

15 April 2019

Eyeopener

Poland rating affirmed by S&P

End of the week in the good mood, after good China and EZ data
 Polish rating confirmed
 Zloty gains fueled by EURUSD rebound, domestic bonds resilient to UST, Bund sell-off
 Today final Polish March inflation

The last session of the previous week passed in a relatively positive mood. European stock exchanges were on the rise while bonds felt some selling pressure. Most of the emerging market currencies gained. Commodities prices went up, which was caused by better-than-expected data from China (strong rise of exports in March) and the euro zone (a lower-than-expected decrease of production growth in February). In the USA, consumer sentiment measure (University of Michigan index) disappointed, but the markets did not pay attention to this. In the evening S&P confirmed Polish credit rating at A-.

S&P rating agency confirmed the rating of Poland at A- with stable outlook. According to the agency the looser fiscal policy will not affect negatively the credit score thanks to strong economic growth. It also thinks the levels of private and public debt are serviceable, while the external situation, the diversified economy and relatively deep capital market support the current rating. S&P forecasts a shift of general government deficit to slightly below 3% GDP starting from 2020 and a rising path of debt-to-GDP ratio. According to the agency, a downside pressure on the rating would come from a deterioration of fiscal position, a quicker-than-expected rise of wages which could cause a faster than currently estimated increase of net foreign debt. S&P would treat the following as rating-positive factors: a higher growth of real incomes vs peers, a reduction of nominal debt through generation of fiscal surpluses, a rise of private savings (due to the creation of PPK, Employee Capital Plans).

February C/A data for Poland, with balance at -€1386mn, showed a much higher than expected imports growth after several surprisingly weak months in this category. Exports also grew more than expected, but all in all, trade balance was €1bn lower than market median (and €0.8bn lower than our call). NBP comment accompanying the release mentions imports of oil and airplanes (looking like a one-off boost to imports). On the exports side the report signals high contribution of commercial vehicles, car parts, electronics and copper. Exports grew by 10% y/y, while imports by 13.4% y/y, both readings were the strongest since October. The result has negative implications for 1Q GDP, indicating downside risk to our 4.5% y/y call. Given the strong domestic demand in Poland and the upcoming fiscal boost, we think imports may be outpacing exports this year, but the resulting trade gap will be moderate, compared to the same stages of the previous cycles. 12M rolling sum of C/A deficit grew in February to 0.9% GDP from 0.8% and might more or less double by the end of the year."

EURUSD jumped on Friday to above 1.13 from 1.125 amid weaker concerns about the global economic growth after the better-than-expected China and euro zone data.

EURPLN broke 4.285 in the first part of the day despite rising EURUSD and pretty good global market sentiment. However, the impact of stronger euro vs the dollar finally generated strong enough pressure to push EURPLN down. In effect, the exchange rate reached its new April low at c4.274 and below the March bottom at 4.275.

On the domestic interest rate market IRS and yields rose by no more than 2bp. Polish debt was outperforming its German and US peers where the 10Y yields jumped by more than 5bp.

Today at 10:00CET the stat office will release final **March CPI**. Flash estimate showed a noticeable rebound to 1.7% y/y from 1.2% y/y in February and the final data are likely to confirm that this was partly due to a rise of the core inflation (to 1.3%, the highest for over five years). Overall, this should not be a big surprise for the market given the known flash estimate.

This week, finally, we hope to get some breath from Brexit and the markets could focus on global growth outlook. This week's calendar includes new leading indicators (ZEW, flash PMI) and these readings may be key for global sentiment. In Poland, we will see March CPI and industrial output, among others, but the data should not change outlook for the Polish economy and should not affect the MPC stance. The zloty gained amid the dovish ECB rhetoric and delaying Brexit but the room for further appreciation looks limited, in our view. There were some positive surprises in the most recent data releases but we are not fully convinced that the coming PMI and ZEW releases would give enough reason for much higher optimism and persistent yield's rise. At the end of the week the market activity will start fading, especially that the Good Friday is market holiday in some countries).

S&P forecasts for Poland, April 2019

	2019	2020	2021	2022
GDP, %y/y	3,9(0,4)	3,1(0,1)	3,0(0,0)	2,8
General gov. balance, %GDP	-1,5(0,0)	-2,6(-0,6)	-2,6(-0,6)	-2,6
Public debt, %GDP	47,7(0,5)	47,9(1,1)	48,1(1,6)	48,4
C/A balance, %GDP	-1,9(-0,1)	-2,3(-0,1)	-2,5(-0,2)	-2,9

Source: PAP, Santander

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FX market

Today's opening

EURPLN	4.2780	CZKPLN	0.1670
USDPLN	3.7793	HUFPLN*	1.3310
EURUSD	1.1319	RUBPLN	0.0589
CHFPLN	3.7755	NOKPLN	0.4454
GBPPLN	4.9520	DKKPLN	0.5731
USDCNY	6.7058	SEKPLN	0.4085

*for 100HUF

Last session in the FX market 12/04/2019

	min	max	open	close	fixing
EURPLN	4.275	4.286	4.282	4.278	4.2847
USDPLN	3.776	3.806	3.804	3.786	3.7899
EURUSD	1.125	1.132	1.126	1.130	-

Interest rate market

12/04/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.65	1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.23	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.90	0	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.73	2.61	-0.23
2L	1.82	2.50	-0.20
3L	1.88	2.43	-0.13
4L	1.97	2.41	-0.04
5L	2.05	2.41	0.06
8L	2.27	2.49	0.36
10L	2.39	2.55	0.55

WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
T/N	1.55	1
SW	1.55	0
2W	1.58	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.72	1
9x12	1.73	1
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

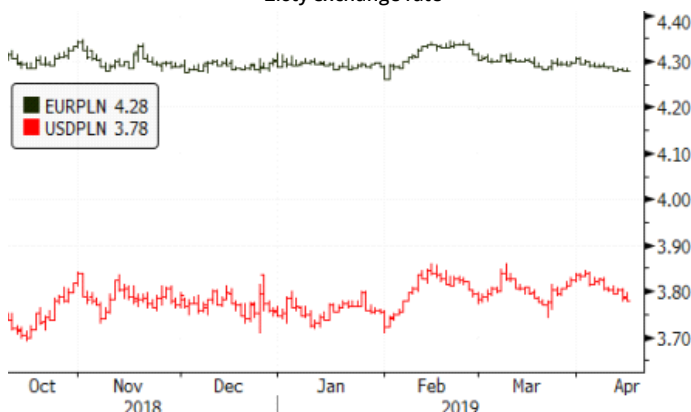
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.85	1
France	29	-1	0.34	-1
Hungary			3.18	1
Spain	57	-1	0.99	0
Italy	187	1	2.48	-1
Portugal	66	-2	1.11	0
Ireland	28	5	0.54	0
Germany	11	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

Zloty exchange rate



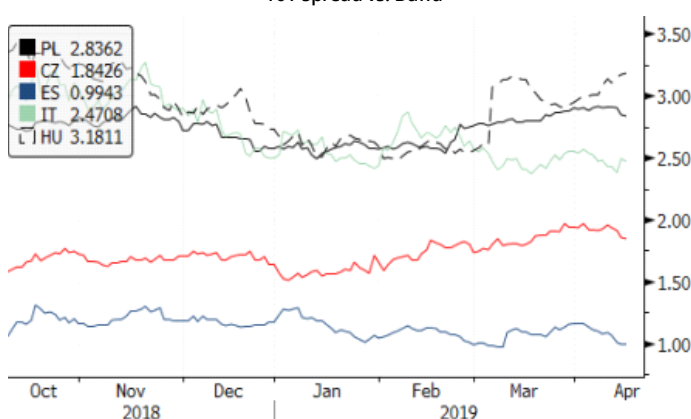
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (12 April)								
11:00	EZ	Industrial Production SA	Feb	% m/m	-0.5	-	-0.2	1.9
14:00	PL	Current Account Balance	Feb	€mn	-400	-597	-1 386	1 825
14:00	PL	Trade Balance	Feb	€mn	-262	-506	-1 327	290
14:00	PL	Exports	Feb	€mn	17 963	-	18 324	18 445
14:00	PL	Imports	Feb	€mn	18 133	-	19 651	18 735
16:00	US	Michigan index	Apr	pts	98.2	-	96.9	98.4
MONDAY (15 April)								
10:00	PL	CPI	Mar	% y/y	-	1.7		1.7
TUESDAY (16 April)								
11:00	DE	ZEW Survey Current Situation	Apr	pts	8.0	-		11.1
14:00	PL	CPI Core	Mar	% y/y	1.3	1.3		1.0
15:15	US	Industrial Production	Mar	% m/m	0.25	-		0.04
WEDNESDAY (17 April)								
10:00	PL	Employment in corporate sector	Mar	% y/y	2.9	2.9		2.9
10:00	PL	Average Gross Wages	Mar	% y/y	7.3	7.4		7.6
11:00	EZ	HICP	Mar	% y/y	1.4	-		1.4
THURSDAY (18 April)								
09:30	DE	Flash Germany Manufacturing PMI	Apr	pts	45.0	-		44.1
09:30	DE	Flash Markit Germany Services PMI	Apr	pts	55.0	-		55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Apr	pts	47.8	-		47.5
10:00	EZ	Flash Eurozone Services PMI	Apr	pts	53.05	-		53.3
10:00	PL	Sold Industrial Output	Mar	% y/y	4.3	4.1		6.9
10:00	PL	PPI	Mar	% y/y	2.6	2.4		2.9
14:30	US	Initial Jobless Claims	week	k	210.0	-		196.0
14:30	US	Retail Sales Advance	Mar	% m/m	0.8	-		-0.2
14:30	US	Index Philly Fed	Apr	pts	11.0	-		13.7
FRIDAY (19 April)								
14:30	US	Housing Starts	Mar	% m/m	5.85		-	-8.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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