

27 February 2019

Eyeopener

CEE currencies gain

Polish debt slightly stronger after news that budget amendment will not be needed
 Hungarian central banks suggests monetary policy normalization
 Fed's Powell "patient" with rate hikes – UST yields down
 Today European ESI index and US new orders

On Tuesday, the US Conference Board consumer confidence index surprised on the positive side. Fed chairman Jerome Powell reiterated that Fed remains patient deciding on further hikes, despite the US economy is still solid. As a consequence the yields of UST slid, while EURUSD rose. Yesterday UK PM Theresa May presented the new plan for the next few weeks. She announced that by March 12 a vote on the Brexit deal will take place, the conditions of which she will try to renegotiate by then. If agreement is not adopted by the British Parliament, then on March 13, a request to leave the EU without a deal will be put to the vote. If this proposal did not gain the majority, the deputies will vote about postponing the Brexit date (rather not later than by the end of June). The market received her proposals as one that lower risk of a "hard Brexit". On the domestic front, the government representatives said that new spending will not cause a budget amendment, which positively influenced Polish t-bonds. In Hungary central bank decided to maintain interest rates on the current level signalling that they still planning monetary policy normalisation. This rhetoric translated into forint and zloty appreciation.

MPC's Rafał Sura said that the announced fiscal stimulation does not change his opinion that keeping interest rates unchanged until the end of 2020 is very likely. He thinks that the government's plans will not affect significantly this year's inflation and it will remain below the target. Meanwhile, in 2020 CPI may reach 2.5-3.0%. He also said that PiS proposals could reduce economic slowdown in 2019-2020. In case of a sharp economic slowdown Sura would be rather opting for interest rate cut than non-conventional policy easing, but he said that this is purely theoretical consideration.

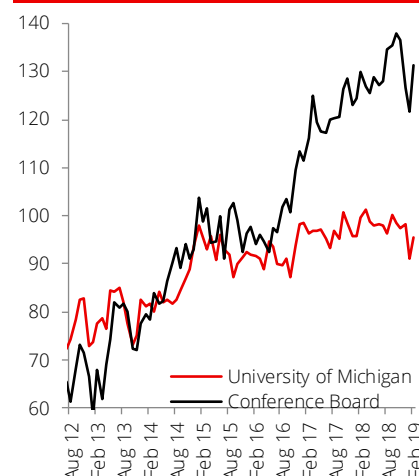
On Tuesday EURUSD rose in reaction to improving moods after a rise of hopes that hard Brexit will be avoided. Moreover, the dollar was pressured by comments of Fed head Jerome Powell. As a result, EURUSD climbed to 1.14 from 1.135 and did not react to better-than-expected consumer sentiment index in the US. Today we are expecting EURUSD to go down given ESI data from Europe, which we estimate to be weak, and durable goods orders in the US.

EURPLN went down on Tuesday, supported by stronger euro and comments of the government representatives that there will be no budget amendment. The zloty was also supported by positive performance of stock markets in Europe and by stronger forint. As a result EURPLN fell to 4.323 from 4.338 and USDPLN to 3.79 from 3.82. As we are expecting weaker ESI data today, the zloty is likely to weaken moderately. A pause in appreciation can be also triggered by weaker-than-expected moods on the European stock markets.

Among the other CEE currencies, EURHUF dropped from 317.8 to 316.5, fuelled by the central bank saying he is on track to normalise monetary policy and strengthening euro. EURCZK rose to 25.68 in reaction to comment of central bank member Tomas Holub, who said that Hard Brexit could be negative for koruna. At the end of the day the rate declined to 25.65 thanks to the statement that in such case the central bank would be more willing to hike rates. Monday's drop of crude oil prices was negative for ruble, pushing USDRUB from 65.5 to 65.9.

On the domestic interest rate market, yields decreased after the Monday sell-off. The move was caused partly by remarks from government officials that budget amendment will not be necessary to fit in all the new pre-election proposals. Today we expect further decline of yields in line with falling US yields and the lower risk that 2019 fiscal budget will need to be changed during the year.

US consumer confidence measures



Source: Bloomberg, 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	4.3255	CZKPLN	0.1687
USDPLN	3.8007	HUFPLN*	1.3659
EURUSD	1.1381	RUBPLN	0.0578
CHFPLN	3.8020	NOKPLN	0.4440
GBPPLN	5.0392	DKKPLN	0.5797
USDCNY	6.6851	SEKPLN	0.4091

*for 100HUF

Last session in the FX market 26/02/2019

	min	max	open	close	fixing
EURPLN	4.323	4.339	4.337	4.327	4.3338
USDPLN	3.800	3.823	3.822	3.803	3.8124
EURUSD	1.135	1.138	1.135	1.138	-

Interest rate market 26/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.59	0	7 lut 19	OK0521	1.493
PS0424 (5L)	2.24	-1	7 lut 19	PS0424	2.158
DS1029 (10L)	2.85	-3	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	0	2.65	-2	-0.21	0
2L	1.80	0	2.58	-3	-0.15	1
3L	1.84	0	2.52	-4	-0.07	0
4L	1.94	-1	2.50	-4	0.03	0
5L	2.05	-1	2.51	-4	0.13	0
8L	2.26	-1	2.59	-4	0.45	0
10L	2.39	-1	2.65	-4	0.65	1

WIBOR rates

Term	%	Change (bps)
O/N	1.27	-26
T/N	1.51	-2
SW	1.54	-1
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	1.72	0
6x9	1.71	0
9x12	1.71	0
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

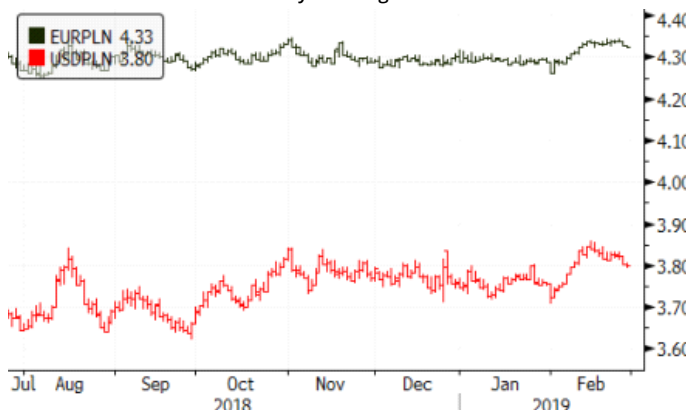
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	-2
France	35	-1	0.41	0
Hungary			2.55	0
Spain	71	-2	1.02	0
Italy	217	-5	2.60	2
Portugal	81	-2	1.32	0
Ireland	41	-1	0.68	0
Germany	13	0	-	-

* 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



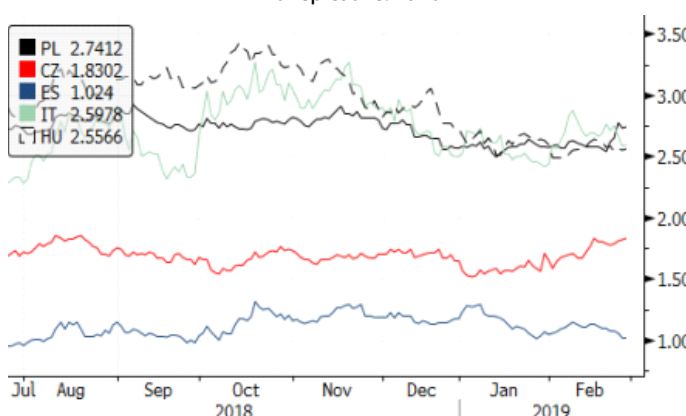
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME 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	6.1
TUESDAY (26 February)							
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
14:30	US	Housing Starts	Dec	% m/m	-0.5	-	-11.2
16:00	US	Consumer Conference Board	Feb	pts	124.2	-	131.4
WEDNESDAY (27 February)							
	PL	Central Budget Cumul.	Jan	mn PLN	-	-	-10417.8
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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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.