

12 February 2019

Eyeopener

Better market mood may help the zloty

Rising chances for avoiding "government shutdown"

CEE currencies pressured by strong USD, today may stabilise

Domestic and core markets yields up

Today: inflation in Hungary

At the start of the week, the CEE currencies were still under pressure. Quotations of main exchange rates were stable for the better part of the day, but recorded some higher volatility in the afternoon. Yesterday the pound lost versus the euro and the dollar due to uncertainty about the Brexit and ahead of further information on the matter. Today, and not tomorrow, as it was planned beforehand, the PM Theresa May is to speak before the British Parliament in order to present the progress in EU withdrawal negotiations. Debate and new vote are planned for Thursday. Today markets are a bit more sanguine thanks to higher chances for a compromise on the US government shutdown, which is to restart on 15 February. At the same, there were some optimistic signals from the Sino-US trade talks, yet tensions in the South China Sea are casting a shadow over the matter.

In Poland in the national economy wages maintained a high growth rate, recording 7.7% y/y in 4Q18 (vs 7.6% y/y in 3Q18), even though the average wage growth in the corporate sector declined to 6.6% y/y from 6.9% y/y in 3Q18 and 7.5% y/y in 2Q18. In our view, 2019 will witness a still strong wage pressure, caused by positive unemployment gap and problems with obtaining new labour force. Wages in the national economy are likely to rise by about 7%.

December **data on foreign trade** published by GUS showed that exports amounted to €16.7bn and imports to €18.7bn, which indicates a large trade deficit of €2bn. In general, the data are in line with our expectations about the release from NBP on foreign trade (due Wednesday). The trade deficit for 4Q18 was €2.6bn, significantly more than a year earlier (€0.9bn). However, a conclusion from full-year GDP data for 2018 was that in 4Q18 net exports had a highly positive impact on economic growth. This goes against the deepening of the trade deficit seen in monthly data in this period. The detailed reading of 4Q18 GDP may thus bring revisions vs the annual data.

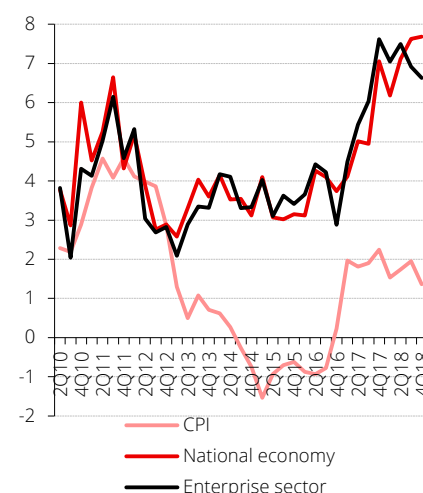
Polish MPC member Rafał Sura said in the interview for the Polish Press Agency that current inflation processes and stabilization of the oil price support the scenario of no-rate-change this year. He added, that should oil prices remain stable and no inflationary factors emerge, the horizon for the stable rate would be extended automatically into 2020.

EURUSD was long stable just above last week's low and resumed the down more in the afternoon that took it to 1.127. This was sixth session in a row of the dollar appreciation vs the euro, last time such long series was recorded in September. We think the exchange rate could remain stable today as the market mood improved.

EURPLN rose for the fifth and **USDPLN** for seventh session in a row reaching their fresh 2019 peaks at above 4.32 and 3.83, respectively. The zloty was pressured by further dollar appreciation that weighed also on the other CEE currencies. The forint, ruble and koruna lost with **EURCZK** climbing to its fresh this year's high at c25.86. **EURPLN** touched its highest since mid-November and neared an important resistance at 4.34. We think that better market mood at today's opening and stabilization of **EURUSD** could help the zloty to recover slightly.

On the domestic interest rate market yields rose 1-2bp amid weakening on the core markets. In the previous days, Polish bonds were gaining less than their core peers and now lost less than they. Today we expect yields could add 1-2bp more as the higher chances for avoiding the government shutdown in the US may generate an upside pressure on core yields.

Wage growth vs inflation (% y/y)



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: skarb.santander.pl

Piotr Bielski +48 22 534 18 87

Marcin Łuziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3240	CZKPLN	0.1672
USDPLN	3.8309	HUFPLN*	1.3549
EURUSD	1.1287	RUBPLN	0.0583
CHFPLN	3.8157	NOKPLN	0.4409
GBPPLN	4.9324	DKKPLN	0.5794
USDCNY	6.7760	SEKPLN	0.4128

*for 100HUF

Last session in the FX market 11/02/2019

	min	max	open	close	fixing
EURPLN	4.306	4.326	4.310	4.323	4.3172
USDPLN	3.798	3.837	3.806	3.836	3.819
EURUSD	1.127	1.133	1.133	1.127	-

Interest rate market 11/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.54	1	25 sty 19	OK0521	1.479
PS0424 (5L)	2.17	1	25 sty 19	PS0424	2.160
WS0428 (10L)	2.73	1	25 sty 19	WS0428	2.783

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.70	1	-0.21	0
2L	1.77	1	2.63	2	-0.16	0
3L	1.83	2	2.58	2	-0.08	0
4L	1.92	3	2.56	3	0.01	1
5L	2.03	3	2.57	3	0.12	2
8L	2.25	3	2.64	3	0.45	2
10L	2.37	3	2.69	3	0.65	3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	4
T/N	1.59	4
SW	1.55	1
2W	1.58	1
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

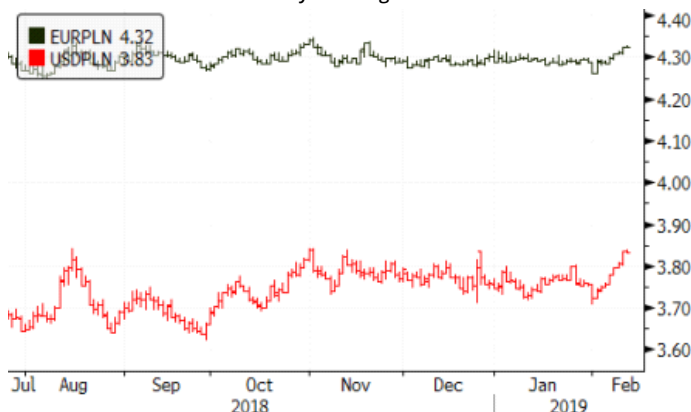
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.59 -1
France	37 0	0.44 -1
Hungary		2.55 -2
Spain	78 -1	1.11 -2
Italy	240 -10	2.72 -6
Portugal	90 -1	1.51 -2
Ireland	42 -1	0.77 -1
Germany	13 0	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

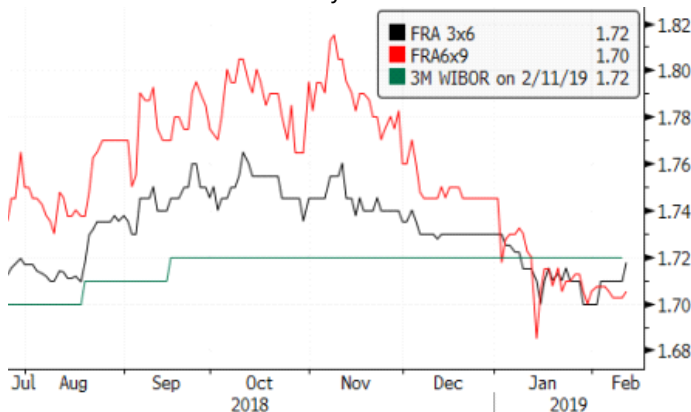
Zloty exchange rate



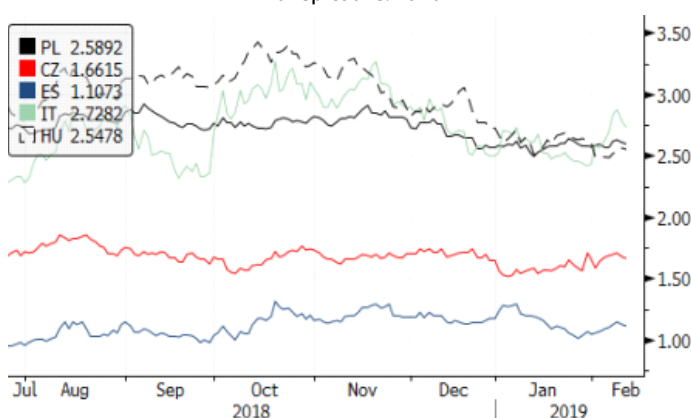
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.