

11 February 2019

Eyeopener

Market uncertainty pressures zloty

End of the week in the gloomy mood
Zloty underperforms its CEE peers
Polish bonds gain, but slower than core markets
Today no releases of important data

At the start of last week fluctuations on FX markets have abated and trends seen in previous days have stopped. The zloty was an exception, as it continued depreciating slightly, while Hungarian forint and Russian ruble were gaining. Equity markets were still in decline (stronger in Europe), which was positively affecting core market bonds. Friday's morning data about German exports did not improve investors' moods, as they remained under influence of previous readings from the euro zone's biggest economy and downward revision of economic forecasts by IMF and EC. Today in the morning, currencies and stock markets were hovering near Friday's closing levels.

EURUSD stabilised on Friday around 1.133, volatility was markedly lower than in the previous days. Today EURUSD started the session at 1.132, no important releases are scheduled, so the pair is likely to remain close to the next week's trough.

EURPLN rose on Friday to 4.31 and USDPLN to 3.805 setting the highest levels of the past week. The zloty performed worse than other currencies of the region and only the Czech koruna was also seen weakening. The forint and the rouble strengthened. Strong dollar and poor sentiment at the opening of today's session may put further pressure on the zloty.

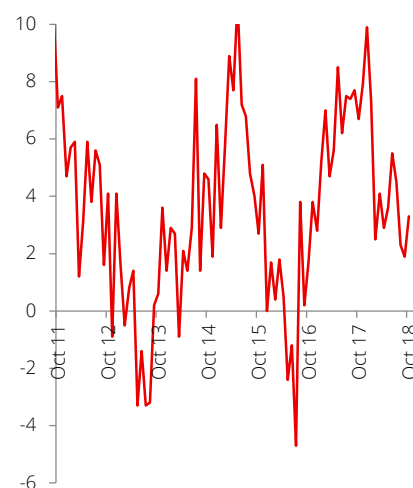
In the CEE region, EURHUF was hovering in a narrow range, while the koruna weakened. The central bank of Russia did not change interest rates on Friday leaving the main rate at 7.75%. The bank noted it wanted to assess whether hikes implemented in September and December 2018 are enough to bring inflation to 4% target in 2020. In January Russia's CPI was at 5.0% y/y. Tone of the stamen suggested that the bank will not rush with further rate hikes. Results of the meeting did not affect the ruble, which was benefiting from the rebounding oil prices.

On the domestic interest rate market 5Y and 10Y bond yields fell slightly again underperforming its core peers. Today we expect the down pressure on Polish yields to hold as they could try to "catch up" gains "missed" on Friday.

This week we will see Poland's flash 4Q GDP, January CPI and December C/A. The CPI release appears to be the most interesting. Apart from typical uncertainty related to economic forecasting, we do not know how is GUS going to treat changes in energy prices. Higher level of uncertainty is clearly reflected in the spread of CPI forecasts. Globally, a few FOMC members will give a speech; and we will see some US data, including CPI and retail sales. We should also get more information from the Brexit front. On Wednesday, PM May is expected to report what progress she has made in renegotiating the Withdrawal Agreement with the EU. In the weeks after the UK Parliament had rejected the initial deal, the market has been pricing the lower risk for hard Brexit. However, if no progress is reached in the renegotiations, tension could arise.

EURPLN is now back in the range waiting for a stronger impulse that could initiate a persistent directional move. Given the fact that even the change in the FOMC rhetoric failed to trigger higher volatility for longer, it seems that only breaking news on the US-China trade talks or Brexit could trigger a persistent directional move. We think that Polish bond curve should not steepen in the coming days. The short-end is already pricing a scenario of stable rates in the next two years (in line with the MPC rhetoric) while the belly could be impressed by the January CPI reading (our forecast is noticeably below the market consensus).

German exports (% y/y)



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3110	CZKPLN	0.1670
USDPLN	3.8082	HUFPLN*	1.3521
EURUSD	1.1320	RUBPLN	0.0580
CHFPLN	3.8069	NOKPLN	0.4391
GBPPLN	4.9216	DKKPLN	0.5776
USDCNY	6.7743	SEKPLN	0.4104

*for 100HUF

Last session in the FX market 08/02/2019

	min	max	open	close	fixing
EURPLN	4.304	4.315	4.308	4.312	4.3082
USDPLN	3.793	3.811	3.796	3.807	3.804
EURUSD	1.132	1.136	1.135	1.132	-

Interest rate market 08/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.53	0	25 sty 19	OK0521	1.479
PS0424 (5L)	2.16	-1	25 sty 19	PS0424	2.160
WS0428 (10L)	2.71	-2	25 sty 19	WS0428	2.783

IRS on the interbank market**

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.69	-1	-0.22	0
2L	1.76	0	2.61	-2	-0.16	0
3L	1.81	0	2.55	-2	-0.09	-1
4L	1.90	-1	2.53	-2	0.01	-2
5L	2.00	-1	2.54	-3	0.10	-2
8L	2.22	0	2.60	-3	0.43	-3
10L	2.34	-1	2.66	-3	0.63	-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	0

Measures of fiscal risk

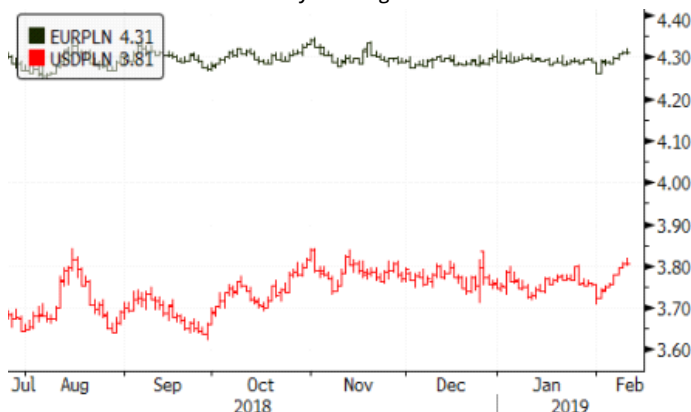
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.62 -3
France	37 0	0.45 0
Hungary		2.53 -1
Spain	77 2	1.14 -1
Italy	233 8	2.85 -2
Portugal	89 1	1.55 -1
Ireland	41 1	0.78 0
Germany	13 -1	- -

* 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



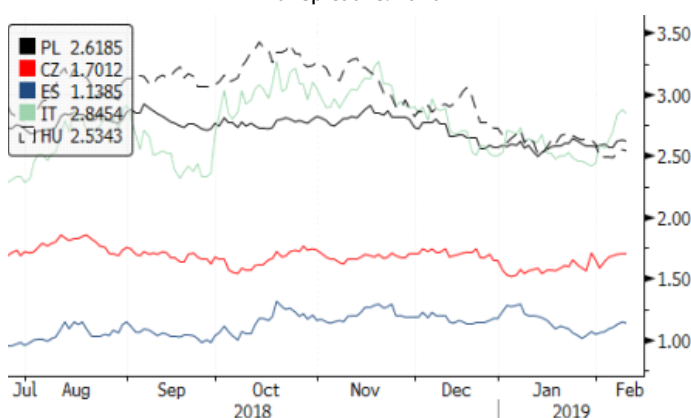
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (8 February)							
08:00	DE	Exports SA	Dec	% m/m	0.4	1.5	-0.3
MONDAY (11 February)							
No important events							
TUESDAY (12 February)							
09:00	HU	CPI	Jan	% y/y	2.8	-	2.7
WEDNESDAY (13 February)							
09:00	CZ	CPI	Jan	% y/y	2.1	-	2.0
11:00	EZ	Industrial Production	Dec	% m/m	-0.4	-	-1.7
14:00	PL	Current Account Balance	Dec	€mn	-944	-1 770	-221
14:00	PL	Trade Balance	Dec	€mn	-1 108	-1 640	-229
14:00	PL	Exports	Dec	€mn	16 656	16 303	20 025
14:00	PL	Imports	Dec	€mn	18 078	17 943	20 254
14:30	US	CPI	Jan	% m/m	0.1	-	-0.1
THURSDAY (14 February)							
08:00	DE	GDP	4Q	% y/y	0.8	-	1.1
09:00	HU	GDP	4Q	% y/y	4.7	-	4.9
10:00	PL	GDP	4Q	% y/y	4.9	4.8	5.1
11:00	EZ	GDP	4Q	% y/y	1.2	-	1.2
14:30	US	Initial Jobless Claims	week	k	221	-	234
14:30	US	Retail Sales	Dec	% m/m	0.1	-	0.2
FRIDAY (15 February)							
09:00	CZ	GDP	4Q	% y/y	2.4	-	2.4
10:00	PL	CPI	Jan	% y/y	1.0	0.7	1.1
15:15	US	Industrial Production	Jan	% m/m	0.1	-	0.35
16:00	US	Flash Michigan index	Feb	pts	94.0	-	91.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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