

28 May 2019

Eyeopener

Market calms after the EP elections

Slight mod improvement after the EP election results
MPC's Gnatnar support considering the rate hike
Zloty stable, EURUSD without big changes
Polish sovereign bonds gained fuelled by strong Bund
Today US consumer confidence data release

On Monday the global market continued to recover after recent rise in risk aversion. Sentiments were positively affected by results of the European election, which show that support for radical groups was not as high as feared. Equity indices went up, but the absence of investors from the UK and the USA caused that the CEE currencies did not benefit from more sanguine moods. Moreover, the change in moods was not caused by an actual change in economic perspectives, so it could be only temporary. In Poland, we got to see data on unemployment in April.

Eugeniusz Gnatnar, who supports relatively restrictive monetary policy, said that Monetary Policy Council should consider raising interest rates this year. This could be possible if the inflation would enter the upper half of tolerance band around the inflation target, i.e. 2.5-3.5% y/y and according to Gnatnar that would take place at the end of the year. In our opinion the hike is possible in 1H20, when CPI is likely to exceed 3% y/y. According to the Polish Press Agency (PAP), Jerzy Kropiwnicki will not be present at the Council's meetings in June and July. He is a rather dovish MPC member, but he has recently questioned the possibility to keep rates unchanged until the end of the current term.

MPC's Kamil Zubelewicz said in an interview with Bloomberg agency that one rate hike would be enough. He eased his stance as price growth proved lower than he had expected when he had filed for a hike in November 2018.

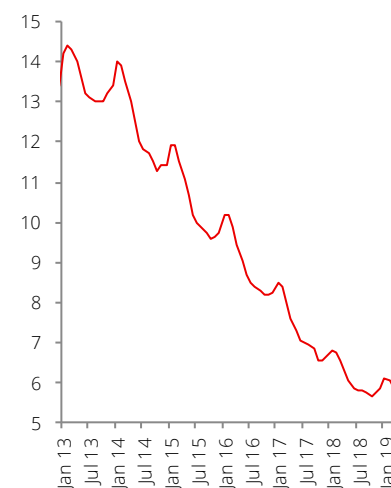
The latest GUS Statistical Bulletin showed that in April wages in the corporate sector excluding mining rose to 7% y/y from 5.8%, which means a return to the average from the previous months. Wage growth was particularly strong in trade sector, 8.6% y/y, while in services it was 7.3% (the highest since November). In our view the difficulties in finding new workers will keep wage growth elevated this year. Registered unemployment rate was 5.6% in April, the lowest since the country's transition to capitalism, in line with Ministry of Labour estimate. LFS-based unemployment rate in 1Q19 was 3.9%, which means a drop by 0.3pp y/y, while the scale of the annual decline in the previous reading was 0.7pp y/y. In 1Q the working age population decreased by 153k y/y, the number of the economically active fell by 113k y/y. As a result the participation rate dropped to 55.9%, which is the lowest level for 1Q since 2013. GUS showed also that in April, the value of industrial new orders rose by 15.9% y/y in total and by 9.6% in the case of foreign orders.

EURUSD neutralized nearly whole of the Friday's minor rise but remained near 1.12. The volatility was low given the London and US markets were closed and no important data was released. Today, we will see the US consumer confidence index and this figure could trigger some more noticeable market reaction.

EURPLN stabilized after the Friday's drop and was hovering just above 4.29 at the end of the Polish trading hours. USDPLN rose to just above 3.84 from slightly below 3.83. The other CEE currencies also did not gain any more with the forint underperforming as the market was pricing the Hungarian central bank will not take any action towards monetary policy normalization today despite high inflation. We think today the market volatility could be somewhat bigger than yesterday. We think that improvement of the global market mood is only temporary and we do not expect further zloty appreciation in the coming days.

On the domestic interest rate market IRS and bond yields fell by 2-3bp following the Bund strengthening. It seems that yields drop of the German bonds was the reaction to the outcome of the EP elections that showed the risk of fiscal easing in Europe is smaller than it was thought.

Unemployment rate %



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2909	CZKPLN	0.1660
USDPLN	3.8383	HUFPLN*	1.3167
EURUSD	1.1179	RUBPLN	0.0595
CHFPLN	3.8219	NOKPLN	0.4411
GBPPLN	4.8650	DKKPLN	0.5746
USDCNY	6.9080	SEKPLN	0.4015

*for 100HUF

Last session in the FX market 27/05/2019

	min	max	open	close	fixing
EURPLN	4.287	4.296	4.289	4.289	4.2952
USDPLN	3.824	3.839	3.834	3.833	3.8374
EURUSD	1.119	1.122	1.120	1.119	-

Interest rate market 27/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.63	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.16	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.80	-2	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.41	2	-0.26	0
2L	1.82	-1	2.20	0	-0.25	0
3L	1.88	0	2.13	1	-0.21	0
4L	1.95	0	2.11	0	-0.14	-1
5L	2.02	0	2.12	0	-0.06	-1
8L	2.23	0	2.20	0	0.21	-2
10L	2.35	-1	2.27	0	0.39	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.58	-1
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	1.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.73	0
9x12	1.72	0
3x9	1.79	0
6x12	1.80	0

Measures of fiscal risk

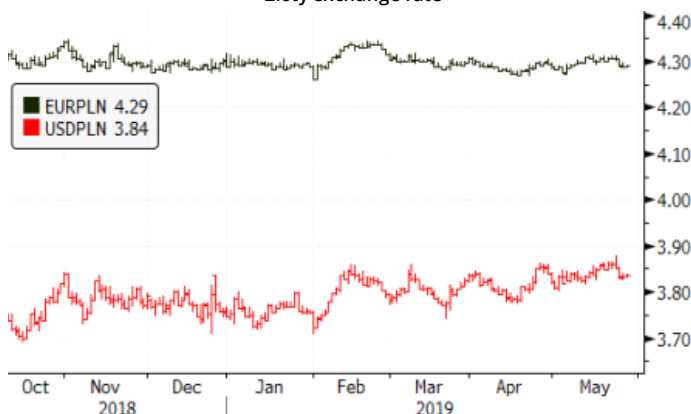
Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.95	-2
France	31	-2	0.41	0
Hungary			3.28	0
Spain	55	3	0.97	1
Italy	214	17	2.87	5
Portugal	63	1	1.10	0
Ireland	34	-1	0.63	0
Germany	12	0	-	-

* 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



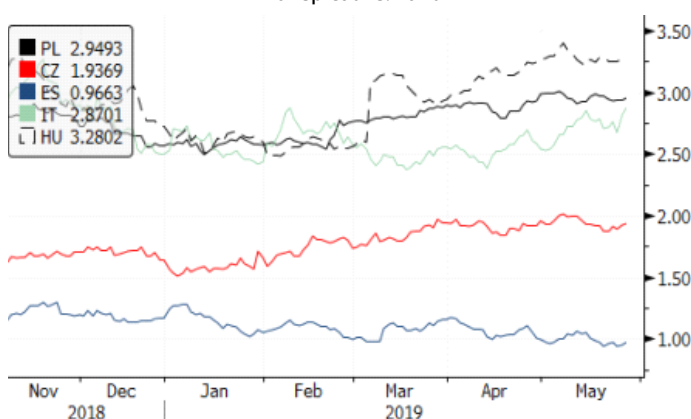
T-bonds yields



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	5.6	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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