

27 May 2019

Eyeopener

EP election neutral for the markets

PiS won European Parliament election in Poland
Zloty boosted by better market mood
Polish bonds fell slightly
Today London and US markets are closed

The European Parliament elections results have not surprised with a high result of extremist parties and should be neutral for European markets. In Poland, the positive result of the ruling PiS and the declaration of government reshuffle should diminish the risk of further fiscal expansion and should be more less neutral for the market. We expect some strengthening of the zloty and of domestic bonds today. With US and UK markets closed for holiday, the volatility on domestic markets should be reduced. The main event of the Friday session was the announcement of Theresa May that she will resign on 7 June from the post of prime minister and the leader of the Conservative Party. The pound at first responded positively to the news. On European stock markets, the indexes were recovering from previous days' losses which gave some room for appreciation of CEE fx.

According to flash results of **European election** from 99.31% of voting precincts in Poland, the ruling party PiS won with 45.56% of votes. KE, the broad alliance of opposition parties, came second with 38.30% of votes. In Europe, radical parties did not gain many votes (with an exemption of France and Italy). However, goods results of liberals and greens in Germany can hinder negotiations of fiscal package. In the upcoming days, the impact of the election on the fx market should be neutral and moderately positive for the debt market.

On Friday **MPC's Grażyna Ancyparowicz** said in an interview for PAP that there is no cost pressure so inflation should not go above 3.5% y/y, which in turn means there will be no need to hike rates until 2022. In late March Ancyparowicz stated that in the face of the announced "aggressive fiscal policy" (the so-called PiS Five) she was no longer convinced that rates stability could be guaranteed for a prolonged period. What is interesting, her change of view occurred while there was a rapid rise of inflation since that remark (from 1.2% y/y in February to 2.2% in April).

M3 money supply accelerated to 10.4% in April from 9.9% (market expected 10.1%, we: 10.2%). Deposits rose by 10.5% y/y (the highest pace since mid-2016) as compared to 9.7% earlier. Current deposits recorded the highest growth in 1.5 years, 14% y/y and term deposits in 3.5 years (4.7% y/y). On the other hand, loans corrected for exchange rate changes rose by 6.9% (the second highest results since mid-2012, after reading at 7.2% from March 2019), with loans for households accelerating a bit and corporate loans decelerating.

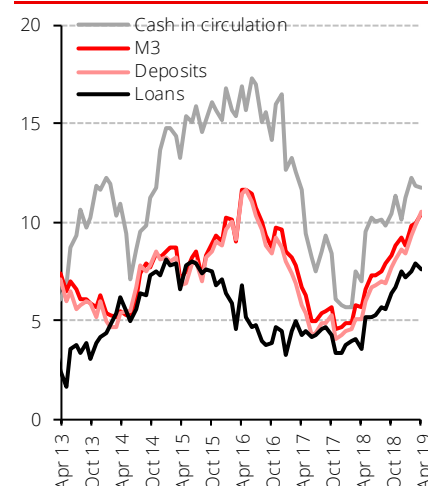
EURUSD was hovering slightly below 1.12 with the intraday trading range being much tighter than on Thursday. The decision of PM May and US data (close to expectations) did not affect the trade. Today London and US markets are closed so the exchange rate is likely to remain stable. We think that the European Parliament elections will be neutral for the fx market in the following days.

EURPLN fell to 4.29 from 4.305 and **USDPLN** to slightly below 3.83 from 3.85 benefiting from the global mood improvement. The other CEE currencies gained as well. Since mid-May, EURPLN is holding within the 4.29-4.305 range and is waiting for a trigger. We think the zloty could gain marginally at the beginning of the week as the London and US markets are closed and the EP elections were positive for the ruling PiS.

On the domestic **interest rate market** bond yields and IRS rose 1-2bp amid rising Bund and UST yields and despite strengthening on the euro zone peripheries. Today the London and US markets are closed so the volatility could be much smaller than during the better part of the previous week. Later in the week, yields could resume the down move in response to the EP elections.

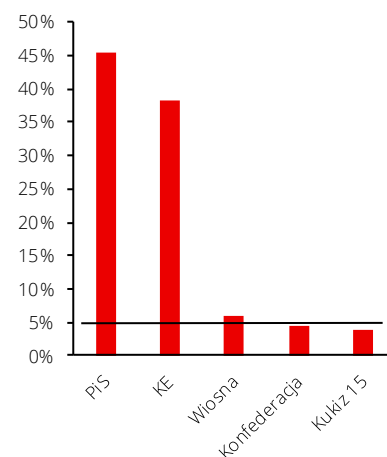
This week, we will see the breakdown of Polish GDP growth in 1Q19 (preliminary reading was at 4.6% y/y). Abroad, there will also be only a short list of important data releases, with US GDP and consumer incomes and spending in the spotlight. On Monday the US and UK markets are closed which can decrease market liquidity. We believe that the week will start from a slight strengthening of bonds and stabilization of EURPLN in reaction to the preliminary results of the EP elections. We do not expect the exchange rate to leave the 4.29-4.315 range in which it holds since mid-May. Later in the week, yields could move down amid concerns about the euro zone economic growth.

Money supply, % y/y



Source: NBP, Santander

European parliament election, Poland, prelim. results (99.31% of voting precincts)



Source: PKW, Santander

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FX market

Today's opening

EURPLN	4.3012	CZKPLN	0.1664
USDPLN	3.8424	HUFPLN*	1.3186
EURUSD	1.1194	RUBPLN	0.0595
CHFPLN	3.8327	NOKPLN	0.4399
GBPPLN	4.8711	DKKPLN	0.5759
USDCNY	6.9066	SEKPLN	0.4003

*for 100HUF

Last session in the FX market 23/05/2019

	min	max	open	close	fixing
EURPLN	4.301	4.311	4.306	4.305	4.3107
USDPLN	3.850	3.877	3.859	3.850	3.8696
EURUSD	1.111	1.118	1.116	1.118	-

Interest rate market 23/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.63	-3	21 mar 19	OK0521	1.633
PS0424 (5L)	2.18	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.81	-4	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	-1	2.39	-7	-0.26	0
2L	1.81	-1	2.18	-10	-0.25	-1
3L	1.86	-2	2.10	-11	-0.21	-1
4L	1.93	-3	2.09	-10	-0.14	-1
5L	2.00	-3	2.10	-10	-0.05	-1
8L	2.21	-4	2.18	-10	0.22	-3
10L	2.33	-3	2.25	-10	0.40	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.60	0
SW	1.58	0
2W	1.60	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	1.73	0
9x12	1.74	-2
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

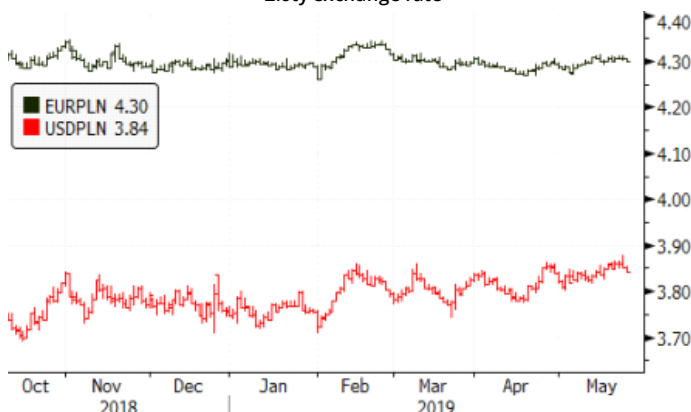
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.93 -5
France	31 -1	0.40 -1
Hungary		3.25 -1
Spain	57 -1	0.96 -1
Italy	220 0	2.72 -3
Portugal	64 0	1.12 -1
Ireland	34 0	0.62 0
Germany	12 0	- -

* 10Y treasury bonds over 10Y Bunds

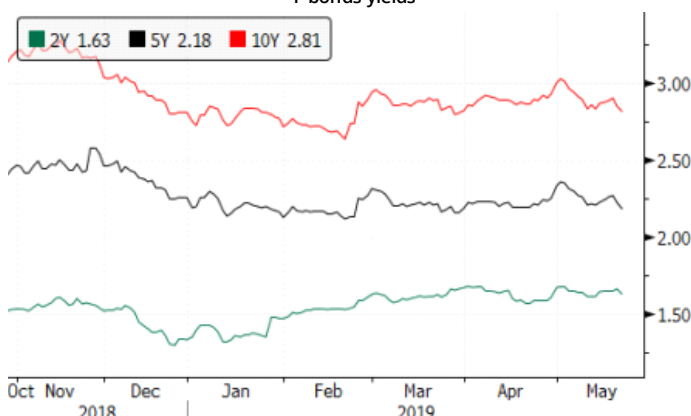
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



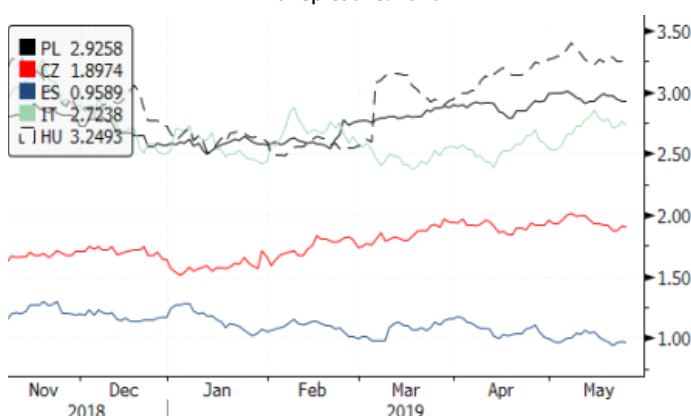
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (24 May)								
14:00	PL	Money Supply M3	Apr	% y/y	10.1	10.2	10.4	9.9
14:30	US	Durable Goods Orders	Apr	% m/m	-2.0	-	-2.1	2.6
MONDAY (27 May)								
10:00	PL	Unemployment Rate	Apr	%	5.6	5.6	-	5.9
TUESDAY (28 May)								
11:00	EZ	ESI	May	pct.	103.9	-		104.0
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
16:00	US	Consumer Conference Board	May	pts	130.0	-		129.2
WEDNESDAY (29 May)								
		No important events						
THURSDAY (30 May)								
14:30	US	GDP Annualized	1Q	% q/q	3.1	-		3.2
14:30	US	Initial Jobless Claims	week	k	214	-		211
16:00	US	Pending Home Sales	Apr	% m/m	0.8	-		3.8
FRIDAY (31 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.4	-		0.0
09:00	CZ	GDP SA	1Q	% y/y	2.5	-		2.5
09:00	HU	GDP	1Q	% y/y	5.3	-		5.3
10:00	PL	GDP	1Q	% y/y	4.6	4.6		4.9
14:00	DE	HICP	May	% m/m	0.3	-		1.0
14:30	US	Personal Spending	Apr	% m/m	0.2	-		0.9
14:30	US	Personal Income	Apr	% m/m	0.3	-		0.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-		0.2
16:00	US	Michigan index	May	pts	102.0	-		102.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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