

MACROscope

Clouded, the future is

■ **The outlook for the European economy remains clouded**, as new data continue providing new signs of weakness (disappointing PMI indicators, poor 3Q18 GDP reading) and the situation is further complicated by political developments (budgetary conflict with Italy, political struggle in Germany, continuing deadlock in Brexit negotiations). We still try to be cautiously optimistic, assuming no major downturn in the euro zone in the coming quarters (especially that there were some shy signs of improvement in the most recent German data), but the risks continue to be tilted downwards.

■ Although the Polish economy still stands out from the crowd in terms of economic growth and lack of imbalances, some scratches on the surface can already be noticed. The recent data from the labour market look increasingly disappointing and may be heralding a worsening outlook for private consumption. The latter has been the main driver of economic growth to date and will be hard to replace, especially in the environment of worsening global outlook. The fact that the pace of economic growth started slowing in 2H18 is not a surprise, but the question is about the pace of this deceleration. **We still argue there are reasons to believe in the 'soft landing' scenario, with GDP growth remaining still well above potential in 2019.**

■ The new NBP projection assumes GDP growth slowing and inflation rate breaching the official target significantly (yet not persistently) in 2019. We agree with the NBP governor's view that the central bank's CPI forecast may be exaggerated, as it reportedly assumes a notable spike in retail energy tariffs, which we think is unlikely to materialise. Nevertheless, we expect the indirect effects of higher energy costs to materialise and push the underlying inflation much higher in the coming quarters. **That leaves us with the unchanged view that the MPC may start hiking rates at the very end of 2019** when it becomes clear that risk of inflation going further up above the target is material and the economic growth slowdown is not as significant as some had feared.

■ There are more and more positive news from the fiscal area – it seems very likely that **the general government deficit will not exceed 1% of GDP** at the end of this year and there are no clear threats on the horizon for the next year's target (1.8% of GDP), despite the predicted economic slowdown.

■ Very good budget performance, resulting in low net supply of bonds, has been supportive for the debt market and dragged yields lower in the past weeks. We expect to see a rebound in the near future, triggered by better data releases (both Polish and European), but in general **the room for upward move in yield curves seems limited, in our view.**

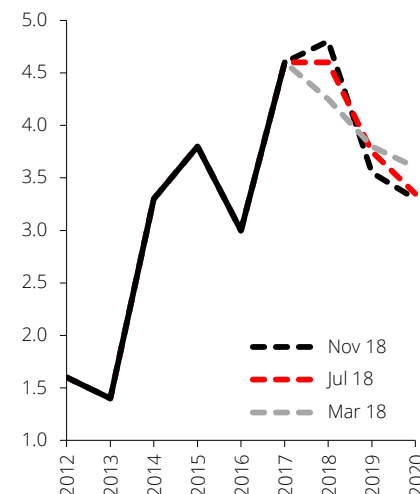
■ **We assume that the global environment should be zloty-positive in the final months of the year, helping the Polish currency to trade stronger.** Later, the room for lower EURPLN looks to be limited as more signs of an economic slowdown could appear and the divergence between interest rates in Poland and abroad will widen.

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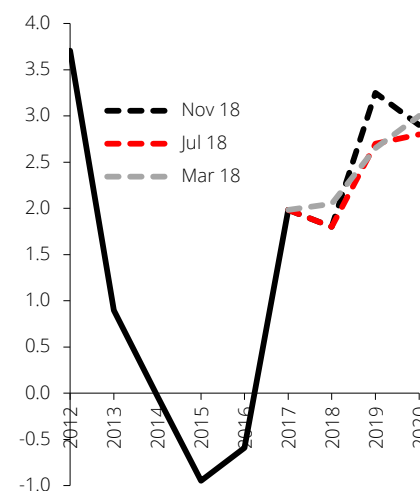
This report is based on information available until 8.11.2018.

NBP's GDP growth projections (mid-points)



Source: NBP, Santander Bank Polska

NBP's CPI projections (mid-points)



Source: NBP, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website www: skarb.santander.pl
Maciej Reluga – Chief Economist
 +48 22 5341888
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Konrad Soszyński +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

Economic Update

GDP growth below 5% in 3Q18

Data on 3Q18 GDP are due for release on 14 November and we are expecting the economic growth to show 4.5% after four quarters of c.5% growth in a row. In our view, consumption remained the main driver of GDP growth, with investment posting moderate growth and net exports contributing negatively. The Polish economy will be slowing down in the quarters to come and in our view there is more and more evidence supporting this claim.

Consumption still strong, but outlook deteriorated

In our view, consumption growth remained close to 5% y/y in 3Q18, underpinned by record low unemployment, strong wage growth, high consumer confidence and immigration. Weak results of retail sales in September were due to one-offs like introduction of new car emission standards, in our view. That having said, outlook for consumption is becoming less bright, so we see consumption growth to slow down below 4% y/y towards the end of 2019.

First, demand for labour is slowing down, with employment in the corporate sector actually falling in August and September after a relatively strong 1H18. Other employment measures (LFS and data derived from registered unemployment rates) also suggest a slowdown and companies' complaints about shortage of labour force are losing momentum.

Second, wage pressure is easing, so wage growth is unlikely to show a major acceleration. Not only companies are reducing their forecasts of wage hikes, but also actual data show some deceleration, especially in services. In our view, wage growth is likely to remain strong in the quarters to come, but a further acceleration seems less likely.

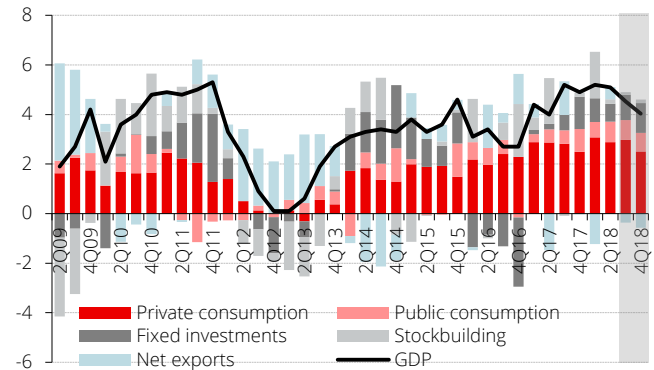
Third, consumer confidence indicators stagnate or even go down. Consumer confidence indicators deteriorated in October. The current indicator is still close to all-time highs but the leading indicator is at the lowest level this year. Interestingly, downside pressure on the leading index was put by deteriorating expectations about unemployment. The measure is 10pts below its April's peak and this is the most considerable decline among all subindices.

Fourth, the weaker labour market tendencies may discourage inflow of new immigrants. Unfortunately, we do not have reliable data reflecting this variable, so we cannot say whether it is already happening. Data on employers' declarations to hire a foreigner show a slump but are distorted by a change in regulations implemented at the start of 2018. Data on foreigners insured in Polish Social Security show a rise, but these may lag the actual inflow of people. Bear in mind that Germany is working on legislation allowing inflow of Ukrainian workers, which could encourage Ukrainians working in Poland to move west.

Investment to remain moderate

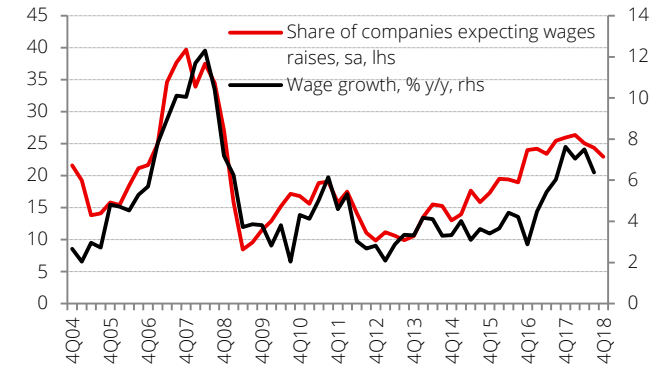
We are expecting the investment growth to remain moderate in 2H18. The recent quarters have witnessed really favourable conditions for investment growth, but we did not see any major recovery in this sector of the economy. Thus, we are also unlikely to see strong investment growth now, when the macroeconomic outlook is deteriorating. Note that investment was driven solely by pre-election spending spree in local governments, while other economic sectors but housing market saw a stagnation and the construction sector was slowing down throughout the year. Moreover, the upward trend in capacity utilisation seems to have stopped, companies do not suggest higher investment plans and banks do not see higher demand for investment loans. On the other hand, we see a low risk for a major slump, given strong inflow of EU means.

Contribution of demand components to GDP growth, % y/y



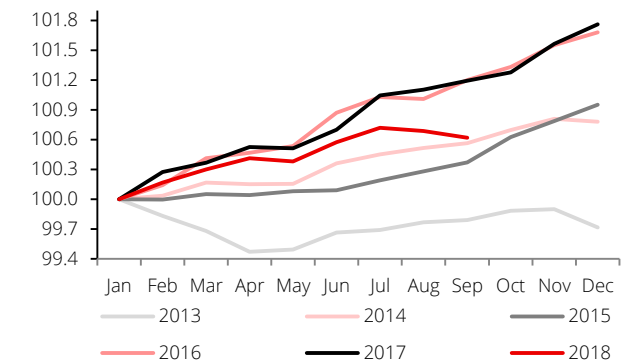
Source: Stats Office, Santander Bank Polska

Actual wage growth and expectations of companies



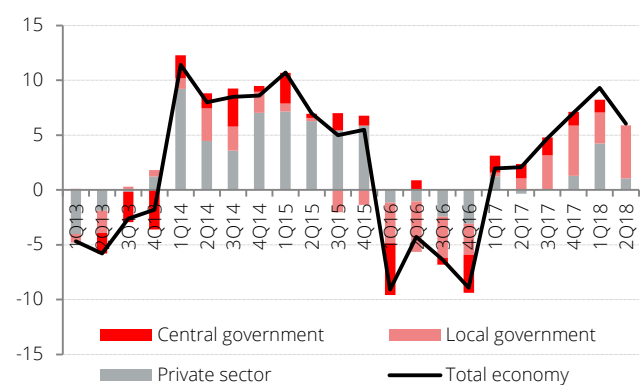
Source: Stats Office, NBP, Santander Bank Polska

Employment in corporate sector, January=100



Source: Stats Office, Santander Bank Polska

Investment breakdown by sectors, % y/y



Source: Eurostat, Finance Ministry, Santander Bank Polska

Economic Update

Net exports to contribute negatively

Net exports will contribute negatively to 2H18 GDP growth, in our view. This year Polish exports are growing far lower than in 2017. The question is whether trade wars will undermine Polish exports further. So far, they do not seem to be affected by this factor (see [our comment](#) on August trade data). Also leading indicators yield ambiguous signals. Even though PMI subindex for export orders plunged, other similar measures (GUS, ESI) remain robust.

Imports, at the same time, will be supported by the strong domestic demand, so are likely to grow faster than exports, yielding a negative contribution of foreign trade to total growth and causing a widening of current account deficit. However, as we noted earlier, we are expecting consumption to slow down and this will be negative for imports' growth rate in 2019, so we are not expecting the C/A deficit to go above 1% of GDP. Such a deficit will be easily financed by inflow of EU capital funds alone (averaging 1.8% of GDP in 2012-2017), so we see very low foreign financing risk.

CPI below expectations in October, but poised to rise

According to the flash release, CPI unexpectedly fell in October to 1.7% y/y from 1.9% with food prices being the main source of the surprise. Although we see a number of reasons for food prices to grow (the drought effect impacting fruits and vegetables and higher price of food of pork meat) but for now the opposite factors seem to dominate (like oversupply of fruits). Energy and fuels rose as expected. The core inflation probably rose from 0.8% y/y to 0.9%. In our view, CPI could stay at or slightly below the October level for the rest of 2018, but early next year it could climb toward the 2.5% target.

Despite lower CPI in October, other inflation indicators suggest growing price pressure. PPI inflation is running close to 3% y/y, construction and assembly production prices accelerated to 3.3% y/y in September and posted increases in monthly terms for 15 months in a row. Housing prices went up by 8% y/y in 2Q18, according to Bank of International Settlements.

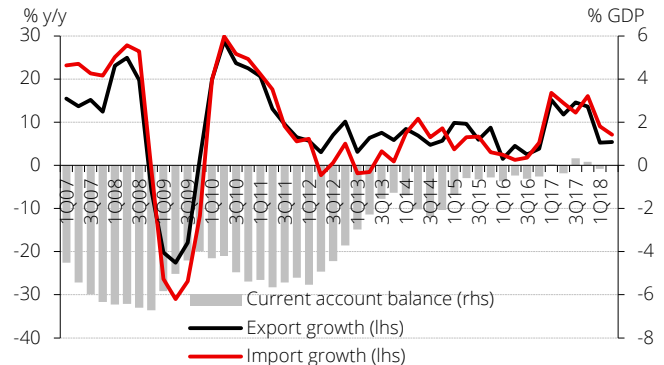
Energy prices remain the main risk factor for inflation in 2019. Wholesale energy and gas prices receded from the peak, but are still way higher than in 2017. The energy minister Krzysztof Tchórzewski claimed that earners in the first PIT bracket (above 95% of taxpayers) will not see a rise in their energy bills thanks to some offsetting payments. No details are known yet. We estimate that if retail energy tariffs are lifted by c.3-4% (which we deem realistic), then such measure would cost budget PLN0.5-1.0bn per annum.

Lending criteria became tighter

According to NBP's senior loan officer survey, in 3Q credit policy became tighter, especially for SMEs and mortgage loans. Further tightening is planned for 4Q.

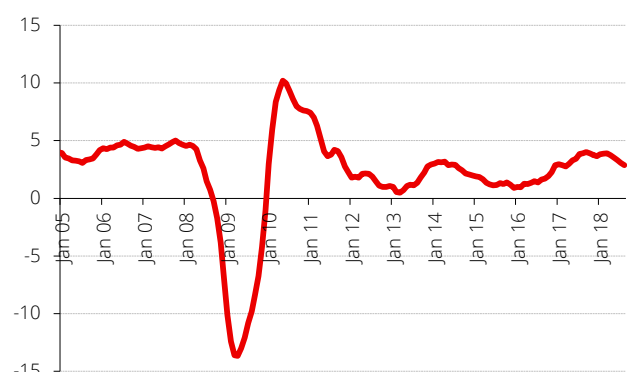
In 3Q banks felt some improvement of credit demand from enterprises and further rise of demand for mortgage loans, albeit less pronounced than in 1H18. Banks in general do not expect demand to change much in 4Q, with the exception of mortgage loans, where a large deterioration is to come. Indicator of demand for financing of investment projects was positive but relatively low, as in 2Q, which suggests investment activity of enterprises remained modest. Enterprises showed more interest in financing of stocks and in obtaining more working capital. A positive note in the survey is greater demand of consumers when it comes to financing of durable goods purchases. A negative note is the frequent indications by banks that the risk linked to overall economic situation made them tighten mortgage loans criteria. The index describing the risk reached a similar level as in 3Q07, when the economy went into a slowdown.

Current account balance, export and import



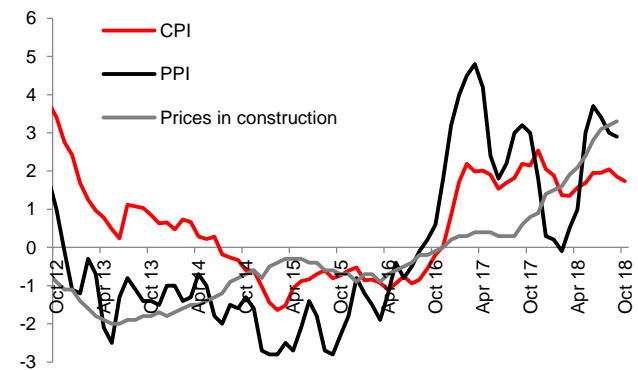
Source: Stats Office, NBP, Santander Bank Polska

World trade volumes, % y/y, 3-month moving average



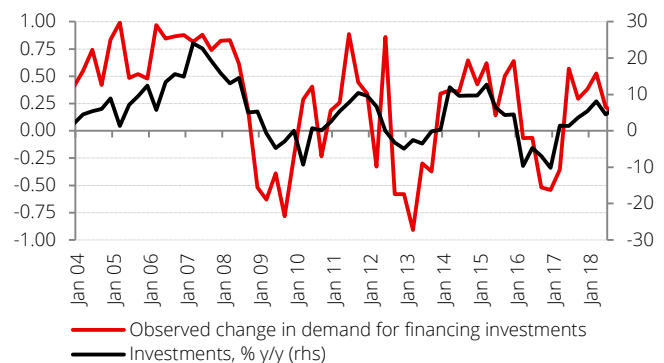
Source: CBP, Santander Bank Polska

Inflation measures, % y/y



Source: Stats Office, Santander Bank Polska

Signals from senior loan officers' survey vs investment growth



Source: Stats Office, NBP, Santander Bank Polska

Monetary Policy Watch

The move of projection did not move the Council

At the November's meeting the Monetary Policy Council received the updated NBP projection, showing significantly stronger spike of CPI inflation and slightly deeper GDP growth slowdown in 2019. Yet, by no surprise to us, such results did not trigger any material change in the central bank's approach or rhetoric, despite the fact that the discussion at the meeting was – according to the NBP Governor – “more lively than usual”. The MPC still believes that “the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability” and NBP Governor Adam Glapiński admitted the projection did not provide new arguments for a shift in monetary policy.

The reasons for that are quite straightforward. First of all, the MPC argues (quite rightly) that the inflation rise above the target will be driven mainly by factors beyond the impact of the monetary policy (energy prices). Secondly, the NBP Governor revealed that the projection's assumptions concerning the energy price hike were ‘conservative’ (exaggerated) and may not materialise. While we do not know yet those assumptions in details (the Inflation Report will be presented next Tuesday), we would agree with this argument too, as in our view the energy market regulator (URE) will not allow for a spike in retail energy tariffs higher than 3-4% (the decision should be known by early December). Thus, our forecast of headline CPI still goes clearly below the NBP's projection. Last but not least, the central bank apparently sees no risk of second-round effects on the horizon, thus perceiving the predicted inflation spike as not persistent. And indeed, the NBP's projected inflation path, after peaking in 2019, turns around in the following year. Also, the NBP Governor hinted at the press conference that there was no material change in the core inflation forecast.

The last assumption (about no indirect, longer-lasting impact on inflation from higher energy costs) seems the most disputable, in our view, and at the same time crucial for the monetary policy outlook.

As we wrote already last month, energy prices for business are not regulated and it is almost certain firms will face energy bill going up by 50-70% in 2019. Although on average the share of energy in total companies' costs is quite low (near 3%), it should be noted that the new shock joins the already significant cost pressure, which has been with us for some time. On top of still elevated dynamics of wages, higher costs of materials and fuels, companies will now be affected by much higher costs of electricity, gas, heating, and a bit later by the new burden coming from the introduction of Employee Capital Plans (PPK). Will companies be able to absorb rising costs by squeezing margins further? We are afraid not, as the process of corporate margin compression has been already quite advanced, which is reflected by, among other things, the record high number of companies restructuring or filing for bankruptcy, despite the economy being at the peak of the cycle. At the same time, we see the evidence of households' inflation expectations reviving, which would facilitate the process of gradual price increases on the retail market.

Still waiting (for future projections)

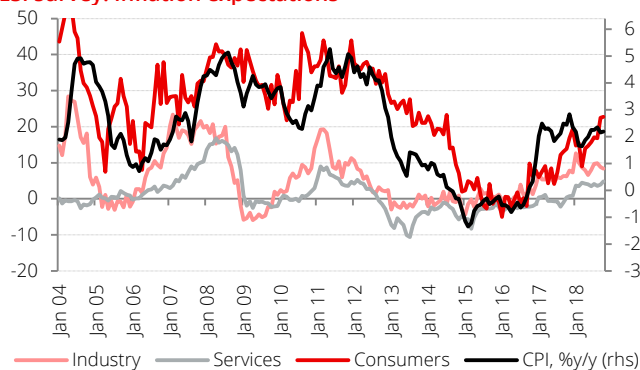
Asked about conditions that could force the MPC to mull policy tightening Adam Glapiński said he would need to see evidence of a persistent process of inflation increase. We agree it is still a long time before such strong evidence prevails, but – unless economic slowdown proves to be much stronger than we think – we may arrive to this point at the very end of 2019, when both headline and core inflation rates will be already above the 2.5% target and forecasts for the coming quarters will be pointing further to the north. Until then the MPC will keep the interest rates stable, claiming (as Mr. Osiatyński just did after seeing November's projection) that it still needs more clarity about the future outlook, and hoping it will be revealed by future NBP projections.

Inflation and GDP projections in subsequent Inflation reports

	GDP growth			
	Nov 17	Mar 18	Jul 18	Nov 18
2017	4.2 (±0.4)			
2018	3.7 (±0.8)	4.3 (±0.8)	4.6 (±0.6)	4.8 (±0.4)
2019	3.3 (±1.0)	3.8 (±1.0)	3.75 (±0.95)	3.55 (±0.85)
2020	-	3.6 (±1.0)	3.35 (±0.95)	3.25 (±0.95)
	CPI inflation			
	Nov 17	Mar 18	Jul 18	Nov 18
2017	1.95 (±0.05)			
2018	2.3 (±0.7)	2.1 (±0.5)	1.8 (±0.3)	1.8 (±0.1)
2019	2.7 (±1.0)	2.7 (±1.0)	2.7 (±0.8)	3.25 (±0.65)
2020	-	3.0 (±1.1)	2.8 (±1.1)	2.9 (±1.0)

Mid-points of ranges, in which GDP and CPI growth fall with 50-percent probability.
Source: NBP, Santander Bank Polska

ESI survey: Inflation expectations



Source: European Commission, GUS, Santander Bank Polska

Excerpts from MPC statement after its November meeting

A rise in uncertainty about the global economic outlook contributed to some weakening of sentiment in the international financial markets. Concurrently, energy commodity prices have decreased slightly, following their previous sharp rise. The relatively high level of these prices continues to add to inflation in many countries. At the same time, core inflation in the external environment of the Polish economy, including the euro area, remains moderate.

In Poland, incoming data point to economic conditions remaining strong, although in 2018 Q3 GDP growth was probably lower than in the first half of the year. GDP growth is still driven by rising consumption, albeit at a slightly lower rate than in the previous quarters, that is fuelled by increasing employment and wages as well as very high consumer sentiment. This is accompanied by a rise in investment.

Notwithstanding relatively high economic growth and wages rising faster than in the previous year, consumer price growth remains moderate. At the same time, inflation net of food and energy prices continues to be low.

In the Council's assessment, current information and the results of the projection point to a relatively favourable outlook for economic conditions in Poland, although a gradual slowing in GDP growth is expected in the years ahead. In line with the projection, inflation in 2019 will probably exceed 2.5%, boosted, among others, by a rise in energy prices remaining beyond the impact of monetary policy, but will remain within a band for deviations from the target. In the medium term, in turn, the expected slowdown in economic growth will have a dampening effect on inflation. In effect, in the monetary policy transmission horizon inflation will remain close to the target

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

Record of fiscal prudence?

After nine months of this year the central budget recorded a surplus of PLN3.2bn vs. our expectation of PLN2.3bn. Revenues in September alone were PLN29.4bn (103% of the plan for the month) and were 4% higher than a year ago. PIT and CIT revenues rose at a double-digit pace (11% and 18% y/y, respectively), while VAT revenues rose by c5% y/y. Expenditures were PLN27.3bn (91% of the plan for the month) and were 3.8% lower than a year ago. In September alone, revenues were higher than expenditures by PLN2.1bn; this was the second-best result for the month of September in the past 20 years. We expect that 2018 will end with a deficit of cPLN20bn and that the 2018 general government deficit will be close to a record-low 1% of GDP (with risk skewed to the downside). Government sources unofficially mentioned 0.4%.

New old rating from S&P

S&P agency surprised in mid-October with a decision to raise Polish long-term rating in foreign currency from BBB+ to A- with a stable outlook. In January 2016, the agency unexpectedly downgraded Poland highlighting the weakening of the independence of key institutions. In April this year, the agency changed rating outlook to positive from stable, adding that the solid economic growth that was strengthening fiscal position was a reason to upgrade the country's credit score. The upgrade was explained by the balanced economic growth, improvement of fiscal situation and better competitiveness of the Polish economy. According to the S&P, the rating would be upgraded more, if real income growth stays above the growth of the main trading partners, the public debt falls, and the private savings rise (thanks to the introduction of Employee Capital Plans) leading to partial neutralization of the effect of ageing population and falling supply of labour force. A negative pressure on rating would be exerted by deterioration of fiscal metrics or too fast wage growth (undermining the economy's competitiveness).

Other supranationals also positive about Poland

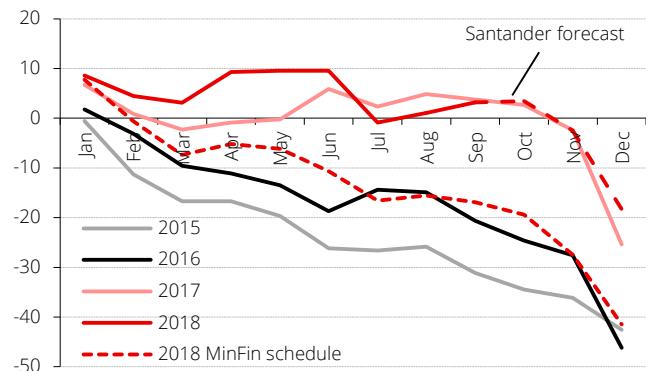
Concluding remarks from IMF's Article IV Consultations in Poland stress expectations of a substantial reduction in the headline general government deficit (from 1.4% in 2017 to 0.3% of GDP) and structural deficit for 2018 (from 2% to 1.25% GDP) thanks to structural improvement of tax compliance as well as a cyclical boost to revenues and positive influence from sharply growing number of foreign workers. It advises Poland some more structural consolidation to build buffers before the ageing costs rise and EU funds are decreased.

In the autumn forecasting round, the European Commission revised general government balance for Poland from -1.4% of GDP in 2018 and 2019 to -0.9% in both years, while 2020 was shown at -1%. The structural balance forecast was upgraded by less: from -2.2% of GDP to -2% in 2018 and 2019 - far above the IMF call. A -1.8% forecast was added for 2020. The EC sees the labour market situation as the supportive factor for the budget, providing high tax revenues and social contributions.

The ECJ case

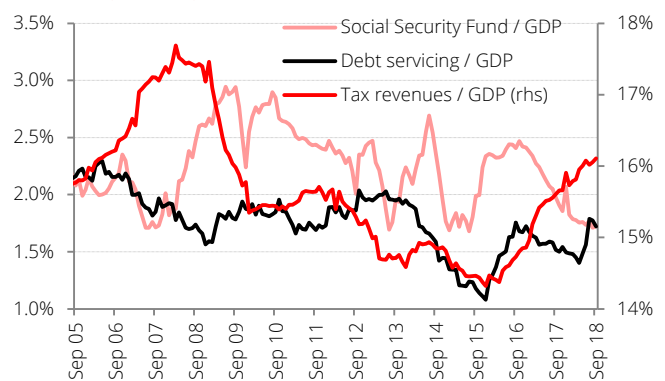
The Court of Justice of the EU agreed to introduce interim measures before it gives a verdict on the changed regulations about the Polish Supreme Court. In November the European Commission will evaluate progress Poland has made to comply with the EU law and, if unsatisfied, could ask ECJ to impose a financial penalty. Polish officials claimed they were ready to cooperate.

Cumulative budget performance, PLN bn



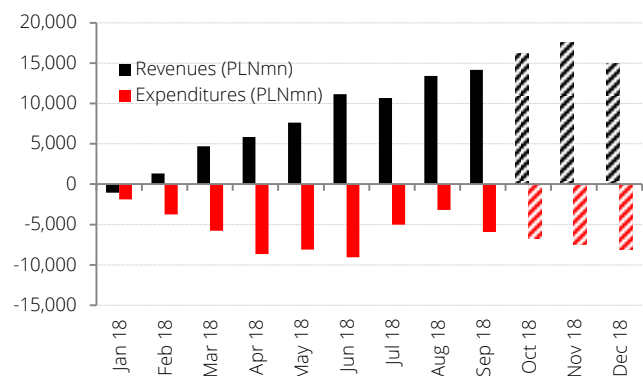
Source: Finance Ministry, Santander Bank Polska

Main budget categories vs GDP



Source: Finance Ministry, GUS, Santander Bank Polska

Deviation from MinFin budget schedule



Source: Finance Ministry, Santander Bank Polska

Forecasts of general government budget deficit, % GDP

	EC	IMF	S&P	MF
2018 headline	0.9	0.3	0.9	2.1
2019 headline	0.9	-	1.5	1.5
2018 structural	2.0	1.25	-	2.8
2019 structural	2.0	-	-	2.3

Source: Finance Ministry, European Commission, International Monetary Fund, S&P, Santander Bank Polska

Interest Rate Market

High supply, record demand

In October yields of Polish t-bonds decreased. Better prices were mainly a consequence of sovereign and National Road Funds bonds redemption (OK1018, KFD - principal of PLN11.92bn and PLN11.65bn respectively, interest payments of PLN0.78bn, and PLN3.98bn respectively) and low level of new sovereign bonds issue, Ministry of Finance sold bonds worth cPLN18bn. This sale closed with an extremely successful auction, in which, despite the historically large supply (PLN 10 billion), the bid-to-cover ratio was 3.12 - a similar result was observed for the last time in November 2017.

Except for the supply/demand conditions, yields decreases were supported by macro data. In the case of domestic data, positive background for decreases of yields was built by low readings: PMI, industrial production, wages, inflation, employment, and retail sales. Moreover, the global economic environment favoured investment in govies also. In the case of European data, we observed further low PMI and ESI readings. Moreover, the German industrial sector and foreign trade data/readings were disappointing also. Combined with falls in the stock exchanges, this pushed global and local yields of bonds down. This positive effect would not be neutralised by increases of Italian yields (as a reaction to Italy-EC budget crisis). As a consequence at the end of the month, the domestic curve decreased to 3.12% (10Y), 2.39% (5Y), 1.54% (2Y).

Consumption rebound may hit bonds

In November we expect a slight rebound of yields after the October's decreases. In addition to noticeable profit taking last week, the moderate pressures on the bonds should be generated by the core market macro data. In 4-5 week horizon, we expect some positive surprises by European industrial data (the last release of German industrial data for September was above expectations). We think that the problem with the approval of new cars in Europe that was negatively affecting recently published industrial data should soon be resolved.

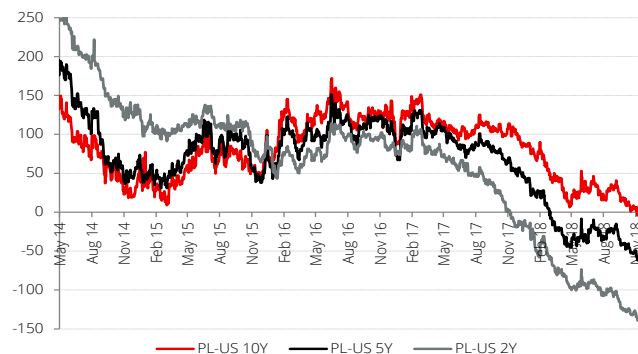
In October we saw some improvement of car registration statistics in Germany, as the new car registrations dropped by 7.4% y/y vs. 30.5% in September. The consumption rebound in Eurozone is supported by consumer confidence indices - in October, the major purchases index climbed to the highest level since 2006. The first signs of improvement are visible also in new car registrations in Poland - the October's data showed a rise by over 1% y/y.

However, this is the end of a list of factors that can push the domestic curve up. We assume that a major part of macro domestic data which will be released in November (the picture of October in the economy) will show only moderate improvement compared vs. September. The industrial production data, as well as retail sales data, is likely to show a moderate slowdown scenario, which means lower macroeconomic imbalances with no threats to fiscal stability.

We anticipate positive influence of low levels of debt supply on Polish t-bonds - until the end of the year. Ministry of Finance announced PLN3-6bn offer on the regular auction in November. We believe that the offer will not exceed PLN4bn (it is likely to be the last auction this year), which will not fill the gap after the October's redemptions. We expect that the domestic consumer confidence will gradually deteriorate (which is suggested by a weaker expected employment index - in business surveys).

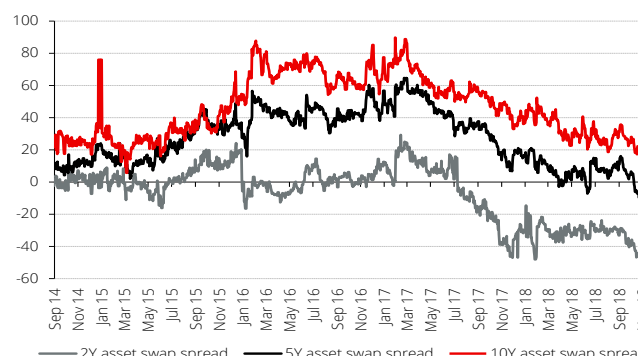
In November we expect the yield curves to increase to 3.27%, 2.53% and 1.56% over the month respectively for 10Y, 5Y and 2Y bonds and then return to 3.18%, 2.48% and 1.53% at the beginning of December. This scenario is not likely to be jeopardized by the core markets behaviour, where yields increases should not exceed 5-7 bp.

Spreads between Polish and US bonds



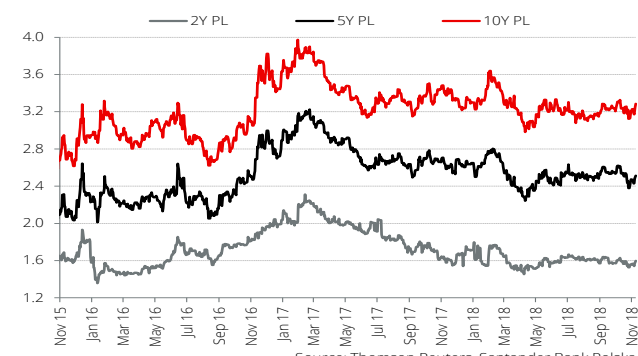
Source: Finance Ministry, Santander Bank Polska

ASW spread bp



Source: Finance Ministry, Santander Bank Polska

Yields of Polish sovereign bonds



Source: Finance Ministry, Santander Bank Polska

ESI - Eurozone consumer



Source: Finance Ministry, Santander Bank Polska

Foreign Exchange Market

Zloty following global trends

Just as we expected, in the recent weeks, there have been no breaking changes on the Polish market. The zloty depreciated temporarily amid high risk aversion on the global market with EURPLN climbing above 4.34 for a while. The Polish currency lost vs the British pound and the US dollar and held stable vs the Swiss franc.

October was pretty calm also in the case of the other CEE currencies while their LatAm peers were more volatile. The Brazilian real gained noticeably as investors positively received the winner of the presidential elections.

Stocks rebound may support zloty

We assume that the global environment should be zloty-positive in the coming weeks, helping the Polish currency to trade stronger in the final months of the year. Later, the room for lower EURPLN looks to be limited as more signs of a economic slowdown could appear.

The recent few weeks have seen a sharp plunge of the US stock indexes and in our view the pace of the sell-off has gone too far. Note that the four-week % change of the S&P500 has been lower only during periods of a serious turbulences which seems not to be the case now. The US economic activity data still look solid which might encourage investors to utilize recent sell-off to purchase stocks. Higher risk appetite could in turn work in favour of the zloty.

We still assume EURUSD should rise in the months to come although starting from the lower level. However, in the short term, the euro could stay weak vs the dollar and this is a risk factor to our view of a stronger zloty in the coming weeks. The European data look very poor with the manufacturing PMIs staying in the down trend and the issue with Italian budget still being unsolved.

In mid-November, Poland flash 3Q GDP data will be released with our forecast (4.5% y/y) close to the market consensus (4.7%). The headline figure would be noticeably below the above-5% readings observed in the previous quarters and we expect the deceleration to continue in 2019, weighing on the domestic currency.

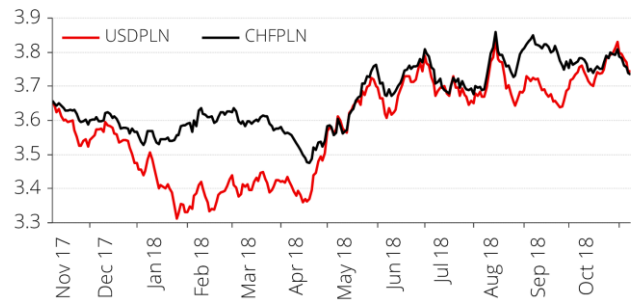
EURUSD near 2018 bottom

EURUSD trended lower in October, nearing this year's bottom at c1.13 reached in August. The euro was under pressure of the continued deterioration in the PMI readings and concerns related to the Italian budget draft. The single currency managed to recover somewhat in early-November after the US mid-term elections.

The US November mid-term elections resulted in the Republicans losing majority in the House of Representatives. The results hit the dollar as the market started to price in the slower pace of implementation of the Donald Trump pro-growth ideas. Although this might weigh on the dollar in the weeks to come, we see a risk that EURUSD might test this year's low before the upside trend starts amid still poor European data, looming December Fed rate hike and clash between Italy and EU regarding the state budget plan.

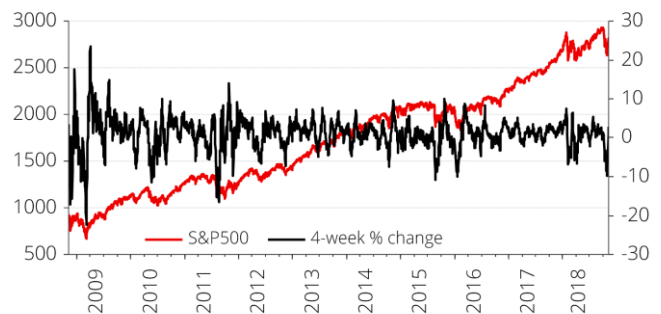
Our 2018-2019 EURUSD forecasts have been revised down (to 1.17 from 1.21 for end-2018 and to 1.24 from 1.26 for end-2019) but the upside profile has been preserved. We are of the opinion that the market has overreacted and EURUSD is too low given our forecasts that the economic conditions should not deteriorate much further. Also, the ECB is expected to normalize its monetary policy while some of the FOMC rate hikes are already priced in.

USDPLN and CHFPLN



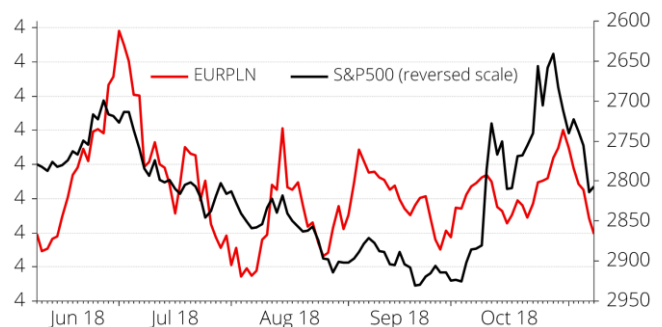
Source: Thomson Reuters Datastream, Santander Bank Polska

S&P500 and its 4-week % change



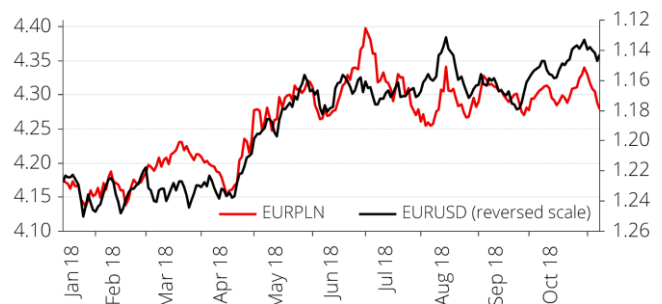
Source: Thomson Reuters Datastream, Santander Bank Polska

EURPLN and S&P500

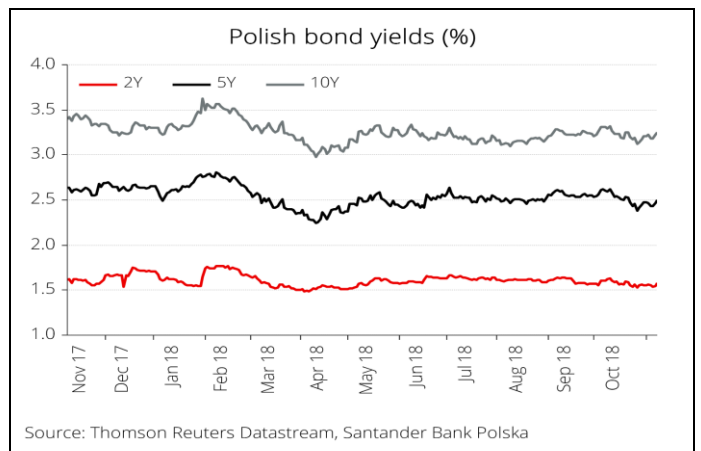
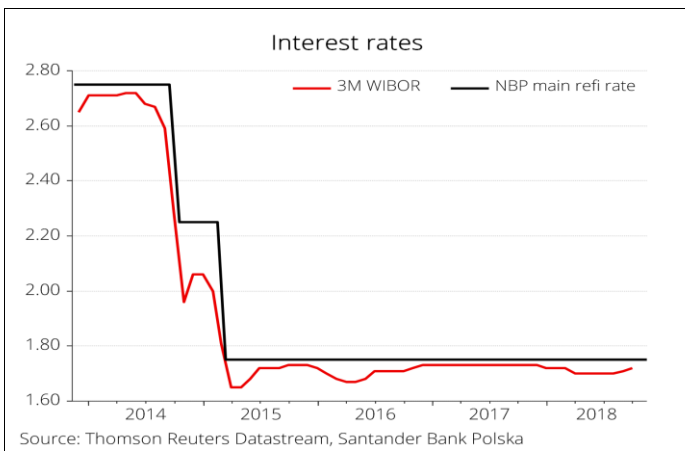
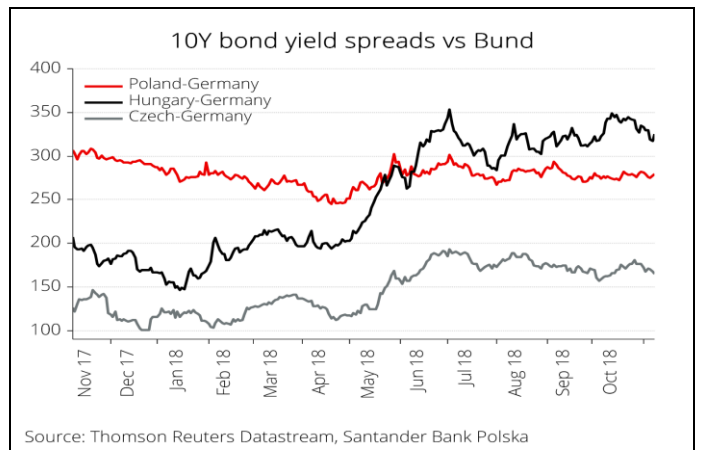
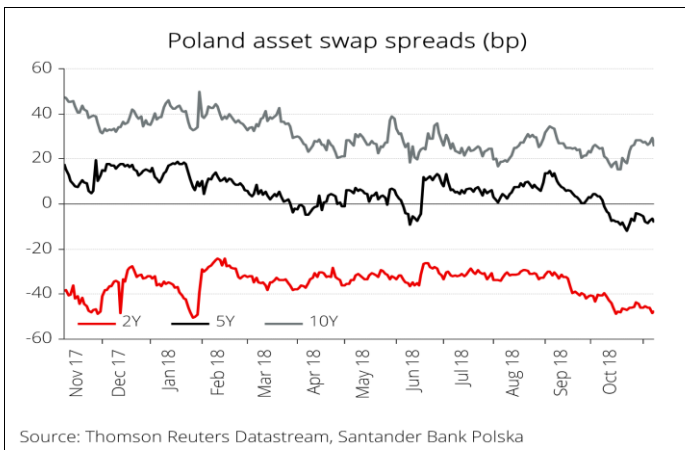
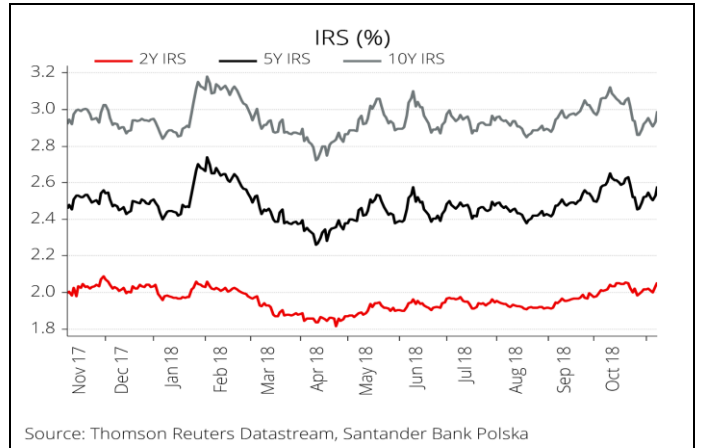
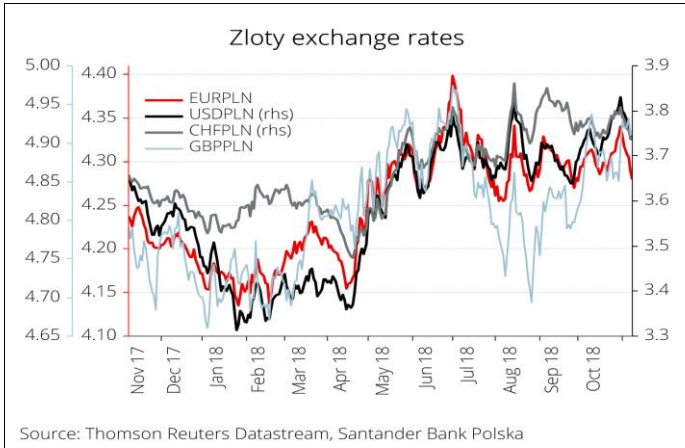


Source: Thomson Reuters Datastream, Santander Bank Polska

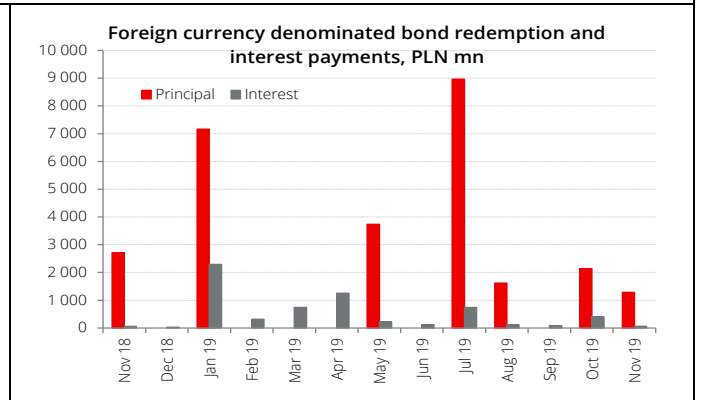
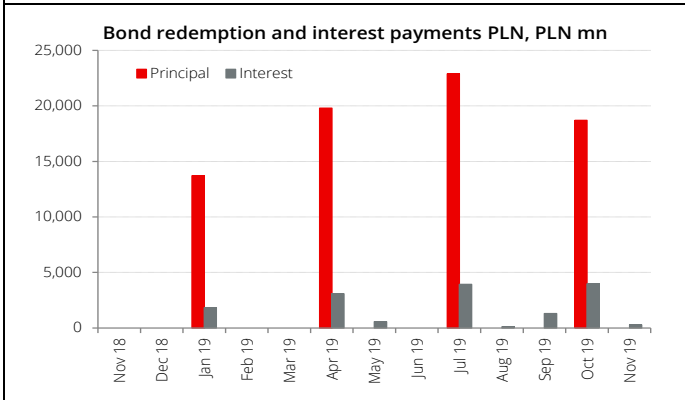
EURPLN and EURUSD



Source: Thomson Reuters Datastream, Santander Bank Polska



Principal and interest payments



Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 November	13 PL: Balance of payments (Sep) DE: ZEW (Nov)	14 PL: Inflation (Oct) PL, HH, CZ, EZ: GDP (Q3) EZ: Industrial output (Oct) US: Inflation (Oct)	15 PL: Core inflation (Oct) US: Retail sales (Oct) US: Philly Fed index (Nov)	16 EZ: HICP (Oct) US: Industrial output (Oct)
19 PL: Employment (Oct) PL: Wages (Oct)	20 PL: Industrial output (Oct) PL: Construction and assembly output (Oct) PL: PPI (Oct) HU: Central bank decision US: House starts (Oct)	21 US: Durable goods orders (Oct) US: Flash Michigan (Nov) US: Home sales (Sep)	22 PL: Retail sales (Oct)	23 PL: Money supply (Oct) DE: Flash PMI – manufacturing (Nov) DE: Flash PMI – services (Nov) EZ: Flash PMI – manufacturing (Nov) EZ: Flash PMI – services (Nov)
26 PL: Unemployment rate (Oct) DE: IFO (Nov)	27 DE: Retail sales (Oct) US: Consumer confidence index (Nov)	28 US: GDP (Q3) US: New home sales (Oct)	29 DE: Inflation (Oct) US: Personal spending (Oct) US: Personal income (Oct) US: Pending home sales (Oct) US: FOMC decision	30 PL: Flash CPI (Nov) PL, HU, CZ, EZ: GDP (Q3) US: Michigan index (Nov)
3 December PL: PMI – manufacturing (Nov) DE: PMI – manufacturing (Nov) EZ: PMI – manufacturing (Nov)	4	5 PL: MPC decision DE: PMI – services (Nov) EZ: PMI – services (Nov) HU: GDP (Q3) US: ISM – services (Nov) US: ADP report (Nov)	6 DE: Industrial orders (Oct) HU: Industrial output (Oct)	7 DE: Industrial output (Oct) CZ: Industrial output (Oct) US: Non-farm payrolls (Nov) US: Unemployment rate (Nov)
10 DE: Exports (Aug) CZ: Inflation (Oct)	11 HU: Inflation (Oct) DE: ZEW (Dec)	12 EZ: Industrial output (Oct) US: Inflation (Nov)	13 EZ: ECB decision	14 PL: Inflation (Sep) US: Retail sales (Nov) US: Industrial output (Nov)

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

		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	Nov 18
PMI	pts	53.4	54.2	55.0	54.6	53.7	53.7	53.9	53.3	54.2	52.9	51.4	50.5	50.4	49.9
Industrial production	% y/y	12.3	9.2	2.8	8.7	7.3	1.6	9.3	5.2	6.7	10.3	5.0	2.8	6.0	4.5
Construction production	% y/y	20.2	19.9	12.8	34.7	31.3	16.1	19.7	20.7	24.7	18.7	20.1	16.4	25.0	14.3
Retail sales ^a	% y/y	8.0	10.2	6.0	8.2	7.9	9.2	4.6	7.6	10.3	9.3	9.0	5.6	7.2	6.1
Unemployment rate	%	6.6	6.5	6.6	6.8	6.8	6.6	6.3	6.1	5.8	5.8	5.8	5.7	5.7	5.7
Gross wages in corporate sector	% y/y	7.4	6.5	7.3	7.3	6.8	6.7	7.8	7.0	7.5	7.2	6.8	6.7	6.9	7.1
Employment in corporate sector	% y/y	4.4	4.5	4.6	3.8	3.7	3.7	3.7	3.7	3.7	3.5	3.4	3.2	3.1	2.9
Exports (€)	% y/y	17.8	17.7	4.8	15.5	6.6	-4.4	9.1	1.1	6.2	9.2	7.4	2.8	6.0	5.0
Imports (€)	% y/y	16.9	17.8	13.2	19.0	9.5	0.3	12.4	1.4	7.9	10.3	11.2	6.8	8.0	7.5
Trade balance	EUR mn	356	266	-1,196	-59	-602	-451	208.0	153.0	-382.0	-344.0	-329	-236	19	-189
Current account balance	EUR mn	-13	95	-1,354	2,289	-792	-914	291.0	495.0	-200.0	-750.0	-549	-19	274	351
Current account balance	% GDP	0.4	0.4	0.1	0.1	0.0	-0.2	-0.2	0.0	0.0	-0.1	-0.3	-0.3	-0.2	-0.2
Budget balance (cumulative)	PLN bn	2.7	-2.4	-25.4	8.6	4.5	3.1	9.3	9.6	9.5	-0.9	1.1	3.2	3.5	-2.5
Budget balance (cumulative)	% of FY plan	-4.5	4.1	42.7	-20.6	-10.8	-7.5	-22.5	-23.1	-23.0	2.1	-2.5	-7.7	-8.4	6.0
CPI	% y/y	2.1	2.5	2.1	1.9	1.4	1.3	1.6	1.7	2.0	2.0	2.0	1.9	1.7	1.5
CPI excluding food and energy	% y/y	0.8	0.9	0.9	1.0	0.8	0.7	0.6	0.5	0.6	0.6	0.9	0.8	0.9	0.9
PPI	% y/y	3.0	1.8	0.3	0.2	-0.1	0.5	1.0	3.0	3.7	3.4	3.0	2.9	3.0	2.7
Broad money (M3)	% y/y	5.7	4.5	4.6	4.8	4.9	5.8	5.7	6.6	7.3	7.3	7.5	7.9	8.0	7.7
Deposits	% y/y	5.3	4.2	4.1	4.5	4.6	5.1	5.1	6.0	6.7	6.8	7.0	6.9	6.7	6.7
Loans	% y/y	4.7	3.7	3.6	4.0	4.2	4.3	3.9	5.5	5.6	5.6	6.1	5.9	7.3	7.3
EUR/PLN	PLN	4.26	4.23	4.20	4.16	4.16	4.21	4.19	4.28	4.30	4.33	4.29	4.30	4.31	4.31
USD/PLN	PLN	3.63	3.60	3.55	3.41	3.37	3.41	3.42	3.63	3.69	3.70	3.71	3.69	3.75	3.78
CHF/PLN	PLN	3.69	3.63	3.60	3.55	3.61	3.60	3.53	3.64	3.73	3.72	3.75	3.81	3.77	3.76
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	1.72	1.72	1.72	1.71	1.70	1.70	1.70	1.70	1.70	1.71	1.72	1.72
Yield on 2-year T-bonds	%	1.71	1.60	1.69	1.62	1.73	1.56	1.52	1.57	1.60	1.63	1.61	1.60	1.58	1.55
Yield on 5-year T-bonds	%	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	2.50
Yield on 10-year T-bonds	%	3.39	3.40	3.29	3.34	3.51	3.27	3.08	3.23	3.23	3.18	3.15	3.24	3.23	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	2,222.7	485.4	503.1	517.0	587.3	513.6	537.3	548.1	623.8
GDP	% y/y	3.1	4.8	4.7	3.7	5.2	5.1	4.5	4.0	4.0	3.8	3.6	3.5
Domestic demand	% y/y	2.3	4.9	5.3	4.0	6.8	4.8	5.1	4.8	3.9	4.1	3.9	4.1
Private consumption	% y/y	3.9	4.9	4.9	4.2	4.8	4.9	5.0	5.0	4.6	4.4	4.1	3.8
Fixed investments	% y/y	-8.2	3.9	5.6	5.0	8.1	4.5	6.0	4.9	5.0	5.0	5.0	5.0
Industrial production	% y/y	2.9	6.5	5.8	5.6	5.5	7.0	5.4	4.9	5.4	5.7	7.3	4.1
Construction production	% y/y	-14.5	13.7	18.7	3.3	25.6	21.9	18.3	13.9	5.8	5.5	1.6	2.0
Retail sales ^a	% y/y	3.9	8.2	7.8	8.9	8.4	7.5	7.9	7.3	6.7	9.2	10.4	9.0
Unemployment rate ^b	%	8.2	6.6	5.8	5.5	6.6	5.8	5.7	5.8	5.9	5.4	5.3	5.5
Gross wages in the national economy ^a	% y/y	3.8	5.7	6.9	6.8	6.2	7.1	6.3	6.4	6.6	6.7	6.8	6.6
Employment in the national economy	% y/y	2.3	3.7	2.7	0.7	2.8	3.0	2.5	2.1	1.0	0.7	0.6	0.6
Exports (€)	% y/y	3.1	13.8	5.3	3.3	5.3	5.4	6.3	4.4	4.7	4.3	3.5	0.6
Imports (€)	% y/y	2.7	14.9	8.2	4.8	9.0	7.1	9.3	7.3	6.3	5.8	5.0	2.2
Trade balance	EUR mn	2,935	1,426	-4,176	-7,550	-1,113	-27	-909	-2,127	-1,971	-781	-1,745	-3,054
Current account balance	EUR mn	-2,248	715	-901	-3,434	569	584	-1,318	-736	-85	47	-1,954	-1,442
Current account balance	% GDP	-0.5	0.2	-0.2	-0.7	-0.2	0.0	-0.3	-0.2	-0.3	-0.4	-0.5	-0.7
General government balance	% GDP	-2.2	-1.4	-1.0	-1.8	-	-	-	-	-	-	-	-
CPI	% y/y	-0.6	2.0	1.7	2.6	1.5	1.7	1.9	1.7	2.4	2.6	2.7	2.8
CPI ^b	% y/y	0.8	2.1	1.7	2.8	1.3	2.0	1.9	1.7	2.7	2.8	2.6	2.8
CPI excluding food and energy	% y/y	-0.2	0.7	0.8	1.8	0.8	0.6	0.8	0.9	1.1	1.6	2.0	2.4
PPI	% y/y	-0.2	2.9	2.2	2.5	0.2	2.6	3.1	2.8	3.0	2.1	2.2	2.9
Broad money (M3) ^b	% y/y	9.6	4.6	7.0	7.9	5.8	7.3	7.9	7.0	7.3	7.5	7.7	7.9
Deposits ^b	% y/y	9.1	4.1	6.9	8.0	5.1	6.7	7.4	6.9	7.2	7.4	7.7	8.0
Loans ^b	% y/y	4.7	3.6	7.5	6.4	4.3	5.6	6.5	7.5	7.2	7.0	6.7	6.4
EUR/PLN	PLN	4.36	4.26	4.26	4.29	4.18	4.26	4.30	4.29	4.27	4.29	4.30	4.31
USD/PLN	PLN	3.95	3.78	3.60	3.54	3.40	3.58	3.70	3.73	3.60	3.54	3.51	3.49
CHF/PLN	PLN	4.00	3.84	3.68	3.48	3.59	3.63	3.76	3.74	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	1.60	1.71	1.64	1.57	1.61	1.55	1.56	1.61	1.79	1.89
Yield on 5-year T-bonds	%	2.37	2.78	2.52	2.55	2.61	2.43	2.53	2.49	2.57	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	3.19	3.29	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 8.11.2018 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

al. Jana Pawła II 17, 00-854 Warszawa (+48) 22 586 8340

Email: ekonomia@santander.pl Web site: <http://www.skarb.santander.pl>

Maciej Reluga* – Chief Economist

tel. (+48) 22 534 1888. Email: maciej.reluga@santander.pl

Piotr Bielski*	– Director	(+48) 22 534 1887
Marcin Luziński*	– Economist	(+48) 22 534 1885
Grzegorz Ogonek*	– Economist	(+48) 22 534 1923
Konrad Soszyński*	– Economist	(+48) 22 534 1886
Marcin Sulewski, CFA*	– Economist	(+48) 22 534 1884

TREASURY SERVICES DEPARTMENT

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań
tel. (+48) 61 856 58 14/30
fax (+48) 61 856 4456

Warszawa

al. Jana Pawła II 17
00-854 Warszawa
tel. (+48) 22 586 83 20/38
fax (+48) 22 586 8340

Wrocław

ul. Robotnicza 11
53-607 Wrocław
tel. (+48) 71 369 9400
fax (+48) 71 370 2622

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