

4 March 2019

Eyeopener

Rising market optimism

End of the week is positive moods thanks to China
 EURPLN and EURUSD slightly down
 Yields in Poland and abroad up due to rising demand for risk
 No important data releases today

Demand for risky assets has been dominating on the markets since the start of the Friday session. Equity indexes rose and bonds were under pressure due to better-than-expected data (US 4Q GDP on Thursday and Chinese business confidence on Friday). The FX market saw small changes, apart from the yen (which was sold off as there was limited demand for safe haven assets) and the pound (which gained vs the euro). During the weekend we got the news that the Sino-US trade negotiations may be close to a positive end.

Polish manufacturing PMI fell in February to the December level of 47.6, the lowest since early 2013, after a rise to 48.2 in January. The market expected a stabilisation. Foreign demand declined for a seventh month running, especially from Germany, while inventories rose at the fastest pace in 20 years, despite falling output according to the PMI survey. Consistent with the signals of weaker external demand, the employment and purchasing activity gauges declined, as did the index of output prices. This is yet another confirmation that Poland's economy is slowing down, but in our view the PMI measure is strongly exaggerating the scale of the slowdown. Local business sentiment measures and ESI indicators point in the same direction, but are showing a less dramatic picture, and the latest industrial output reading came out strong. Also, fiscal stimulus will be delivered this year, which might offset to some extent the weaker foreign demand.

On Friday the Chancellery of the Prime Minister presented **further details on the pre-election package**. These were roughly in line with our assumptions and estimates presented in [Economic Comment](#). The "thirteenth" pension is to amount to PLN1100 gross and be paid to all old-age and disability pensioners. The government put estimate for that at PLN9-10bn per annum (while ZUS at PLN10.8bn). Higher tax deductible costs (at least twofold) and lower first PIT bracket are to be introduced in the summer, "for sure" this year. Estimated cost: PLN7-10bn. Taxpayers up to 26 year of age will see their 18% tax rate go down to 0% (i.e. 32% rate stays unchanged). The government wants to introduce that measure in 2019, but this is not a strong pledge. Estimated cost: PLN2-3bn. In general, we think that changes of tax rates during the year are difficult as they make it harder for regular tax payers to calculate their taxes, so we would rather expect these changes to come into force with the start of 2020 (there is a possibility to make them effective from the start of 2019 on, but we would not bet on that). Extension of 500+ is to cost PLN18.5bn. The government reiterated its earlier words that no budget amendment is planned and stated "there is high probability that the current budget will accommodate the planned spending". Our estimate of 2019 programme sits at PLN21bn gross. Net cost for the central budget is below PLN10bn (assuming that the "thirteenth" pension is in the Social Security Fund budget), which is actually very likely to fit into this year's budget.

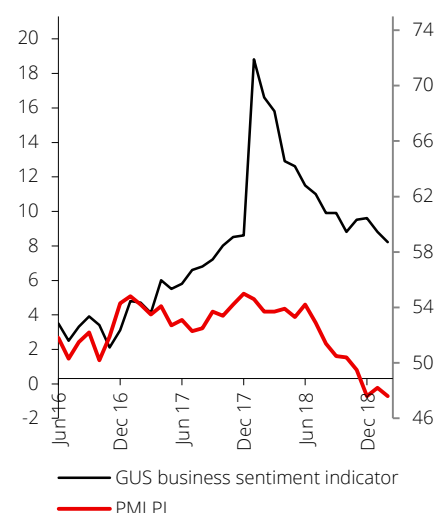
On Friday USD was pressured by poor US macro data, but **EURUSD** remained below the Thursday's peak (1.142). Later the wave of the better market mood pushed the dollar down. Today EURUSD started from 1.137 and we do not expect important changes.

EURPLN rebounded to 4.31 on Friday after four sessions of decline. Today EURUSD is close to the 4.303 and we do not expect important changes at the beginning of the week.

The domestic yields increased by 1-2bp, although the intra-day volatility was higher (weaker the US macro data helped to erase losses). Contrary to what we expected, Polish bonds were performing weaker compared to the core market.

This week the MPC and ECB will hold their meetings. We expect both monetary policies to remain unchanged but the central bankers will get to see updated GDP and CPI forecasts. Non-farm payrolls will be released in the US. Presentation of the new pre-election PiS program made bond yields jump by a dozen basis points. Recent government declarations there will be no budget amendment and the still dovish policy of the MPC are arguments to reverse this move, yet the room for bond strengthening may be limited by upward move of core yields. We see some potential for a stronger zloty, thanks to slightly more hawkish tone of the ECB statement, which may push EURUSD higher.

Business sentiment indicators



Source: GUS, Markit, Santander

Our estimates of the PiS new spending proposals (PLNbn)

Base scenario*		
	2019	2020
Child benefit extension	9.2	18.5
13th pension	10.2	-
Zero PIT for young	-	2.5
17% PIT	-	8.0
Wyższe koszty uzyskania przychodu	1.7	3.5
Restoring local transport	-	1.0
Gross total	23.1	3.5
Back in taxes	3.5	4.0
Net total (PLNbn)	17.5	29.5
Net total (% PKB)	0.8%	1.3%

*we view the base scenario as the most likely
 Source: Finance Ministry, Santander

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FX market

Today's opening

EURPLN	4.3043	CZKPLN	0.1679
USDPLN	3.7871	HUFPLN*	1.3619
EURUSD	1.1366	RUBPLN	0.0576
CHFPLN	3.7872	NOKPLN	0.4413
GBPPLN	5.0136	DKKPLN	0.5768
USDCNY	6.6967	SEKPLN	0.4085

*for 100HUF

Last session in the FX market 01/03/2019

	min	max	open	close	fixing
EURPLN	4.301	4.311	4.304	4.305	4.3079
USDPLN	3.773	3.793	3.781	3.788	3.792
EURUSD	1.135	1.141	1.138	1.137	-

Interest rate market 01/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.63	1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.31	0	7 lut 19	PS0424	2.158
DS1029 (10L)	2.96	2	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	1.74	0	2.68	1	-0.21	0
2L	1.83	2	2.64	3	-0.14	0
3L	1.90	2	2.61	4	-0.04	1
4L	1.99	3	2.59	4	0.06	1
5L	2.14	3	2.61	4	0.17	2
8L	2.39	4	2.69	5	0.50	2
10L	2.52	3	2.76	4	0.70	3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	9
T/N	1.55	0
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	1.72	0
6x9	1.73	1
9x12	1.72	0
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.77	1
France	33	-1	0.39	0
Hungary			2.58	2
Spain	64	-2	1.01	0
Italy	210	-6	2.54	-1
Portugal	78	-6	1.30	0
Ireland	40	-2	0.64	0
Germany	12	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					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (1 March)								
08:00	DE	Retail Sales	Jan	% m/m	1.9	-	3.3	-4.3
09:00	CZ	GDP SA	4Q	% y/y	2.9	-	2.8	2.9
09:00	PL	Poland Manufacturing PMI	Feb	pts	48.1	48.5	47.6	48.2
09:00	HU	GDP	4Q	% y/y	5.0	-	5.1	5.0
09:55	DE	Germany Manufacturing PMI	Feb	pts	47.6	-	47.6	47.6
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	49.2	-	49.3	49.2
11:00	EZ	Flash HICP	Feb	% y/y	1.5	-	1.5	1.4
11:00	EZ	Unemployment Rate	Jan	%	7.9	-	7.8	7.9
14:30	US	Personal Spending	Dec	% m/m	-0.3	-	-0.5	0.6
14:30	US	Personal Income	Jan	% m/m	0.3	-	-0.1	0.2
14:30	US	PCE Deflator SA	Dec	% m/m	0.0	-	0.1	0.1
16:00	US	Michigan index	Feb	pts	95.8	-	93.8	95.5
16:00	US	ISM manufacturing	Feb	pts	55.6	-	54.2	56.6
MONDAY (4 March)								
No important events								
TUESDAY (5 March)								
02:45	CN	Caixin China PMI Services	Feb	pts	54.0	-		53.6
09:55	DE	Markit Germany Services PMI	Feb	pts	-	-		55.1
10:00	EZ	Eurozone Services PMI	Feb	pts	-	-		52.3
11:00	EZ	Retail Sales	Jan	% m/m	-	-		-1.6
16:00	US	ISM services	Feb	pts	57.2	-		56.7
16:00	US	New Home Sales	Dec	% m/m	0.9	-		16.9
WEDNESDAY (6 March)								
	PL	MPC decision		%	1.50	1.50		1.50
14:15	US	ADP report	Feb	k	182	-		212
16:00	US	Durable Goods Orders	Feb	% m/m	-	-		1.2
16:00	US	Factory Orders	Feb	% m/m	0.6	-		-0.6
THURSDAY (7 March)								
09:00	HU	Industrial Production SA	Jan	% y/y	-	-		5.7
11:00	EZ	GDP SA	4Q	% y/y	-	-		1.2
13:45	EZ	ECB Main Refinancing Rate		%	-	-		0.0
14:30	US	Initial Jobless Claims	week	k	222	-		216
FRIDAY (8 March)								
08:00	DE	Factory Orders	Jan	% m/m	-	-		-1.6
09:00	HU	CPI	Feb	% y/y	-	-		2.7
14:30	US	Change in Nonfarm Payrolls	Feb	k	168	-		304
14:30	US	Unemployment Rate	Feb	%	3.8	-		4.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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