

8 February 2019

Eyeopener

European Commission cut growth forecasts

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Stock market sell-off supported the dollar and undermined CEE currencies

Bonds gain on rising risk aversion

On Thursday, trends observed in the previous days remained in place. The dollar continued to appreciate which weighed on the EM currencies. European stock indexes were falling which was positive for core bonds. Investor's moods were hit also by information that Donald Trump will not meet with Xi Jinping before March 1 when the next tariff hike on Chinese goods will become effective. Fed's James Bullard (perceived as a dove) said that the monetary policy in the US is slightly restrictive as the real interest rates are positive. Today's German exports data surprised to the upside but do not change the overall picture of the Europe's biggest economy.

In 2018, Poland's central budget closed with a PLN10.4bn deficit. The reduction versus 2017's deficit of PLN25.4bn was achieved mostly due to higher revenues (total revenues +PLN29.6bn, VAT +PLN18.5bn, CIT +PLN7.5bn, PIT +PLN5.0bn, excise duties +PLN3.8bn). Spending rose by PLN14.6bn, but Social Security Subsidy fell PLN5.2bn, thanks to a booming labour market. Detailed data for December suggested that VAT revenue rose an astonishing 60-70% y/y, so we think the Finance Ministry decided to postpone tax returns worth about PLN5bn, and these should be booked in the 2019 budget. In our view, 2019 will not see as low a deficit, even though the government's macro assumptions are quite conservative. Therefore, we think a realization lower than the official limit (PLN28.5bn) is possible.

The European Commission released its new economic estimates. Forecasts for GDP and HICP in the euro zone in 2019 were revised clearly down. The biggest down changes were shown for Poland's important foreign trade partners, like Germany, France, Italy or the Netherlands. The main reason behind the revisions was poor economic performance in 2H18, less optimistic external environment mainly due to trade wars and distortions in auto industry as well as social tensions in some countries. Nevertheless, the EC thinks the economic fundamentals are healthy. Forecasts for Poland were revised slightly down – in 2019 to 3.5% from 3.7% and in 2020 to 3.2% from 3.3%. In Poland, the EC expects strong growth of investments financed by the EU funds amid weaker consumption (due to higher inflation and weaker employment growth) and slower imports and exports growth.

EURUSD fell yesterday fourth session in a row amid investors' retreat from the risky assets and touched 1.132 intraday. It seems that the dollar will manage to neutralise the losses suffered in the previous two weeks. Today, the room for further EURUSD drop looks limited as some players could decide to take profit before the weekend.

EURPLN rose yesterday third session in a row breaking 4.30 and USDPLN for the fifth session in a row, nearing 3.80. Other CEE currencies were under pressure in the first part of the day but at the end of the Polish trading hours were back near the opening levels. Today, we do not expect big changes to take place on the EURPLN market, USDPLN could ease slightly if EURUSD rebounds.

Yesterday **the Czech central bank** did not change interest rates with the main rate at 1.75%. Governor Jiří Rusnok said that the bank may make a break in hiking cycle in the face of global growth outlook deterioration and wait for new economic data. In his opinion, two more hikes this year are plausible. CZK did not react for the central bank decision.

Since the beginning of the day **the domestic yields** have been decreasing, following the upward move of core markets bonds prices. Polish debt gave away initial gains at the end of the day. Eventually, the front end and the belly of the yield curve landed above the initial Thursday's level, while the long end returned to the Wednesday's close. On the bond auction the Ministry of Finance sold PLN5.6bn bonds (PLN5bn on the regular auction, with PLN10.2bn demand). According to the Ministry of Finance, after the auction the gross borrowing needs for 2019 were covered in 47%.

European Commission forecasts – pace of GDP growth: now and change vs autumn

	2019	2020
Euro zone	1.3 (-0.6)	1.6 (-0.1)
Germany	1.1 (-0.7)	1.7 (0.0)
Great Britain	1.3 (+0.1)	1.3 (+0.1)
France	1.3 (-0.3)	1.5 (-0.1)
Italy	0.2 (-1.0)	0.8 (-0.5)
Netherlands	1.7 (-0.7)	1.7 (-0.1)
Sweden	1.3 (-0.5)	1.7 (-0.1)
Spain	2.1 (-0.1)	1.9 (-0.1)
Poland	3.5 (-0.2)	3.2 (-0.1)

Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.3055	CZKPLN	0.1669
USDPLN	3.7983	HUFPLN*	1.3509
EURUSD	1.1335	RUBPLN	0.0575
CHFPLN	3.7920	NOKPLN	0.4418
GBPPLN	4.9131	DKKPLN	0.5768
USDCNY	6.7451	SEKPLN	0.4099

*for 100HUF

Last session in the FX market 07/02/2019

	min	max	open	close	fixing
EURPLN	4.293	4.309	4.300	4.308	4.3019
USDPLN	3.778	3.797	3.780	3.796	3.7919
EURUSD	1.133	1.138	1.138	1.135	-

Interest rate market 07/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.53	1	25 sty 19	OK0521	1.479
PS0424 (5L)	2.17	0	25 sty 19	PS0424	2.160
WS0428 (10L)	2.73	-1	25 sty 19	WS0428	2.783

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.70	-3	-0.21	0
2L	1.76	-1	2.63	-3	-0.16	-1
3L	1.82	-1	2.58	-2	-0.08	-1
4L	1.91	-2	2.56	-2	0.02	-2
5L	2.01	-2	2.56	-2	0.12	-3
8L	2.22	-2	2.64	-1	0.45	-3
10L	2.35	-2	2.70	-1	0.66	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.55	0
SW	1.54	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	1.72	0
6x9	1.70	0
9x12	1.69	0
3x9	1.78	0
6x12	1.76	-1

Measures of fiscal risk

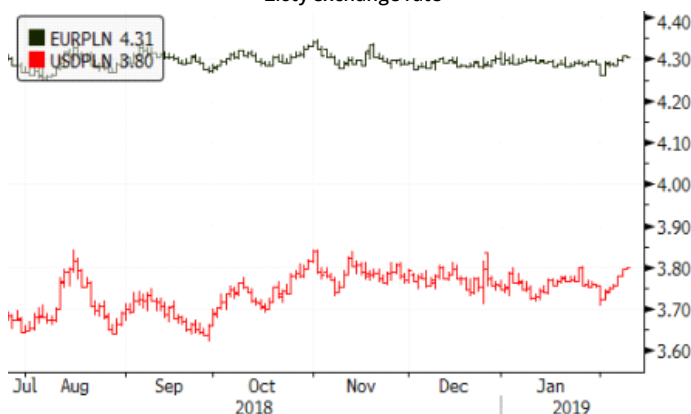
Measures of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.63	0
France	37	1	0.44	0
Hungary			2.52	1
Spain	77	2	1.13	0
Italy	233	3	2.83	0
Portugal	89	0	1.54	0
Ireland	41	-1	0.76	0
Germany	13	0	-	-

* 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



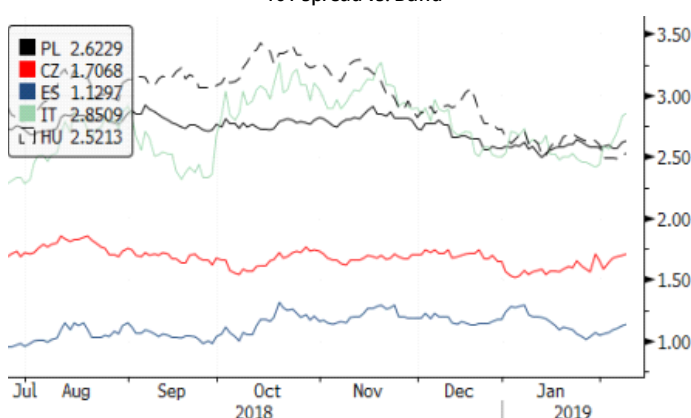
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	48.0	49.5	48.2	47.6
09:55	DE	Germany Manufacturing PMI	Jan	pts	49.9	-	49.7	51.5
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	50.5	-	50.5	51.4
11:00	EZ	Flash HICP	Jan	% y/y	1.4	-	1,4	1.6
14:30	US	Change in Nonfarm Payrolls	Jan	k	165	-	304	222
14:30	US	Unemployment Rate	Jan	%	3.9	-	4.0	3.9
16:00	US	Michigan index	Jan	pts	90.7	-	91,2	90.7
16:00	US	ISM manufacturing	Jan	pts	54.0	-	56,6	54.3
MONDAY (4 February)								
16:00	US	Durable Goods Orders	Nov	% m/m	1.7	-	0.7	0.8
16:00	US	Factory Orders	Nov	% m/m	0.3	-	-0.6	-2.1
TUESDAY (5 February)								
09:55	DE	Markit Germany Services PMI	Jan	pts	53.1	-	53.0	53.1
10:00	EZ	Eurozone Services PMI	Jan	pts	50.8	-	51.2	50.8
11:00	EZ	Retail Sales	Dec	% m/m	-1.05	-	-1.6	0.8
16:00	US	ISM services	Jan	pts	57.3	-	56.7	58.0
WEDNESDAY (6 February)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
08:00	DE	Factory Orders	Dec	% m/m	0.3	-	-1.6	-0.2
09:00	CZ	Industrial Production	Dec	% y/y	0.0	-	-1.4	4.8
THURSDAY (7 February)								
08:00	DE	Industrial Production SA	Dec	% m/m	0.7	-	-0.4	-1.9
09:00	HU	Industrial Production SA	Dec	% y/y	3.0	-	5.7	3.5
11:00	PL	Bond auction						
13:00	CZ	Central Bank Rate Decision		%	1.75	-	1.75	1.75
14:30	US	Initial Jobless Claims	week	k	221	-	234	253
FRIDAY (8 February)								
08:00	DE	Exports SA	Dec	% m/m	0.4	-	1.5	-0.4

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

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