

28 January 2019

Eyeopener

German data still hopeless

Next poor German data, US shutdown ends
Zloty still stable, euro gains thanks to rising stock indexes
Successful bond auction without persistent impact on prices
Today, no important data releases

Friday saw global equity markets returning to gains amid publication of new solid financial results of US companies. In the evening there was announcement that the record-long US government shutdown is going to end. The budget agreement signed by President Trump on Friday assumes financing of administration until 15 of February. Bond yields in core debt markets were following equities, similarly as EURUSD, despite the weak Ifo data from Germany. Polish yields stabilised after a favourable auction, while zloty returned to Thursday's close levels.

In the view of MPC's **Lukasz Hardt**, the probability that a reaction with a rate hike will be necessary is now lower than it was a couple of months ago and it is best to maintain an adaptive stance, ie focus more on current data than on forecasts, given the uncertainty (global, but also due to the outlook for energy prices and December jump of inflation expectations). **Eugeniusz Gatnar** assumes that GDP growth this year will be c4.5%. If we are right about a slowdown to slightly below 4%, then the MPC member's view may become softer with time.

Fitch rating agency, which recently increased its forecast of general government deficit in Poland from 2% of GDP to 2.2% is now expecting it to come at 1.7%. In our view this is still too high an estimate. The agency's forecast for 2020 stayed at 2.3%.

URE (Energy Regulatory Office) approved the gas price tariff for households. The tariff assumes higher gas price by 2.5% but, at the same time distribution price is to go down by 5%, so – according to the regulator – impact on total gas bill will be neutral. The new tariff is to be valid until the year-end.

On Friday, **EURUSD** recorded the biggest daily increase since the last day of June 2018 and at the end of the day the exchange rate landed at nearly 1.14 vs. 1.13 at the opening. The euro gained despite the weaker than expected Ifo data while it was supported by the rising stock indexes (in a response to the good companies earnings reports in the US). Today we expect EURUSD to stabilize in the absence of important data publication.

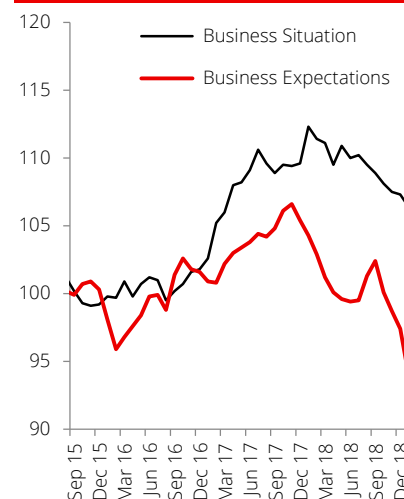
On Friday morning **EURPLN** recorded strong upward move, driven by poor Ifo data release and reached 4.294 at the peak. Later in the that day, EURPLN decreased fuelled by rising stocks indices and EURUSD. As a result, the zloty wiped out morning losses and ended the day near 4.285. EURPLN still oscillates in the narrow range and we do not expect any changes today.

In case of the other CEE currencies, EURHUF and EURCZK fell, benefiting from gaining stock markets, while USDRUB rose in the morning in reaction to decreasing oil prices. In the afternoon gaining equities and rebound in crude oil helped the ruble to recover.

On the domestic debt market yields and IRS rates fell after the weak Ifo data release and awaiting the regular auction. In the afternoon, the yields rebounded and curves returned close to the opening levels. At the auction, the Ministry of Finance (MoF) sold PLN8.5bn (the demand was PLN11.3bn). MoF said that, after the auction, this year gross borrowing needs were covered in 43%. Today we expect the yields to stabilise.

Here is a highlight of what is coming this week. The first estimate of 2018 GDP growth will show 5.1%, in our view, probably the last GDP print at five percent level for quite some time. The growth dipped below 5% probably already in 4Q (our forecast is 4.8% y/y) and there will be further slowdown in the quarters to come, mostly because of weaker external environment. This year economic growth could be around 3.8%. In case of January manufacturing PMI, we will possibly see an attempt to get back to around 49 pts after severe declines in recent months. The rebound will not be strong enough in our view to negate the indication of a slowdown approaching in Polish industry.

Ifo (pts)



Source: Ifo, Santander

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FX market

Today's opening

EURPLN	4.2923	CZKPLN	0.1671
USDPLN	3.7622	HUFPLN*	1.3507
EURUSD	1.1409	RUBPLN	0.0571
CHFPLN	3.7922	NOKPLN	0.4417
GBPPLN	4.9560	DKKPLN	0.5749
USDCNY	6.7358	SEKPLN	0.4157

*for 100HUF

Last session in the FX market 25/01/2019

	min	max	open	close	fixing
EURPLN	4.286	4.294	4.293	4.287	4.2935
USDPLN	3.755	3.802	3.799	3.758	3.7893
EURUSD	1.129	1.142	1.130	1.141	-

Interest rate market 25/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.35	-1	10 sty 19	OK0521	1.547
PS0424 (5L)	2.20	1	10 sty 19	PS0424	2.251
WS0428 (10L)	2.81	0	10 sty 19	WS0428	2.821

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.78	1	-0.22	0
2L	1.79	1	2.75	4	-0.16	-1
3L	1.87	1	2.70	5	-0.06	2
4L	1.97	0	2.67	6	0.04	-2
5L	2.08	0	2.68	6	0.15	-3
8L	2.31	0	2.74	6	0.52	-3
10L	2.44	-1	2.79	6	0.72	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.23	9
T/N	1.38	-7
SW	1.52	0
2W	1.57	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	1.71	0
3x6	1.71	0
6x9	1.71	0
9x12	1.72	0
3x9	1.78	0
6x12	1.77	1

Measures of fiscal risk

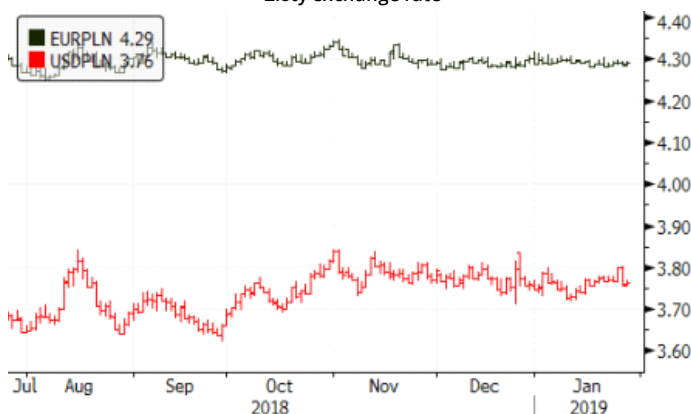
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.62 -1
France	25 1	0.41 0
Hungary	116 1	2.64 -1
Spain	65 4	1.04 0
Italy	221 8	2.45 -1
Portugal	64 0	1.45 0
Ireland	25 0	0.72 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

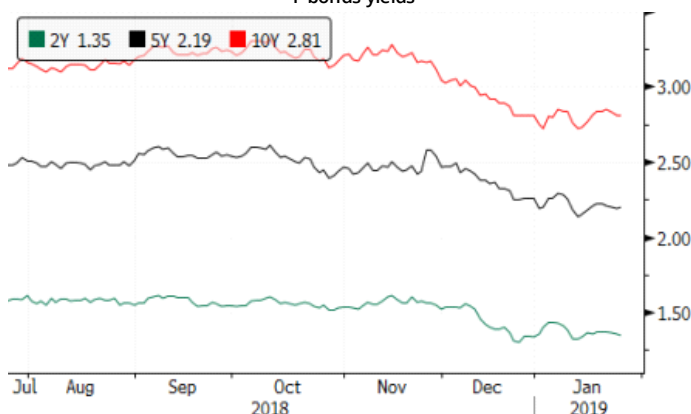
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

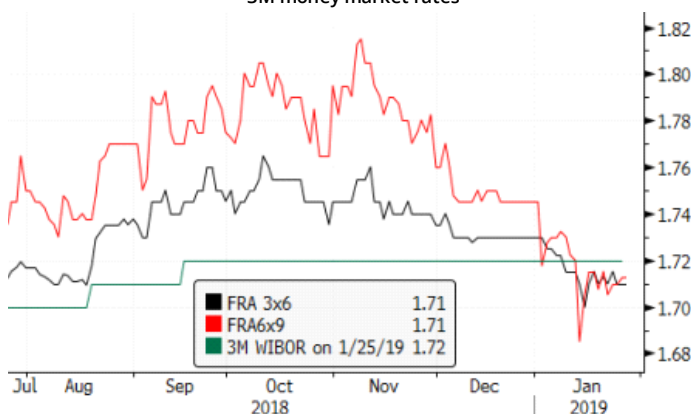
Zloty exchange rate



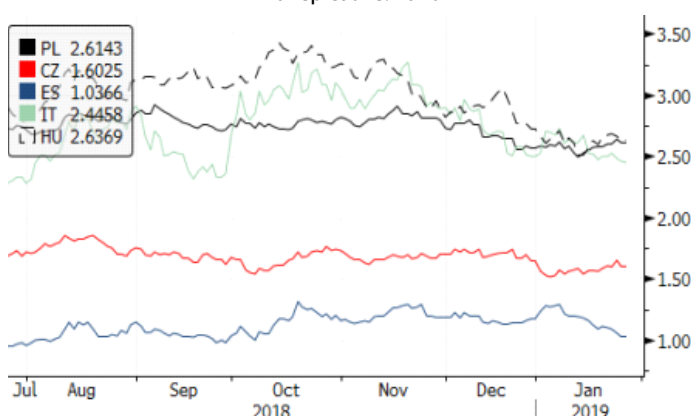
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (25 January)							
10:00	DE	IFO Business Climate	Jan	pts	100.7	99.1	101.0
11:30	PL	Bond Auction					
MONDAY (28 January)							
No important data releases							
TUESDAY (29 January)							
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
16:00	US	Consumer Conference Board	Jan	pts	124.9	-	128.1
WEDNESDAY (30 January)							
11:00	EZ	ESI	Jan	pts	106.9	-	107.3
14:00	DE	HICP	Jan	% m/m	-0.9	-	0.3
14:15	US	ADP report	Jan	k	170	-	271
14:30	US	GDP Annualized	4Q	% Q/Q	2.5	-	3.4
16:00	US	Pending Home Sales	Dec	% m/m	1.0	-	-0.7
20:00	US	FOMC decision		%	2.5	-	2.5
THURSDAY (31 January)							
08:00	DE	Retail Sales	Dec	% m/m	-0.6	-	1.6
10:00	PL	GDP	2018	% y/y	5.0	5.1	4.8
11:00	EZ	GDP SA	4Q	% y/y	1.2	-	1.6
11:00	EZ	Unemployment Rate	Dec	%	7.9	-	7.9
14:30	US	Initial Jobless Claims	week	k	218	-	199
14:30	US	Personal Spending	Dec	% m/m	0.3	-	0.4
14:30	US	Personal Income	Dec	% m/m	0.5	-	0.2
14:30	US	PCE Deflator SA	Dec	% m/m	0.0	-	0.1
FRIDAY (1 February)							
09:00	PL	Poland Manufacturing PMI	Jan	pts	47.5	49.0	47.6
09:55	DE	Germany Manufacturing PMI	Jan	pts	51.5	-	49.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	51.35	-	50.5
11:00	EZ	Flash HICP	Jan	% y/y	1.4	-	1.6
14:30	US	Change in Nonfarm Payrolls	Jan	k	162	-	312
14:30	US	Unemployment Rate	Jan	%	3.8	-	3.9
16:00	US	Michigan index	Jan	pts	0.0	-	90.7
16:00	US	ISM manufacturing	Jan	pts	54.25	-	54.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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