

25 February 2019

Eyeopener

Costly pre-election bid

PiS new costly propositions to be launched yet this year
 German Ifo down again, Brexit vote postponed again
 Domestic debt stable, core bonds gain amid EU-US tensions
 Today in Poland – unemployment rate and Statistical Bulletin

On Friday we saw German Ifo index and final GDP and the Euro zone inflation. With no major surprise from these releases, the Fx market was relatively stable. Bond yields declined as new fears about US-EU trade relations appeared. Against the earlier plans, PM Theresa May will not ask for another Brexit deal vote this Wednesday. She wants to continue negotiations with the EU and refer the parliament until March 12. Anonymous sources from the EU say there is readiness to delay the Brexit date by 21 months. Thanks to the progress in the US-China trade negotiations, the US president Donald Trump delayed the introduction date of a new set of higher tariffs (which were supposed to enter into force on 1 March) – this created positive market sentiment at the start of today's session.

On Saturday's congress, the **ruling party (PiS) presented its new pre-election package**, assuming 500PLN child benefit for the first child (currently the benefit is eligible for second and further child and for the first if monthly net family per capita income is below 800PLN); no PIT for employees up to 26 years of age; one-off bonus for pensioners worth PLN1100; rise in tax deductible expenses (currently it is PLN110-140 per month); lower PIT for all employees (no details revealed). The government plans to introduce these measures prior to the elections: bonus for pensioners in May, extension of 500+ programme in July. This means about PLN20bn costs for this year's budget, i.e. 1% of GDP and twice that in the next year. It is clear that the government is abandoning the fiscal consolidation and the general government deficit can swell to 2.5% of GDP this year (from 0.7% in 2018), with rising risk of going above 3% in 2020. This is markedly increasing the public finance vulnerability to an economic slowdown. On the other hand, new transfers for households can support the momentum of private consumption, mitigating the slowdown and generating additional VAT revenues. This effect, similarly as in the first phase of 500+, is likely to be short-lived. At the same time, we do not know how is the government going to deal with the stabilising spending rule – in 2019 the rule allows for no additional spending. So maybe we will get to see higher expectations about tax collection? Possibly this is what was suggested by Michał Dworczyk, chief of the PM chancellery, who said that introduction of the new programme will not increase the deficit and will be financed by improvements in the tax system. In general, prospects of a strong fiscal impulse, higher borrowing needs, higher consumption, possibly less dovish monetary policy or creative evasion of the spending rule support higher yields and steeper yield curve in the upcoming weeks.

EURUSD moved around 1.134 reacting with a small and temporary decline to the weaker German data. Today its volatility may be limited due to lack of important data releases.

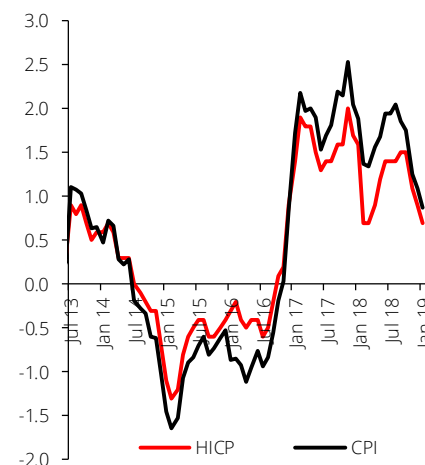
EURPLN oscillated at the elevated level slightly below 4.34, while USDPLN stayed close 3.82. In the case of the other CEE currencies volatility was also low – the ruble gained mildly, forint and Czech koruna were stable. At the beginning of the today's session, the market sentiment is positive, so the zloty should not depreciate today.

On the domestic debt market the 5-10Y yields stabilised and the front end rose by 1bp. This morning, higher chances for reaching an agreement in the US-China trade negotiations has negatively affected the core markets bonds, so we can expect Polish yields to rise as well.

January M3 money supply surprised negatively, slowing from 9.2% to 8.8% y/y. It was caused by corporate deposits' outflow (their growth slowed to 2.3% y/y), while households kept accumulating savings (at 10.7% y/y). Total loan growth adjusted for the FX effect reached 6.4% y/y, i.e. was similar to 4Q18 average but below December (6.7%). Consumer loans decelerated (from 9.1% to 8.5% y/y) and mortgage loans accelerated above 5% y/y for the first time in six years (zloty-denominated mortgages rose 11.9% y/y). Loans for business (FX adjusted) rose 7.2% y/y, at the same pace as in December.

Data on January HICP inflation showed a decline from 0.9% y/y to 0.7% – the 2018 low. There was a noticeable decline of goods prices growth, from 1.1% y/y to 0.4%, the lowest in two years. The items working especially strongly towards a lower reading were unprocessed food, fuels and electricity. At the same time, services prices accelerated from 0.4% y/y to 1.1%, which is the highest pace in a year, and in the following months this move will be strengthened further by a large positive base effect. There was a big rise of price growth in January in holiday tourism and accommodation services (from 0.6% y/y to 4.3%) and services related to transport (4.5% y/y). Inflation of housing services is now the strongest in five years, at 4.8% y/y.

Inflation in Poland, % y/y



Source: GUS, Eurostat, Santander

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FX market

Today's opening

EURPLN	4.3344	CZKPLN	0.1691
USDPLN	3.8175	HUFPLN*	1.3663
EURUSD	1.1354	RUBPLN	0.0585
CHFPLN	3.8203	NOKPLN	0.4446
GBPPLN	4.9874	DKKPLN	0.5808
USDCNY	6.6971	SEKPLN	0.4096

*for 100HUF

Last session in the FX market 22/02/2019

	min	max	open	close	fixing
EURPLN	4.332	4.340	4.336	4.337	4.3387
USDPLN	3.816	3.833	3.827	3.825	3.8242
EURUSD	1.132	1.136	1.133	1.134	-

Interest rate market 22/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.55	1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.14	0	7 lut 19	PS0424	2.158
DS1029 (10L)	2.74	0	7 lut 19	DS1029	2.820

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	2.67	1	-0.22	0
2L	1.76	1	2.63	2	-0.16	1
3L	1.79	2	2.58	3	-0.07	-1
4L	1.87	2	2.57	4	0.03	2
5L	1.96	3	2.53	-4	0.14	3
8L	2.16	2	2.65	4	0.46	3
10L	2.29	3	2.71	4	0.66	2

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.57	-1
SW	1.55	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	1.72	0
3x6	1.70	0
6x9	1.70	0
9x12	1.70	0
3x9	1.78	0
6x12	1.76	0

Measures of fiscal risk

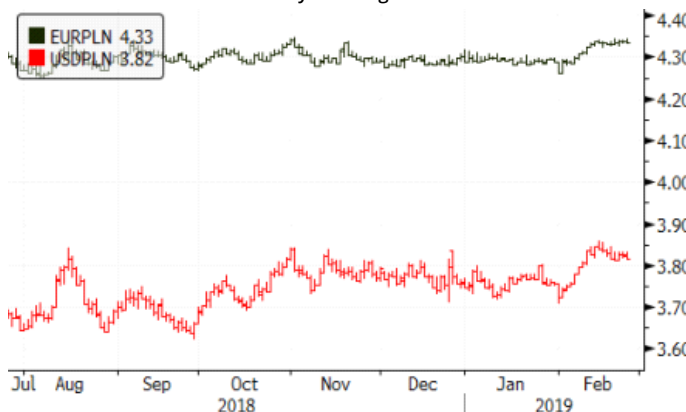
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.63 -2
France	36 -1	0.42 -1
Hungary		2.51 -3
Spain	75 -4	1.07 -1
Italy	224 -6	2.66 -9
Portugal	84 -5	1.37 -1
Ireland	41 -2	0.73 -1
Germany	14 -2	- -

* 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



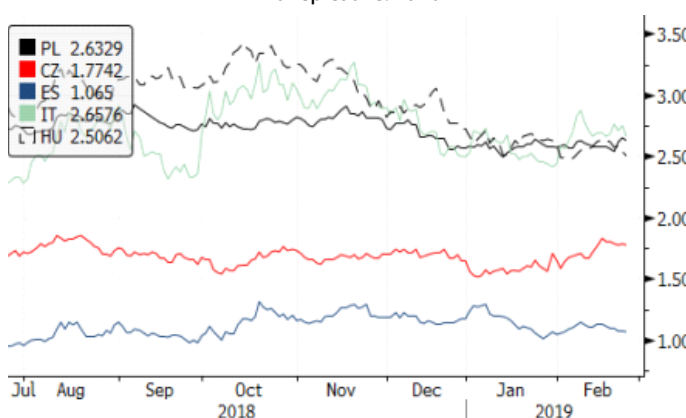
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (22 February)							
08:00	DE	GDP WDA	4Q	% y/y	0.6	-	0.6
10:00	DE	IFO Business Climate	Feb	pts	98.9	-	98.5
11:00	EZ	HICP	Jan	% y/y	1.4	-	1.4
14:00	PL	Money Supply M3	Jan	% y/y	9.4	9.4	8.8
MONDAY (25 February)							
	PL	Central Budget Cumul.	Jan	mn PLN	-	-	-10417.8
10:00	PL	Unemployment Rate	Jan	%	6.1	6.1	5.8
TUESDAY (26 February)							
14:00	HU	Central Bank Rate Decision	Feb/19	%	0.9	-	0.9
14:30	US	Housing Starts	Dec	% m/m	-0.5	-	3.2
16:00	US	Consumer Conference Board	Feb	pts	124.2	-	120.2
WEDNESDAY (27 February)							
8:00	DE	Retail Sales	Jan	% m/m	1.6	-	-3.1
11:00	EZ	ESI	Feb	pct.	106.0	-	106.2
14:30	US	Durable Goods Orders	Jan	% m/m	1.7	-	1.2
16:00	US	Factory Orders	Dec	% m/m	1.4	-	-0.6
16:00	US	Pending Home Sales	Jan	% m/m	0.0	-	-2.2
THURSDAY (28 February)							
08:00	DE	HICP		% m/m	-1.0	-	-1.0
10:00	PL	GDP	4Q	% y/y	-	4.9	4.9
14:30	US	GDP Annualized	4Q	% Q/Q	2.5	-	3.4
14:30	US	Initial Jobless Claims		k	228.24	-	216.0
FRIDAY (1 March)							
09:00	CZ	GDP SA	4Q	% y/y	-	-	2.9
09:00	PL	Poland Manufacturing PMI	Feb	pts	-	48.2	48.2
09:00	HU	GDP	4Q	% y/y	0.0	-	5.0
09:30	DE	Germany Manufacturing PMI	Feb	pts	49.8	-	47.6
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	50.3	-	49.2
11:00	EZ	Flash HICP	Feb	% y/y	1.5	-	1.4
11:00	EZ	Unemployment Rate	Jan	%	7.9	-	7.9
14:30	US	Personal Spending	Dec	% m/m	0.3	-	0.4
14:30	US	Personal Income	Jan	% m/m	0.3	-	0.2
14:30	US	PCE Deflator SA	Dec	% m/m	0.0	-	0.1
16:00	US	Michigan index	Feb	pts	96.0	-	95.5
16:00	US	ISM manufacturing	Feb	pts	56.2	-	56.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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