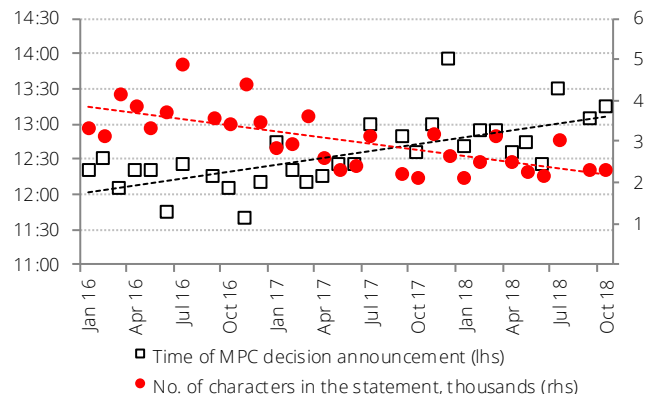
Despite the shortened text, the tone of the official MPC statement remained very similar to the previous ones and the message from the press conference was also not very different than before. The Council remains optimistic about the growth outlook and is not worried about inflation, which is expected to stay close to the inflation target in the monetary policy horizon. Thus, central bankers see no reason to think about monetary tightening in a foreseeable future.

Referring to the strong growth of energy prices, the central bank president stressed that the MPC was monitoring the process, but it affected the part of inflation which cannot be directly influenced by monetary policy. At the same time, core inflation (excluding food and energy prices) remains rather low and forecasts used by the Council do not point to anything worrisome. According to Glapiński, the next NBP projection (due in November) should not bring ‘revolutionary changes’. We remind our readers that already the July inflation projection was showing CPI growth going up to c3% y/y at the end of 2019 and such path was apparently not seen by the Council as a worrisome outlook. It will take an even stronger trigger to make the MPC discuss rate hikes.

During the press conference the NBP governor Adam Glapiński made a statement that as long as the CPI growth is within the 1.5%-3.5% range, inflation is “on target”, which some people interpreted as a declaration of significant change in central bank’s approach to inflation targeting and – potentially – higher tolerance for higher inflation. However, we would not go so far with conclusions. In our view it is more likely that it was just a blunder. First of all, only a month ago the MPC has approved the 2019 Monetary Policy Guidelines, which remained virtually identical as in the previous years (and Glapiński reminded about this fact at the October’s press conference). Secondly, it was not the first time when the NBP Governor said something that he probably did not intend. In July, for example, Glapiński stressed his growing conviction that interest rates could stay unchanged until the end of 2020. However, in September and October he was talking only about rates stability until end-2019 or early 2020, adding that he would not dare to speculate about more distant future.

This leaves us with a conclusion that the outlook for the monetary policy in Poland has not changed. Interest rates are to stay on hold for at least a year from now and the timing for the hike will be likely determined by the economic situation. In our base scenario, we still expect first 25bp hike to be delivered in November 2019.

Length of MPC meeting vs. length of the statement



Source: NBP, Santander Bank Polska

MPC’s official statement after its October meeting

Global economic conditions remain favourable. In the euro area, the economic situation continues to be favourable, despite slightly slower GDP growth than in 2017. In the United States, economic growth is higher than in the previous year, which confirms that economic conditions in this country are strong. In China, activity growth has continued at a stable pace for the past few quarters.

Since the beginning of the year, global energy commodity prices, including those of oil, have risen substantially. This has contributed to higher inflation in many countries. At the same time, core inflation in the external environment of the Polish economy, including the euro area, remains moderate, despite continued strong economic conditions.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. At the same time, the ECB continues to purchase financial assets, although it is reducing the scale of the purchases and has announced its termination until the end of the year. The Federal Reserve raised interest rates in September while continuing the gradual reduction of its balance sheet.

In Poland, incoming data point to economic conditions remaining strong. GDP growth is driven by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very high consumer sentiment. This is accompanied by a rise in investment. Activity growth is also supported by favourable economic conditions abroad.

Notwithstanding high economic growth and wages rising faster than in the previous year, consumer price growth remains moderate. The slightly higher annual CPI than in 2018 Q1 reflects mainly the growth in fuel prices. At the same time, inflation net of food and energy prices continues to be low.

In the Council’s assessment, current information points to a favourable outlook for economic growth in Poland, despite the expected slowdown in GDP growth in the coming quarters. In line with the available forecasts, inflation will remain close to the target in the monetary policy transmission horizon. As a result, the Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

Source: NBP, Santander Bank Polska

Fiscal Policy Watch

Back to surplus

After August the central budget returned to the surplus, with +PLN1.1bn result. VAT rose by 19.3% y/y in August alone, after over 7% y/y drop in July. According to Prime Minister Mateusz Morawiecki, in September the government collected PLN15bn in VAT, i.e. showing a 25% growth rate. This swings in VAT growth rate should be blamed on the Ministry, which accelerated VAT returns in July, which saw a rise in returns by PLN4.2bn y/y. Still, we estimate total VAT growth in 3Q18 amounted to 12% y/y and this is a very strong number.

Spending in August alone amounted to 106.5% of the spending schedule, i.e. exceeded the plan for the second month in a row (111.1% in July). The Ministry claimed this was due to start of big infrastructural projects. This was not true for July, when the Ministry frontloaded its debt servicing costs, but August data show some spike in payment to EU means budget, so we cannot rule out that the month actually saw higher investment.

Data on budget realisation in August is a positive surprise after the July reading showed a deterioration. We are expecting the 2018 central budget deficit to fall in PLN20-25bn range.

Cyclical obstacles to rating upgrade

On Friday evening, 12 October, Fitch and S&P are scheduled to review Poland's rating. The latter agency decided to improve the rating outlook to positive during the previous review in April. Nevertheless, we think that this time there will be no change of assessment.

Although the economic situation in Poland still looks very good as compared to other countries in the region, it is more and more clear that the peak of the cycle is behind and worries about the global economic slowdown are mounting. In this environment the rating agencies will not hurry to improve the score for the country, where big improvement of fiscal situation was mainly due to the cyclical factor, while the structural fiscal balance is still among the worst in Europe.

The second argument not to hurry with the rating upgrade is the deteriorating assessment of the institutional framework and the rule of law (as seen in the recently released World Bank's Worldwide Governance Indicators) and the ongoing conflict with the EU, which recently led to a new case against Poland being referred to the Court of Justice of the EU by the European Commission.

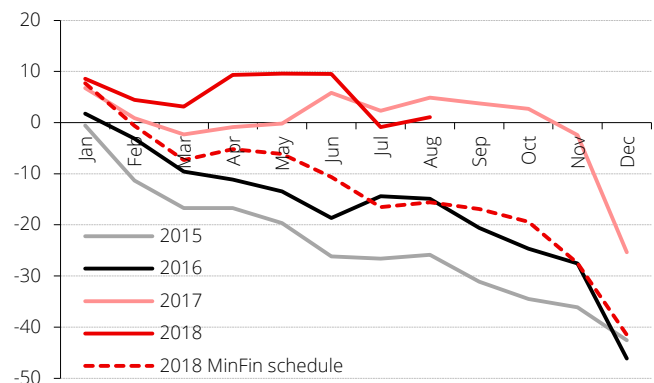
Debt management strategy

According to the Public Finance Sector Debt Management Strategy in the years 2019-2022, the public debt/GDP ratio will drop to 40.7% in 2022 from 47% this year. The debt servicing cost will fall to PLN29.2bn from PLN30.7bn this year. In 2022 the debt servicing costs are expected to amount to PLN33.9-34.6bn. In relation to GDP, the debt servicing cost will be reduced to 1.27-1.30% in 2022 from 1.46% currently. According to the Ministry of Finance (MoF) costs will fall gradually, due to the higher-coupon bonds maturities and a cut of the debt/GDP. MoF assumes that the share of bonds issued on the foreign markets will be reduced to 23.7% in 2022. Thus, we expect that (as in the 2019 budget bill) the share and value of PLN-denominated debt will rise in the next years.

The MoF built this scenario under the assumptions that PLN interest rates will stay at the current level, US monetary policy will be normalised and expectations on the continuation of expansionary monetary policy stance by ECB and Japan will be maintained. In the scenario of 1pp interest rate rise, the MoF estimates that in 2019 debt servicing costs will rise by PLN2.1bn and in 2022 by PLN6.9bn.

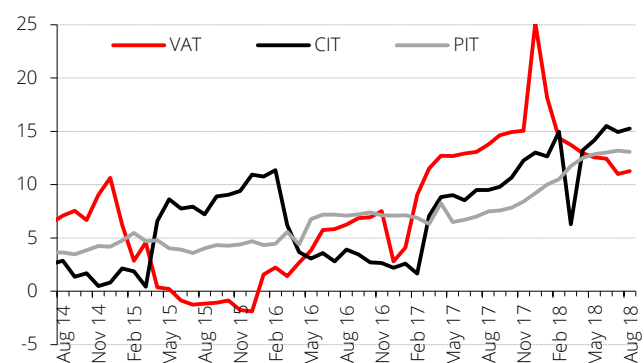
The MoF will try to maintain the average maturity of domestic debt at above four years and growth towards the targeted 4.5 years, while the total issued debt maturity will be targeted at five years.

Cumulative budget performance, PLN bn



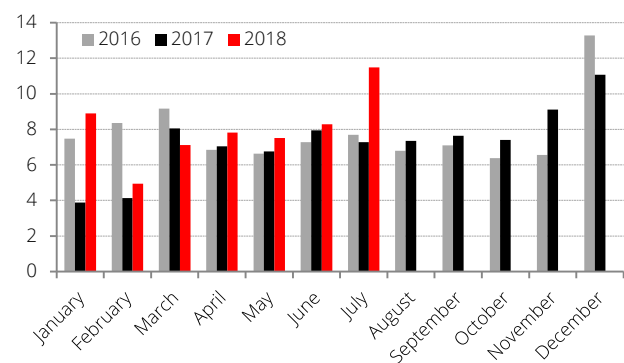
Source: Finance Ministry, Santander Bank Polska

Growth rate of tax revenues, % y/y, 12m moving sum



Source: Finance Ministry, Santander Bank Polska

VAT returns, PLNbn



Source: Finance Ministry, Santander Bank Polska

Ratings and ratings outlook in CEE

| Country/Agency | Fitch | S&P | Moody's |
|----------------|---------------|---------------|-------------|
| Poland | A-/stable | BBB+/positive | A2/stable |
| Czechia | AA-/stable | AA-/stable | A1/positive |
| Hungary | BBB-/positive | BBB-/positive | Baa3/stable |
| Romania | BBB-/stable | BBB-/stable | Baa3/stable |

Source: Bloomberg, Santander Bank Polska

Interest Rate Market

Yields on rising wave

September saw yields on the core bonds market rising further, after the initial sell-off at the turn of August/September. The yields increases were fuelled by the beginning of QE tapering by ECB (scheduled for October), September interest rates hike by FOMC, bigger net supply of German Bunds, as well as bigger US T-bonds supply. Furthermore, at the beginning of October, we saw better-than-expected US labour market data (ADP report) and ISM-services data. The negative mood on the bond market was supported by FOMC members' comments (Powell – chairman, and Evans – seen as dove), who were underscoring the excellent shape of the US economy. As a result, the yields of 10Y US bonds broke 3.20%, while 10Y Bund 0.55%.

Initially, the reaction of Polish debt was not material. However, at the beginning of October, the sell-off of Polish T-bonds lifted yields up to 1.58%, 2.60% and 3.30% for 2Y, 5Y and 10Y respectively. The yields of Polish sovereigns bonds were rising despite the redemption of government OK1018 and National Road Fund bonds expected in October.

Debt maturity may push yields down

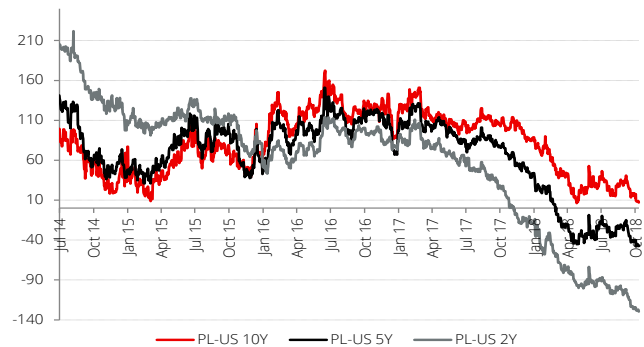
At the end of October, we expect the yields of domestic sovereign bonds to return to downward trends. This scenario will be supported by supply-demand relation. On October 24 and 25, National Road Fund bonds and government bonds will mature, triggering payments of PLN11.65bn principal + PLN0.78bn interest and PLN11.92bn principal + PLN3.98bn interest, respectively. 26 October will see regular bonds auction scheduled by the Ministry of Finance with a maximum offer of PLN10bn. It means that in October the market will be flooded with PLN28bn cash (cPLN23.5bn of principal repayment), while the maximum bonds offer planned for October is PLN16b. It is worth noting that until the end of the year we expect PLN6bn of additional supply.

Polish macro data releases scheduled for October should support decreases of bond yields. We expect a series of release of weaker domestic data: according to our estimates, industrial production dynamic was 2.3% y/y in September, while the employment rose by 3.4% y/y. Those data were coherent with recent business survey releases (ESI, PMI), which show deceleration of industrial activity in Poland (and Europe). Furthermore, weaker-than-expected CPI reading for September should still support demand for domestic bonds.

We also believe that European macro data (especially German data release) will still surprise on the negative side, which is likely to translate into lower yields of domestic T-bonds. We believe that higher taxes on China exports to US as well as uncertainty about US custom policy will weigh negatively on German industrial production and exports. As a result, we expect that at the end of the month the yield of Polish T-bonds should land at 3.16% for 10Y, 2.53% for 5Y and 1.54 for 2Y bonds.

The risk factor for this scenario may be the continuation of a series of positive surprises by US data release, which, combined with potential remarks made by FOMC members, may have negative impact on the US debt market. Nevertheless, we believe that continuing of decoupling of behaviour of Polish and US yields (which is a consequence of rising share of domestic investors and non-speculative foreign investors among holders of Polish bonds) should minimise the risk of a lasting negative reaction of Polish debt to the expected increases of US yields.

Spreads between Polish and US bonds



Source: Finance Ministry, Santander Bank Polska

Spreads between Polish and German bonds



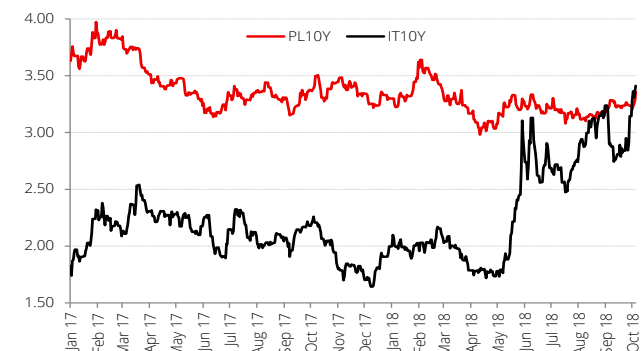
Source: Finance Ministry, Santander Bank Polska

Poland marketable bonds outstanding (PLNbn)



Source: Finance Ministry, Santander Bank Polska

Yield of the Polish and Italian 10Y bonds



Source: Finance Ministry, Santander Bank Polska

Foreign Exchange Market

EURPLN stable in September

In line with our expectations, in September, EURPLN was fairly stable, holding within the trading range we recorded in August (c4.27-4.34). The Polish currency was benefiting from the rising stock indexes that neutralized the negative effect of stronger dollar. Market pricing of the higher chances for a soft Brexit supported the pound and GBPPLN rose to 4.87 from below 4.80.

Koruna under pressure, ruble gains

Elsewhere in the CEE region, in September the koruna has clearly underperformed while the ruble recorded the biggest gains. The Czech internal factors, mainly those related to the monetary policy, were the main drivers of the EURCZK rise to 25.88 from 25.44. As expected, the CNB hiked rates by 25bp, taking its main rate to 1.50%. Afterwards, the Bank's governor Jiri Rusnok said that another rate hike cannot be excluded and it could take place later this year or in early 2019. Prior to the decision, the market had been pricing three hikes, with two of them to be delivered in 2019. The comment made by the Bank's governor might have sounded a bit dovish and weighed on the koruna. The ruble benefited from rising oil prices with USDRUB falling to below 65 from c70.

Global factors will be key

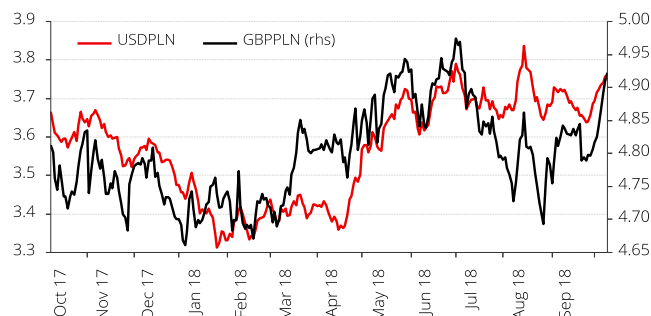
We stick to our view that there is some room for the zloty to gain until the end of the year. Polish factors should continue to be at least neutral for the zloty and EURPLN decline in the months to come should be driven by the situation on the global market.

We perceive the deterioration of the global market sentiment in late September/early October as temporary. There are several risk factors on the horizon (Italy, Brazil, Brexit) but for now we do not expect them materializing in a way that would keep the risk aversion higher for longer. At the same time, the ECB and Fed maintain their generally positive view for the economic growth and the recent US data were pretty good. Correlation between EURPLN and EURUSD has faded recently but it appears that the trend of the main FX still has a material impact on the zloty. We keep our view that EURUSD should rise in the months to come as the ECB has started to normalize its monetary policy and a great deal of the Fed rate hikes are already priced in.

We think that Polish bonds might look attractive to buy after the noticeable yields' rise seen in the previous weeks. Should the non-residents use this opportunity, the zloty may benefit.

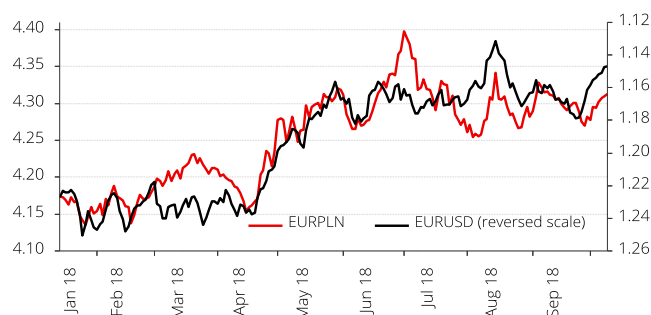
On September 24, the European Commission informed that it decided to bring the Polish government's judiciary reforms before the EU Court of Justice, assessing that they were against the EU law. At the same time, the EC has asked the Court to use expedited procedure and requested provisional measures in order to give this case top priority. What might cause tensions on the Polish market is the event when Polish government does not comply with the provisional measure. However, for the time being we do not expect this issue to generate any serious pressure on the zloty. There could be a negative impact if the Court's ruling is not in favour of the government but this is likely to take months before we have any verdict.

USDPLN and GBPPLN



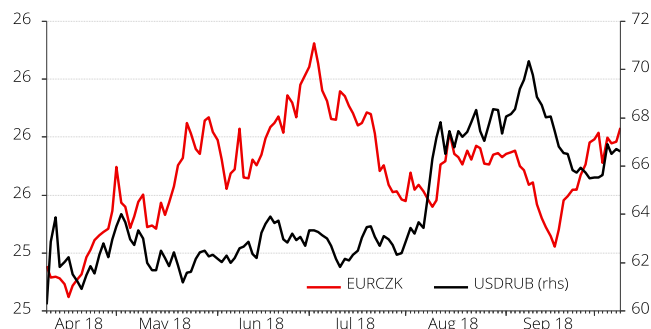
Source: Thomson Reuters Datastream, Santander Bank Polska

EURPLN and EURUSD



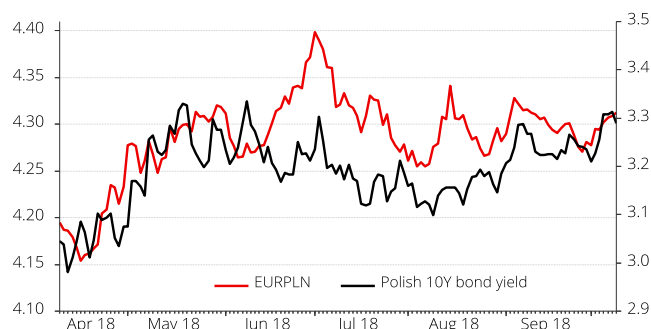
Source: Thomson Reuters Datastream, Santander Bank Polska

EURCZK and USDRUB

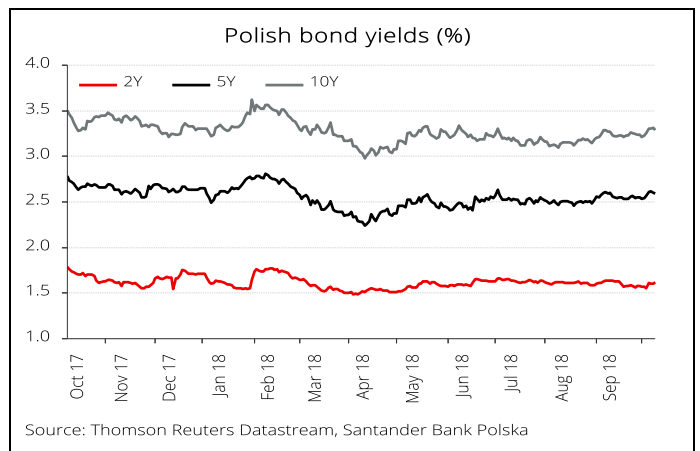
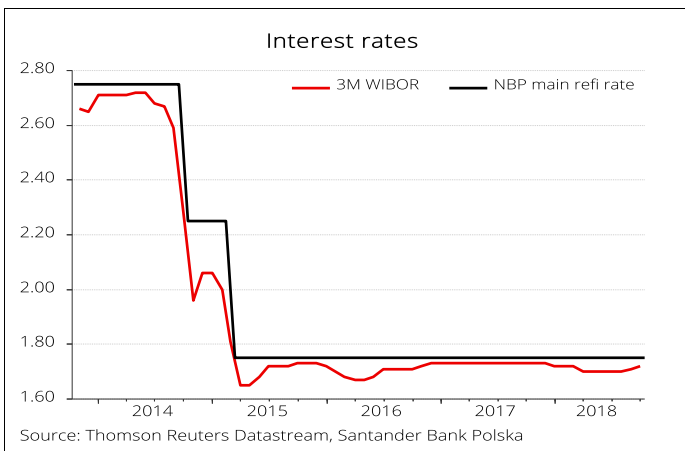
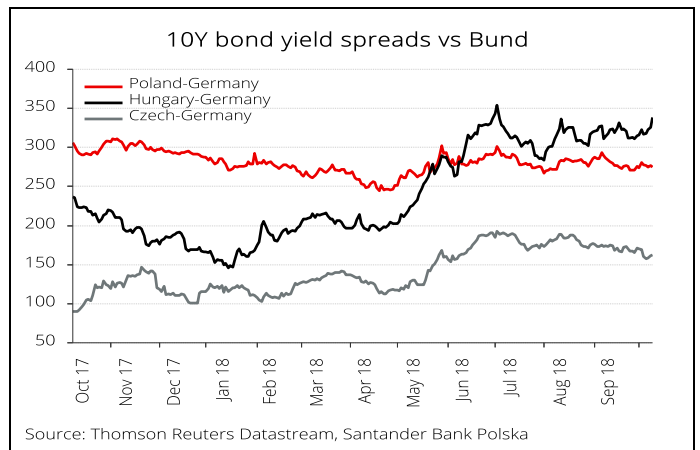
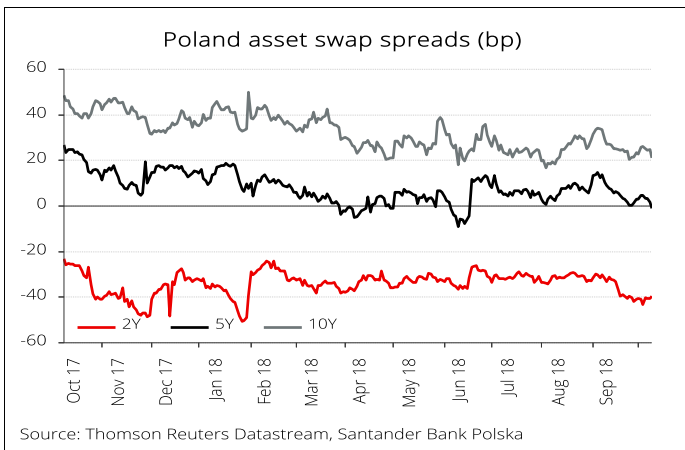
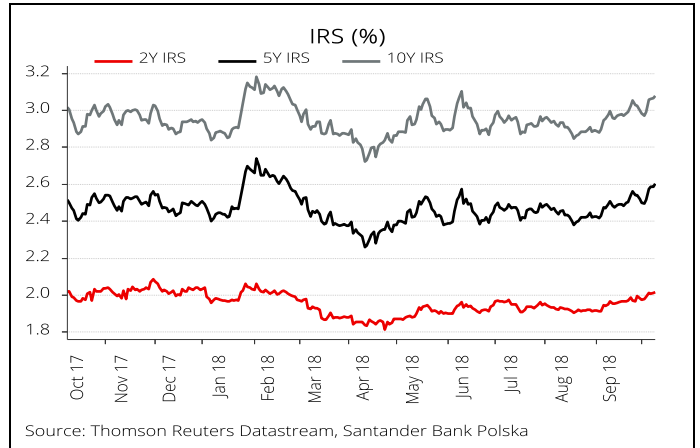
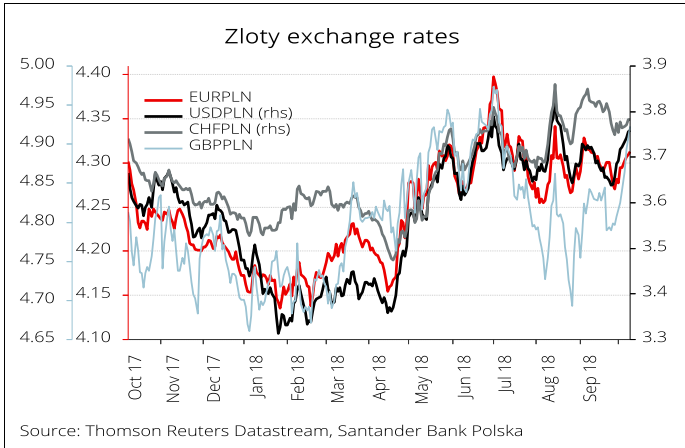


Source: Thomson Reuters Datastream, Santander Bank Polska

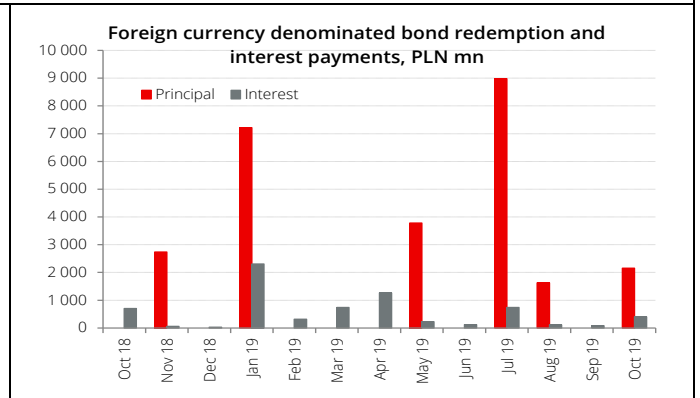
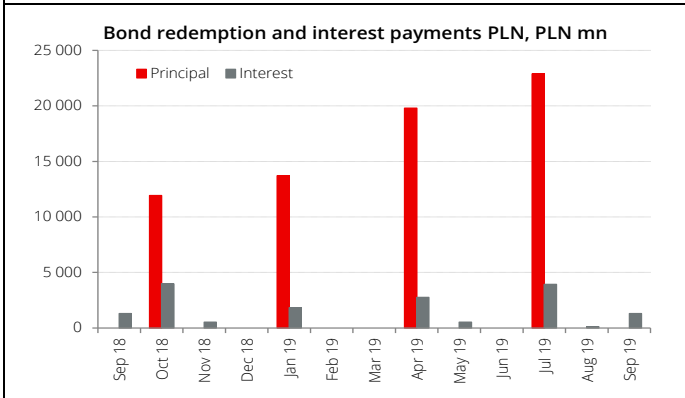
EURPLN and Poland 10Y bond yield



Source: Thomson Reuters Datastream, Santander Bank Polska



Principal and interest payments



Economic Calendar

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|--|---|---|---|--|
| 8 October CH: PMI – services (Sep) DE: Industrial output (Aug) CZ: Industrial output (Aug) | 9 DE: Exports (Aug) CZ: CPI (Sep) HU: CPI (Sep) | 10 DE: PMI – services (Jun) EZ: PMI – services (Jun) | 11 US: CPI (Sep) | 12 EZ: Industrial output (Aug) DE: CPI (Sep) US: Flash Michigan (Sep) PL: Rating review by S&P |
| 15 PL: CPI (Sep) PL: Balance of payments (Aug) US: Retail sales | 16 PL: Employment (Sep) PL: Wages (Sep) PL: Core CPI (Sep) DE: ZEW (Oct) HU: Central bank decision US: Industrial output (Sep) | 17 PL: Industrial output (Sep) PL: Construction and assembly output (Sep) PL: PPI (Sep) EZ: HICP (Sep) US: House starts (Sep) US: FOMC minutes | 18 US: Philly Fed index (Sep) | 19 PL: Retail sales (Sep) US: Home sales (Sep) |
| 22 PL: Money supply (Sep) | 23 PL: Unemployment rate (Sep) | 24 DE: Flash PMI – manufacturing (Oct) DE: Flash PMI – services (Oct) EZ: Flash PMI – manufacturing (Oct) EZ: Flash PMI – services (Oct) US: New home sales (Sep) | 25 EZ: ECB decision DE: IFO (Oct) US: Durable goods orders (Sep) US: Pending home sales (Sep) | 26 US: GDP (Q3) US: Michigan index (Oct) |
| 29 US: Personal spending (Sep) US: Personal income (Sep) | 30 EZ: GDP (Q3) US: Conference Board (Oct) | 31 PL: Flash CPI (Oct) US: ADP report (Oct) | 1 November CZ: Central bank decision US: ISM – manufacturing (Oct) | 2 PL: PMI – manufacturing (Oct) DE: PMI – manufacturing (Oct) EZ: PMI – manufacturing (Oct) US: Non-farm payrolls (Oct) US: Unemployment rate (Oct) |
| 5 US: ISM – services (Oct) | 6 DE: Industrial orders (Sep) CZ: Industrial output (Sep) DE: PMI – services (Oct) EZ: PMI – services (Oct) | 7 PL: MPC decision DE: Industrial output (Sep) | 8 DE: Exports (Aug) HU: Industrial output (Sep) HU: CPI (Oct) US: FOMC decision | 9 CZ: CPI (Oct) US: Flash Michigan (Nov) |
| 12 | 13 PL: Balance of payments (Sep) DE: ZEW (Nov) | 14 PL: CPI (Oct) PL: GDP (Q3) EZ: Industrial output (Oct) US: CPI (Oct) | 15 PL: Core CPI (Oct) US: Retail sales (Oct) US: Philly Fed index (Nov) | 16 EZ: HICP (Oct) US: Industrial output (Oct) |

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2018

| | I | II | III | IV | V | VI | VII | VIII | IX | X | XI | XII |
|-------------------------|---|----|-----|----|----|-----|-----|------|----|----|----|-----|
| ECB decision | 25 | - | 8 | 26 | - | 0 | 26 | - | 13 | 25 | - | 13 |
| MPC decision | 10 | 7 | 7 | 11 | 16 | -46 | 11 | - | 5 | 3 | 7 | 5 |
| MPC minutes | - | 22 | 29 | 27 | - | -11 | - | 23 | 20 | 25 | 22 | 20 |
| Flash GDP* | 30 | 14 | - | - | 15 | -16 | - | 14 | - | - | 14 | - |
| GDP* | - | 28 | - | - | 30 | -12 | - | 31 | - | - | 30 | - |
| CPI | 15 | 15 | 15 | 12 | 11 | -15 | 12 | 10 | 11 | 12 | 12 | 11 |
| Core inflation | 16 | - | 16 | 13 | 14 | 4 | 13 | 13 | 12 | 15 | 13 | 12 |
| PPI | 19 | 20 | 19 | 19 | 21 | -4 | 18 | 20 | 19 | 17 | 20 | 19 |
| Industrial output | 19 | 20 | 19 | 19 | 21 | 0 | 18 | 20 | 19 | 17 | 20 | 19 |
| Retail sales | 19 | 20 | 20 | 20 | 22 | 0 | 19 | 21 | 20 | 18 | 21 | 20 |
| Gross wages, employment | 17 | 16 | 16 | 18 | 18 | -7 | 17 | 17 | 18 | 16 | 19 | 18 |
| Foreign trade | about 50 working days after reported period | | | | | | | | | | | |
| Balance of payments* | - | - | 30 | | | | | | | | | 28 |
| Balance of payments | 15 | 13 | 16 | 13 | | | | | | 15 | 13 | 14 |
| Money supply | 23 | 22 | 22 | 24 | | | | | | 22 | 23 | 24 |

* Quarterly data. a preliminary data for January. b January and February.

Source: GUS, NBP.

Economic data and forecasts for Poland

Monthly economic indicators

| | | Sep 17 | Oct 17 | Nov 17 | Dec 17 | Jan 18 | Feb 18 | Mar 18 | Apr 18 | May 18 | Jun 18 | Jul 18 | Aug 18 | Sep 18 | Oct 18 |
|---------------------------------|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| PMI | pts | 53.7 | 53.4 | 54.2 | 55.0 | 54.6 | 53.7 | 53.7 | 53.9 | 53.3 | 54.2 | 52.9 | 51.4 | 50.5 | 49.5 |
| Industrial production | % y/y | 4.4 | 12.3 | 9.2 | 2.8 | 8.7 | 7.3 | 1.6 | 9.3 | 5.2 | 6.7 | 10.3 | 5.0 | 2.3 | 5.1 |
| Construction production | % y/y | 15.3 | 20.2 | 19.9 | 12.8 | 34.7 | 31.3 | 16.1 | 19.7 | 20.7 | 24.7 | 18.7 | 20.0 | 15.8 | 24.2 |
| Retail sales ^a | % y/y | 8.6 | 8.0 | 10.2 | 6.0 | 8.2 | 7.9 | 9.2 | 4.6 | 7.6 | 10.3 | 9.3 | 9.0 | 8.6 | 9.3 |
| Unemployment rate | % | 6.8 | 6.6 | 6.5 | 6.6 | 6.9 | 6.8 | 6.6 | 6.3 | 6.1 | 5.9 | 5.9 | 5.8 | 5.8 | 5.7 |
| Gross wages in corporate sector | % y/y | 6.0 | 7.4 | 6.5 | 7.3 | 7.3 | 6.8 | 6.7 | 7.8 | 7.0 | 7.5 | 7.2 | 6.8 | 6.9 | 7.0 |
| Employment in corporate sector | % y/y | 4.5 | 4.4 | 4.5 | 4.6 | 3.8 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.5 | 3.4 | 3.4 | 3.4 |
| Exports (€) | % y/y | 12.9 | 17.8 | 17.7 | 4.8 | 15.5 | 6.6 | -4.4 | 9.1 | 1.1 | 6.2 | 8.5 | 5.4 | 1.0 | 6.0 |
| Imports (€) | % y/y | 10.6 | 16.9 | 17.8 | 13.2 | 19.0 | 9.5 | 0.3 | 12.4 | 1.4 | 7.9 | 10.2 | 9.7 | 6.6 | 8.0 |
| Trade balance | EUR mn | 430 | 356 | 266 | -1,196 | -59 | -602 | -451 | 208.0 | 153.0 | -382.0 | -432.0 | -415 | -522 | 19 |
| Current account balance | EUR mn | 21 | -13 | 95 | -1,354 | 2,289 | -792 | -914 | 291.0 | 495.0 | -200.0 | -809.0 | -287 | -811 | 308 |
| Current account balance | % GDP | 0.3 | 0.4 | 0.4 | 0.1 | 0.1 | 0.0 | -0.2 | -0.2 | 0.0 | 0.0 | -0.1 | -0.3 | -0.4 | -0.4 |
| Budget balance (cumulative) | PLN bn | 3.8 | 2.7 | -2.4 | -25.4 | 8.6 | 4.5 | 3.1 | 9.3 | 9.6 | 9.5 | -0.9 | 1.1 | 2.3 | 2.6 |
| Budget balance (cumulative) | % of FY plan | -6.4 | -4.5 | 4.1 | 42.7 | -20.6 | -10.8 | -7.5 | -22.5 | -23.1 | -23.0 | 2.1 | -2.5 | -5.5 | -6.2 |
| CPI | % y/y | 2.2 | 2.1 | 2.5 | 2.1 | 1.9 | 1.4 | 1.3 | 1.6 | 1.7 | 2.0 | 2.0 | 2.0 | 1.8 | 1.9 |
| CPI excluding food and energy | % y/y | 1.0 | 0.8 | 0.9 | 0.9 | 1.0 | 0.8 | 0.7 | 0.6 | 0.5 | 0.6 | 0.6 | 0.9 | 0.9 | 1.0 |
| PPI | % y/y | 3.2 | 3.0 | 1.8 | 0.3 | 0.2 | -0.1 | 0.5 | 1.0 | 3.0 | 3.7 | 3.4 | 3.0 | 2.9 | 2.9 |
| Broad money (M3) | % y/y | 5.4 | 5.7 | 4.5 | 4.6 | 4.8 | 4.9 | 5.8 | 5.7 | 6.6 | 7.3 | 7.3 | 7.5 | 7.6 | 7.5 |
| Deposits | % y/y | 5.0 | 5.3 | 4.2 | 4.1 | 4.5 | 4.6 | 5.1 | 5.1 | 6.0 | 6.7 | 6.8 | 7.0 | 6.4 | 6.7 |
| Loans | % y/y | 5.1 | 4.7 | 3.7 | 3.6 | 4.0 | 4.2 | 4.3 | 3.9 | 5.5 | 5.6 | 5.6 | 6.1 | 6.2 | 7.3 |
| EUR/PLN | PLN | 4.27 | 4.26 | 4.23 | 4.20 | 4.16 | 4.16 | 4.21 | 4.19 | 4.28 | 4.30 | 4.33 | 4.29 | 4.30 | 4.28 |
| USD/PLN | PLN | 3.59 | 3.63 | 3.60 | 3.55 | 3.41 | 3.37 | 3.41 | 3.42 | 3.63 | 3.69 | 3.70 | 3.71 | 3.69 | 3.69 |
| CHF/PLN | PLN | 3.73 | 3.69 | 3.63 | 3.60 | 3.55 | 3.61 | 3.60 | 3.53 | 3.64 | 3.73 | 3.72 | 3.75 | 3.81 | 3.73 |
| Reference rate ^b | % | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| 3M WIBOR | % | 1.73 | 1.73 | 1.73 | 1.72 | 1.72 | 1.72 | 1.71 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 | 1.71 | 1.72 |
| Yield on 2-year T-bonds | % | 1.73 | 1.71 | 1.60 | 1.69 | 1.62 | 1.73 | 1.56 | 1.52 | 1.57 | 1.60 | 1.63 | 1.61 | 1.60 | 1.56 |
| Yield on 5-year T-bonds | % | 2.61 | 2.69 | 2.62 | 2.64 | 2.63 | 2.73 | 2.46 | 2.33 | 2.49 | 2.48 | 2.52 | 2.50 | 2.56 | 2.52 |
| Yield on 10-year T-bonds | % | 3.27 | 3.39 | 3.40 | 3.29 | 3.34 | 3.51 | 3.27 | 3.08 | 3.23 | 3.23 | 3.18 | 3.15 | 3.24 | 3.20 |

Note: ^a in nominal terms, ^b at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

| | | 2016 | 2017 | 2018E | 2019E | 1Q18 | 2Q18 | 3Q18E | 4Q18E | 1Q19E | 2Q19E | 3Q19E | 4Q19E |
|--|--------|---------|---------|---------|---------|--------|-------|--------|--------|--------|-------|--------|--------|
| GDP | PLN bn | 1,858.5 | 1,988.7 | 2,092.8 | 2,219.1 | 485.4 | 503.1 | 515.5 | 588.8 | 513.4 | 536.6 | 545.9 | 623.2 |
| GDP | % y/y | 3.0 | 4.8 | 4.7 | 3.7 | 5.2 | 5.1 | 4.4 | 4.0 | 4.0 | 3.8 | 3.6 | 3.5 |
| Domestic demand | % y/y | 2.2 | 4.9 | 5.3 | 4.0 | 6.8 | 4.8 | 5.1 | 4.8 | 3.9 | 4.1 | 3.9 | 4.0 |
| Private consumption | % y/y | 3.9 | 4.9 | 4.9 | 4.5 | 4.8 | 4.9 | 5.0 | 5.0 | 4.8 | 4.6 | 4.4 | 4.2 |
| Fixed investments | % y/y | -8.2 | 3.9 | 5.6 | 4.0 | 8.1 | 4.5 | 6.0 | 4.9 | 4.0 | 4.0 | 4.0 | 4.0 |
| Industrial production | % y/y | 2.9 | 6.5 | 5.6 | 4.9 | 5.5 | 7.0 | 5.7 | 4.1 | 4.4 | 4.7 | 6.5 | 3.9 |
| Construction production | % y/y | -14.5 | 13.7 | 18.4 | 3.0 | 25.6 | 21.9 | 18.1 | 13.2 | 5.2 | 4.9 | 1.2 | 2.0 |
| Retail sales ^a | % y/y | 3.9 | 8.2 | 8.2 | 8.2 | 8.4 | 7.5 | 8.9 | 8.0 | 6.5 | 9.0 | 9.2 | 8.1 |
| Unemployment rate ^b | % | 8.2 | 6.6 | 5.9 | 5.5 | 6.6 | 5.9 | 5.8 | 5.9 | 6.0 | 5.4 | 5.3 | 5.5 |
| Gross wages in the national economy ^a | % y/y | 3.8 | 5.7 | 7.1 | 7.7 | 6.2 | 7.1 | 6.3 | 7.3 | 7.6 | 6.9 | 7.9 | 8.3 |
| Employment in the national economy | % y/y | 2.3 | 3.7 | 2.8 | 1.0 | 2.8 | 3.0 | 2.5 | 2.4 | 1.4 | 1.1 | 0.9 | 0.6 |
| Exports (€) | % y/y | 3.1 | 13.8 | 5.0 | 3.3 | 5.3 | 5.4 | 4.8 | 4.4 | 4.7 | 4.3 | 3.5 | 0.6 |
| Imports (€) | % y/y | 2.7 | 14.9 | 8.0 | 4.8 | 9.0 | 7.1 | 8.7 | 7.3 | 6.3 | 5.8 | 5.0 | 2.2 |
| Trade balance | EUR mn | 2,935 | 1,426 | -4,635 | -8,029 | -1,113 | -27 | -1,368 | -2,127 | -1,971 | -781 | -2,224 | -3,054 |
| Current account balance | EUR mn | -2,248 | 715 | -1,247 | -3,824 | 569 | 584 | -1,906 | -494 | -81 | 52 | -2,582 | -1,213 |
| Current account balance | % GDP | -0.5 | 0.2 | -0.3 | -0.7 | -0.2 | 0.0 | -0.4 | -0.3 | -0.4 | -0.5 | -0.6 | -0.7 |
| General government balance | % GDP | -2.3 | -1.7 | -1.7 | -1.8 | - | - | - | - | - | - | - | - |
| CPI | % y/y | -0.6 | 2.0 | 1.8 | 2.6 | 1.5 | 1.7 | 1.9 | 1.9 | 2.4 | 2.7 | 2.7 | 2.6 |
| CPI ^b | % y/y | 0.8 | 2.1 | 1.9 | 2.6 | 1.3 | 2.0 | 1.8 | 1.9 | 2.7 | 2.8 | 2.6 | 2.6 |
| CPI excluding food and energy | % y/y | -0.2 | 0.7 | 0.8 | 2.0 | 0.8 | 0.6 | 0.8 | 1.0 | 1.3 | 1.8 | 2.2 | 2.5 |
| PPI | % y/y | -0.2 | 2.9 | 2.2 | 2.4 | 0.2 | 2.6 | 3.1 | 2.8 | 3.0 | 2.0 | 2.1 | 2.7 |
| Broad money (M3) ^b | % y/y | 9.6 | 4.6 | 7.0 | 7.8 | 5.8 | 7.3 | 7.9 | 7.0 | 7.2 | 7.4 | 7.6 | 7.8 |
| Deposits ^b | % y/y | 9.1 | 4.1 | 6.9 | 7.8 | 5.1 | 6.7 | 7.4 | 6.9 | 7.1 | 7.4 | 7.6 | 7.8 |
| Loans ^b | % y/y | 4.7 | 3.6 | 7.9 | 6.5 | 4.3 | 5.6 | 6.6 | 7.9 | 7.6 | 7.2 | 6.8 | 6.5 |
| EUR/PLN | PLN | 4.36 | 4.26 | 4.25 | 4.29 | 4.18 | 4.26 | 4.30 | 4.27 | 4.27 | 4.29 | 4.30 | 4.31 |
| USD/PLN | PLN | 3.95 | 3.78 | 3.57 | 3.46 | 3.40 | 3.58 | 3.70 | 3.62 | 3.50 | 3.47 | 3.45 | 3.44 |
| CHF/PLN | PLN | 4.00 | 3.84 | 3.66 | 3.48 | 3.59 | 3.63 | 3.76 | 3.65 | 3.50 | 3.49 | 3.47 | 3.45 |
| Reference rate ^b | % | 1.50 | 1.50 | 1.50 | 1.75 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.75 |
| 3M WIBOR | % | 1.70 | 1.73 | 1.71 | 1.77 | 1.72 | 1.70 | 1.71 | 1.72 | 1.72 | 1.72 | 1.73 | 1.91 |
| Yield on 2-year T-bonds | % | 1.66 | 1.89 | 1.59 | 1.71 | 1.64 | 1.57 | 1.61 | 1.56 | 1.56 | 1.61 | 1.79 | 1.89 |
| Yield on 5-year T-bonds | % | 2.37 | 2.78 | 2.53 | 2.55 | 2.61 | 2.43 | 2.53 | 2.53 | 2.59 | 2.60 | 2.50 | 2.52 |
| Yield on 10-year T-bonds | % | 3.05 | 3.44 | 3.24 | 3.40 | 3.37 | 3.18 | 3.19 | 3.21 | 3.32 | 3.39 | 3.43 | 3.46 |

Note: ^a in nominal terms, ^b at the end of period. Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

This analysis is based on information available until 9.10.2018 has been prepared by:

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