

26 February 2019

Eyeopener

Yields jump after PiS proposals

Polish debt pressured by new spending plan

Statistical Bulletin – new orders rebound

Today Hungarian bank decision, US consumer confidence index and Brexit debate

On Monday, yields of domestic bonds skyrocketed in reaction to new PiS proposals while the zloty weakening was only temporary. Globally, US bond yields went up slightly, as did equity indexes, after the news that the deadline for US-China trade talks has been postponed. Oil prices fell by c USD2/bbl after a remark by Donald Trump that the global economy is too sensitive to the rise of oil price. Today in the UK, PM Theresa May is to inform about the progress in negotiations of the Brexit deal. She can also propose to delay Brexit. At the same time, the opposition leader Jeremy Corbyn said he supports the idea of a second referendum on EU membership. The recent news from the UK decrease somewhat the risk of 'hard Brexit'.

Out of the information delivered in the new **GUS Statistical Bulletin** we focused on a rebound of new export orders (11% y/y after two weaker months) and an acceleration of wage growth in the corporate sector excluding mining. In January, the wage growth returned to 7.4% y/y, a level it reached twice in 2018. This is the second-strongest pace of wage growth since late 2008. A significant increase of wages was seen in January in the retail sector (from 7.1% y/y to 10.6%) and in another relatively low-paid category called 'administering and other support activities' (which covers cleaning services), up 10.3% y/y. The registered unemployment rate reached 6.1% in January and the monthly rise of the number of unemployed, 54.2k, was similar as in the first months of the previous two years. GUS also released 4Q data from the Labor Force Survey. What we find concerning is the decline of the participation rate from 56.8% to 56.1%, with the measure for rural areas falling to its lowest in almost six years. The growth of employment was also the weakest in almost six years, at 0.0% y/y vs. +0.6% y/y in 3Q18. 4Q was another quarter with a declining working age, down 0.5% y/y. The LFS unemployment rate was 3.8%, as in 3Q18. In our view, the situation in the labor market (labor shortage) will be one of the main factors driving the economy toward lower growth this year.

MPC's Łukasz Hardt said that due to the announced fiscal impulse interest rates are likely to remain unchanged this year and the discussion about rate hikes could start at the turn 2019/2020. According to **Eugeniusz Gatnar** the fiscal stimulation would require a slight monetary tightening in 2H19 and it would absolutely rule out the need for rate cuts or unconventional policy easing. **Jerzy Żyżyński** said that the new fiscal spending would not push inflation above the target, but it may cause economic overheating, which could make the Council to start mulling rate hikes. We still think that interest rates will remain unchanged this year, but market may start re-considering chances for monetary tightening in 2020, especially after inflation starts rising later this year.

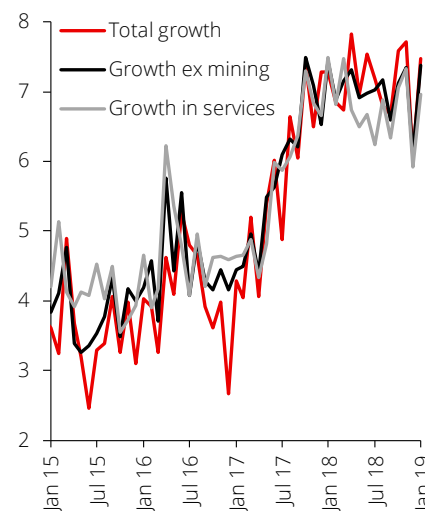
EURUSD rose to 1.136 from 1.134 thanks to improved sentiment but remained below local peak. Positive information on Brexit may help the rate remain on a higher level.

In the morning EURPLN climbed temporarily above 4.34 in reaction to new spending programme presented by PiS. In the following hours the exchange rate returned to 4.337. Strengthening of the pound made GBPPLN break 5.0 and reach the highest level since May 2017. In our view, EURPLN will remain heightened prior to further signals on Brexit. The zloty may also be affected by the forint's reaction to Hungarian central bank decision, which could tighten its rhetoric.

In the CEE region, EURHUF was hovering between 317.30 and 317.90. EURCZK was moving between 25.62 and 25.66, falling in reaction to higher-than-expected PPI inflation. USDRUB made up for its morning fall to 65.2 after oil prices began to fall rapidly.

On the domestic interest rate market, yields climbed by 6bps in 2Y tenor, 10bps in 5Y and 14bps in 10Y in reaction to new PiS social proposal presented during the weekend. IRS rates rose at a similar scale. We think that after strong movements recorded yesterday, today the market is likely to stabilise and maybe bonds will trim part of losses. Such a scenario is supported by positive scenario on Brexit and today's information from the Finance Ministry stating that new spending will not cause a budget amendment.

Wages in the corporate sector, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3353	CZKPLN	0.1691
USDPLN	3.8185	HUFPLN*	1.3648
EURUSD	1.1354	RUBPLN	0.0582
CHFPLN	3.8170	NOKPLN	0.4431
GBPPLN	5.0248	DKKPLN	0.5810
USDCNY	6.6961	SEKPLN	0.4097

*for 100HUF

Last session in the FX market 25/02/2019

	min	max	open	close	fixing
EURPLN	4.333	4.346	4.337	4.3402	
USDPLN	3.814	3.832	3.824	3.822	3.8241
EURUSD	1.133	1.137	1.134	1.135	-

Interest rate market 25/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.60	0	7 lut 19	OK0521	1.493
PS0424 (5L)	2.25	12	7 lut 19	PS0424	2.158
DS1029 (10L)	2.88	14	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	1.73	2	2.67	0	-0.22	0
2L	1.80	4	2.61	1	-0.16	0
3L	1.85	6	2.56	1	-0.07	0
4L	1.95	9	2.54	2	0.02	1
5L	2.06	10	2.55	2	0.12	1
8L	2.28	12	2.63	2	0.44	1
10L	2.40	13	2.69	2	0.64	1

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-4
T/N	1.53	-4
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	1
3x6	1.72	2
6x9	1.71	1
9x12	1.71	2
3x9	1.79	1
6x12	1.78	3

Measures of fiscal risk

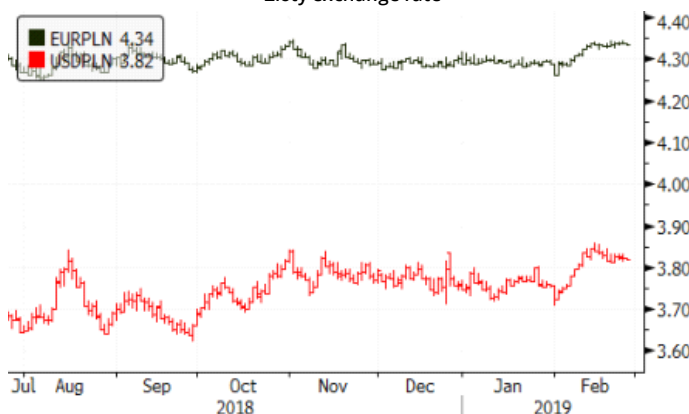
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.78 15
France	35 -1	0.41 0
Hungary		2.57 0
Spain	71 -1	1.06 1
Italy	217 -1	2.67 0
Portugal	81 -3	1.36 1
Ireland	41 -1	0.70 0
Germany	13 -1	- -

* 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



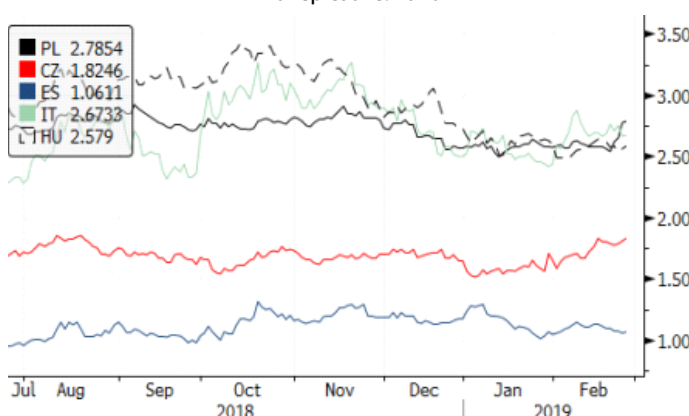
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME 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)							
10:00	PL	Unemployment Rate	Jan	%	6.1	6.1	5.8
TUESDAY (26 February)							
	PL	Central Budget Cumul.	Jan	mn PLN	-	-	-10417.8
14:00	HU	Central Bank Rate Decision		%	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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