

1 April 2019

Eyeopener

Polish rating unchanged

Fitch affirmed Poland's rating
CPI up in March
Zloty and CEE currencies losses at the end of the week
Polish debt underperformed its peers
Today Eurozone and US PMI data

Market moods were quite good on Friday since the start of the day. Equity markets in Europe were rising and bonds were under pressure, but those trends were partly reversed in reaction to news from the UK. The House of Commons rejected the Brexit deal for the third time, so all options are still on the table (today next round of indicative votes will be held) and the default date of no-deal Brexit is April 12th. On April 10th the European Council will hold the emergency meeting.

Fitch Ratings confirmed Poland's credit score at A- with the stable outlook, pointing again to the strong economic fundamentals, low GDP per capita and high external debt. Assessing the PiS fiscal package the agency raised the predicted fiscal deficit from 2.0% to 2.2% of GDP in 2019 and from 2.2% to 2.8% of GDP in 2020. However, Fitch expects the government "to comply with its own expenditure and European Commission convergence rules". According to the statement, the factors negatively affecting the rating include: weaker commitment to adhering to the 3% of GDP EU deficit ceiling, or failure to stabilise the debt/GDP ratio in the medium term; weaker macro-economic policy framework, potentially resulting in lower GDP growth; deterioration in governance standards or the business climate leading to an adverse impact on the economy. Factors positive for rating include: further sustained reduction in net external debt/GDP towards the 'A' category median; fiscal consolidation that leads to a sustained decline in public debt/GDP; GDP growth that supports faster income convergence towards the 'A' category median.

Flash reading showed **inflation** rising from 1.2% y/y to 1.7% in March, more than the market expected and in line with our expectations. We assumed an unusually strong rise of food prices for this part of the year, but the outcome was even a notch higher, at 0.4% m/m. From the limited information GUS delivered in the flash release, we estimate that core inflation rose from 1% y/y to 1.3%, which is the highest reading since October 2013, and most likely not the last rise we will see this year. We expect core inflation to rise to 1.7% y/y by mid-year and to ~2.5% in December. Headline CPI could go up to 2-2.5% by the end of this year. The February reading does not look like a game-changer and does not take inflation above the paths projected by NBP in March, but some MPC members expressed recently a view that it cannot be guaranteed that rates will be stable due to the announced fiscal package.

PMI rose to 48.7 from 47.6. According to Markit "output, new orders and employment all continued to decline, with new export work dropping at the strongest rate since June 2009." However production and new business both registered slower rates of reduction compare to February, while forward-looking output expectations indicator improved to highest level since 6 months.

EURUSD stayed around 1.122 on Friday, with a temporary drop to almost 1.12 after the better-than-expected US data. The British vote did not move EURUSD.

EURPLN climbed at the end of the week to 4.305 from 4.29 and reached the highest level since mid-March. Meanwhile, **USDPLN** reached 3.838. The upward tide returned after release of higher-than-expected flash inflation.

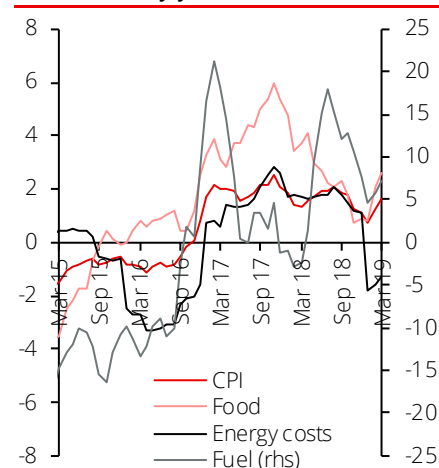
In the CEE region, the forint and the ruble were losing while the koruna remained stable. EURHUF broke 321 and reached the highest level since mid-March, when it was close to 313. USDRUB jumped above 65.72 despite a spike in oil prices, as information on US plans to impose new sanctions on Russia were dominant.

On the domestic interest rate market, yields climbed by 2-3bps on the middle and longer end of the curve, while the short end remained stable. A part of this move happened after higher-than-expected flash March CPI in Poland. Polish 10Y debt lost less than the US bonds and more than German.

The Ministry of Finance announced that in 2Q will conduct three-four auctions when it will offer bonds worth PLN15-25bn in total. The Ministry said that auctions at the foreign market are likely. On April 25, at the standard auction the Ministry will offer OK0521, PS0424, WZ0524, WZ0528 and DS1029 bonds for PLN4-8bn.

This week, the Polish MPC will announce its decision about interest rates and the no change is widely expected. Still, domestic monetary policy is getting more interesting since recently five MPC members (out of 10) stated that rates stability could not be guaranteed given the new stimulus package. Numerous data will be also released – PMIs and the US nonfarm payrolls.

CPI inflation, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3011	CZKPLN	0.1666
USDPLN	3.8287	HUFPLN*	1.3414
EURUSD	1.1234	RUBPLN	0.0586
CHFPLN	3.8460	NOKPLN	0.4454
GBPPLN	5.0073	DKKPLN	0.5762
USDCNY	6.7089	SEKPLN	0.4134

*for 100HUF

Last session in the FX market

29/03/2019

	min	max	open	close	fixing
EURPLN	4.293	4.308	4.296	4.305	4.3013
USDPLN	3.820	3.840	3.824	3.837	3.8365
EURUSD	1.121	1.125	1.124	1.122	-

Interest rate market

29/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.67	1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.19	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.83	2	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	1	2.54	2	-0.23	0
2L	1.77	1	2.38	4	-0.20	0
3L	1.81	2	2.31	5	-0.14	1
4L	1.85	0	2.28	6	-0.07	1
5L	1.94	3	2.28	5	0.01	0
8L	2.14	4	2.35	5	0.29	1
10L	2.26	4	2.41	4	0.47	2

WIBOR rates

Term	%	Change (bps)
O/N	1.52	0
T/N	1.54	1
SW	1.55	1
2W	1.58	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	1
6x9	1.72	1
9x12	1.72	1
3x9	1.78	0
6x12	1.78	1

Measures of fiscal risk

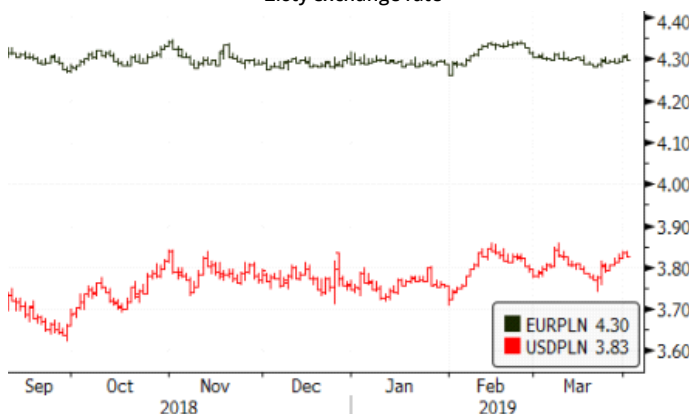
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.87	-1
France	30	1	0.39	0
Hungary			2.92	-1
Spain	64	-1	1.16	-1
Italy	208	-1	2.55	-1
Portugal	73	1	1.31	-1
Ireland	38	0	0.62	0
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

Zloty exchange rate



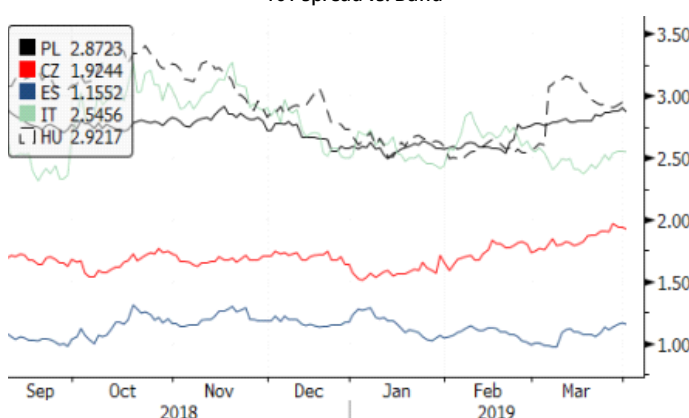
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (29 March)								
	PL	Fitch Rating Review						
08:00	DE	Retail Sales	Feb	% m/m	-0.9	-	0.9	3.3
10:00	PL	CPI	Mar	% y/y	1.6	1.6	1.7	1.2
13:30	US	Personal Spending	Jan	% m/m	0.3	-	0.1	-0.6
13:30	US	Personal Income	Feb	% m/m	0.3	-	0.2	-0.1
13:30	US	PCE Deflator SA	Jan	% m/m	0.0	-	-0.1	0.1
15:00	US	Michigan index	Mar	pts	97.8	-	98.4	97.8
15:00	US	New Home Sales	Feb	% m/m	2.06	-	4.9	8.2
MONDAY (1 April)								
09:00	PL	Poland Manufacturing PMI	Mar	pts	47.32	47.0	48.7	47.6
09:55	DE	Germany Manufacturing PMI	Mar	pts	44.7	-		44.7
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	47.6	-		47.6
11:00	EZ	Flash HICP	Mar	% y/y	1.5	-		1.5
11:00	EZ	Unemployment Rate	Feb	%	7.8	-		7.8
14:30	US	Retail Sales Advance	Feb	% m/m	0.3	-		0.2
16:00	US	ISM manufacturing	Mar	pts	54.3	-		54.2
TUESDAY (2 April)								
09:00	CZ	GDP SA	4Q	% y/y	2.8	-		2.8
14:30	US	Durable Goods Orders	Feb	% m/m	-1.2	-		0.3
WEDNESDAY (3 April)								
	PL	MPC decision		%	1.50	1.50		1.50
03:45	CN	Caixin China PMI Services	Mar	pts	52.25	-		51.1
09:55	DE	Markit Germany Services PMI	Mar	pts	54.9	-		54.9
10:00	EZ	Eurozone Services PMI	Mar	pts	52.7	-		52.7
11:00	EZ	Retail Sales	Feb	% m/m	0.1	-		1.3
14:15	US	ADP report	Mar	k	180	-		183
16:00	US	ISM services	Mar	pts	58.0	-		59.7
THURSDAY (4 April)								
08:00	DE	Factory Orders	Feb	% m/m	0.3	-		-2.6
14:30	US	Initial Jobless Claims	week	k	220	-		211
FRIDAY (5 April)								
08:00	DE	Industrial Production SA	Feb	% m/m	0.5	-		-0.8
09:00	HU	Industrial Production SA	Feb	% y/y	0.0	-		5.0
14:30	US	Change in Nonfarm Payrolls	Mar	k	175	-		20
14:30	US	Unemployment Rate	Mar	%	3.8	-		3.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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