

11 January 2019

# Eyeopener

## Zloty stronger after successful auction

Market back to gloomy mood, USD rebound  
Zloty gains owing to strong demand on the auction  
Today US inflation

Thursday saw a correction of positive moods present on the global market since the start of the week. European stock markets were below the Wednesday close to the better part of the day, and this was positive for the German bonds, apart from recent conservative comments of the FOMC members. FX market changes were not considerable, the euro gave away some of its gains to the dollar and the pound lost due to low chances that withdrawal terms will be approved by the British Parliament. Today we can see a rebound on the stock market and euro's return to strength.

**EURUSD** no longer followed the upside impulse after the recent signals from FOMC and dropped yesterday to 1.152, from 1.156 in the morning. We stick to our view that the approaching weekend may be reducing the upside potential of EURUSD, especially when there is no positive news from the UK.

**EURPLN** dropped yesterday to 4.294 from 4.306 despite a correction on equities and a slight pullback of EURUSD. We think that what influenced trading yesterday was the information about very high demand on the Polish bond auction. We expect that EURPLN remains stable today.

On the **domestic interest rates market** yields in the belly and on the short end of the curve continued the movement initiated on Wednesday in reaction to comments made by bankers from US and Polish central banks. Yesterday the curve moved down by another 1-3bp. Today we expect a slight rebound in yields, following growths on stock markets.

Yesterday the **Ministry of Finance sold bonds** for PLN 6bn (upper limit of the planned offer), with a demand at PLN 12.5bn. PS0424 attracted the biggest interest (PLN 1.9bn sold) and OK0521 (PLN 1.1bn). During the additional auction another bonds worth PLN 340m were sold. The Ministry informed that after the auction this year's borrowing needs are covered in 38%.

Yesterday we released a [special edition of our MACROscope](#) where we present our view for the Polish economy and financial markets for 2019. Below are key takeaways.

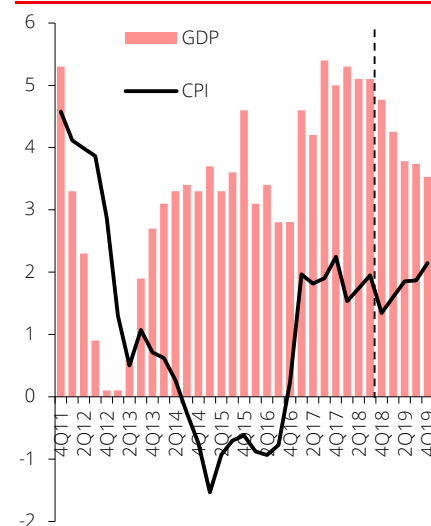
**We see clouds thickening over the global economic outlook**, and although we do not expect a major downturn in Europe in 2019, the worsening external environment will gradually take its toll, further depressing Polish exports and manufacturing. There is no more slack in the Polish labour market – the unemployment rate is at new lows with deepening shortage of workers being the major obstacle for expanding business in many sectors. The good news is that domestic investments financed by EU are likely to expand further. As a result, **GDP growth in Poland will slow from around 5% in 2018 to around 4% in 2019**, still remaining above potential.

**We expect to see a gradual increase of the core inflation in 2019, going towards 2.5% by the end of the year.** The headline CPI is likely to follow almost identical path, after the risk of surge in energy costs has been mitigated by the government. Inflation trends **are unlikely to encourage the MPC to change interest rates**, particularly amid slowing GDP growth.

**We expect EUR/PLN to rise above 4.34 in 1Q19 and ease to 4.30 at the year-end.** The first months of 2019 could bring some zloty depreciation amid poor Polish data and Fed rate hikes, among others. Later in the year, the zloty may start benefiting from the rising EUR/USD, pause in the Fed rate hike cycle and market pricing for an improvement of the situation on the emerging markets.

We assume **Polish bond yields will stay low for the better part of 2019**, mainly thanks to the CPI running below the NBP target and deceleration of GDP growth. We could see some (temporary) upside pressure in mid-2019 due to uncertainty ahead of the general elections. Outstanding budget performance in 2018 was one of the key factors pushing yields down. However, we expect the bond weakening to be only temporary as we do not assume any generous spending to be introduced and as well as we do not expect any interest rate hike in 2019.

Quarterly economic indicators, %y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2944	CZKPLN	0.1679
USDPLN	3.7261	HUFPLN*	1.3368
EURUSD	1.1525	RUBPLN	0.0557
CHFPLN	3.7928	NOKPLN	0.4404
GBPPLN	4.7505	DKKPLN	0.5753
USDCNY	6.7508	SEKPLN	0.4196

\*for 100HUF

### Last session in the FX market 10/01/2019

	min	max	open	close	fixing
EURPLN	4.292	4.307	4.299	4.293	4.3055
USDPLN	3.718	3.738	3.727	3.731	3.736
EURUSD	1.150	1.157	1.153	1.151	-

## Interest rate market 10/01/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.39	-3	14 gru 18	OK0521	1.625
PS0424 (5L)	2.25	-3	14 gru 18	PS0424	2.382
WS0428 (10L)	2.84	0	14 gru 18	WS0428	2.931

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.78	0	-0.22	0
2L	1.80	-1	2.71	0	-0.15	0
3L	1.89	-2	2.66	0	-0.04	-1
4L	2.01	-2	2.64	0	0.08	-1
5L	2.12	-2	2.64	-1	0.21	-1
8L	2.35	-1	2.69	-1	0.60	-1
10L	2.48	-1	2.75	-1	0.81	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.59	0
SW	1.55	0
2W	1.59	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	-1
3x6	1.72	0
6x9	1.72	-1
9x12	1.74	-1
3x9	1.79	0
6x12	1.79	-1

## Measures of fiscal risk

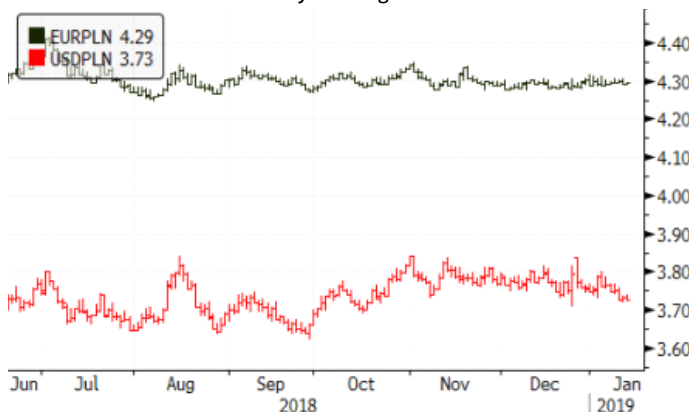
Reserves of foreign currencies				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.59	0
France	25	1	0.41	-1
Hungary	116	1	2.66	1
Spain	65	4	1.20	1
Italy	221	8	2.64	1
Portugal	64	0	1.47	1
Ireland	25	0	0.78	16
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

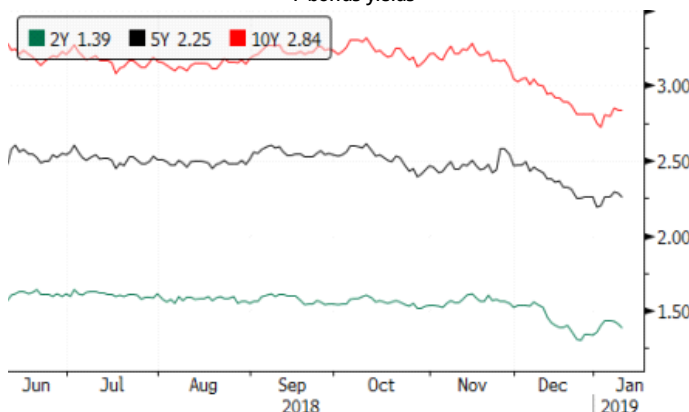
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

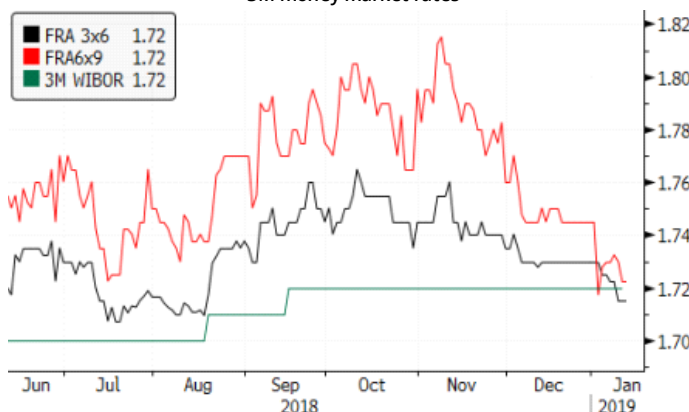
## Zloty exchange rate



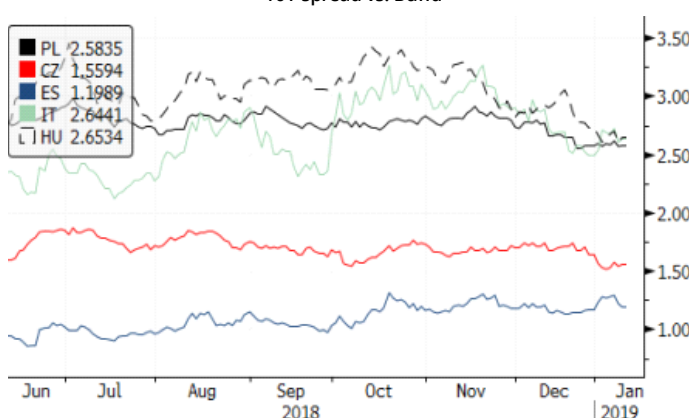
## T-bonds yields



## 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 (4 January)								
02:45	CN	Caixin China PMI Services	Dec	pts	53.0		53.9	53.8
09:55	DE	Markit Germany Services PMI	Dec	pts	52.5	-	51.8	52.5
10:00	EZ	Eurozone Services PMI	Dec	pts	51.4	-	51.2	51.4
10:00	PL	CPI	Dec	% y/y	1.1	1.0	1.1	1.3
11:00	EZ	Flash HICP	Dec	% y/y	1.7	-	1.6	2.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	183	-	312	176
14:30	US	Unemployment Rate	Dec	%	3.7	-	3.9	3.7
MONDAY (7 January)								
08:00	DE	Retail Sales	Nov	% m/m	0.4	-	1.4	-0.3
08:00	DE	Factory Orders	Nov	% m/m	-0.2	-	-1.0	0.3
11:00	EZ	Retail Sales	Nov	% m/m	0.1	-	0.6	0.3
16:00	US	ISM services	Dec	pts	59.5	-	57.6	60.7
TUESDAY (8 January)								
08:00	DE	Industrial Production SA	Nov	% m/m	0.5	-	-1.9	-0.8
09:00	CZ	Industrial Production	Nov	% y/y	5.0	-	4.8	6.7
09:00	HU	Industrial Production SA	Nov	% y/y	-	-	3.5	3.3
11:00	EZ	ESI	Dec	pct.	108.0	-	107.3	109.5
WEDNESDAY (9 January)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
08:00	DE	Exports SA	Nov	% m/m	-0.5	-	-0.4	0.9
11:00	EZ	Unemployment Rate	Nov	%	8.1	-	7.9	8.1
20:00	US	FOMC Meeting Minutes						
THURSDAY (10 January)								
09:00	CZ	CPI	Dec	% y/y	2.1	-	2.0	2.0
14:30	US	Initial Jobless Claims	week	k	226	-	216	233
FRIDAY (11 January)								
09:00	CZ	GDP SA	3Q	% y/y	2.4	-		2.4
14:30	US	CPI	Dec	% m/m	-0.1	-		0.0

Source: Santander Bank Polska, Bloomberg, Parkiet  
\* in case of the revision the data is updated

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