

7 March 2019

# Eyeopener

## Is the ECB going to be more dovish?

Calm session prior to important events  
 OECD cut growth forecasts  
 Fiscal stimulus not affecting the rate path  
 Today ECB decision

Wednesday session saw some slight changes on the FX market and slight declines on euro zone core and peripheral bond yields. February's ADP report from the US labour market was slightly weaker than expected, but January numbers were revised markedly higher. Meanwhile, EU sources claim it is very unlikely to reach a breakthrough in Brexit negotiations. The British Parliament is to vote on that issue on 12 March at the latest so weekend talks will be crucial.

In line with expectations, **the MPC kept interest rates unchanged**, with the main policy rate at 1.50%. The new central bank projections show lower inflation (with the mid-point not much exceeding the 2.5% target on a three-year horizon) and higher GDP growth (albeit slowing slightly) than in the previous statement. Lower inflation is no surprise, as the November forecast was based on an unrealistic assumption of a big surge in energy tariffs. The higher GDP forecast reportedly reflects the impact of recent PiS election proposals, boosting consumption. The tone of the official MPC statement did not change. The NBP governor said that the looming fiscal does not increase the chances for monetary tightening. He repeated that rates could remain unchanged until the end of the MPC's term (2022). Overall, the message from the central bank remained broadly unchanged, as we expected. As long as inflation stays low, any change in rhetoric is unlikely, in our view. The situation may get more interesting by the end of this year, as we expect both CPI and core inflation to converge to the 2.5% target. But for now, stability is the name of the game.

**OECD again cut global growth forecasts** to 3.3% from 3.5% in 2019 in the November forecasting exercise and to 3.4% from 3.5% in 2020. Especially considerable revisions were applied to the euro zone, which is expected to grow by 1% in 2019 (lowered from 1.8%) and by 1.2% in 2020 (down from 1.6%). Presentation attached to the new forecasts is focused on problems with weakening trade. The uncertainty (global and political in case of the euro zone) is undermining the business and consumer confidence, as well as companies' eagerness to invest and employ. Credit growth is also becoming weaker. Situation in China is another serious risk for the global growth. OECD suggested a coordinated fiscal stimulus in the euro zone, as many governments can afford such a move, given low debt and deficit profiles. Forecasts for Poland were not shown in this forecasting round.

**EURUSD** did not see any important changes yesterday and stayed around 1.13 for the entire day. Today market attention will go to the ECB meeting. In January, Mario Draghi refrained from changing the ECB's forward guidance suggesting that central bankers would like to see the new economic projections first. Today members of the ECB will have the updated estimates at their disposal and there should be no surprise if the GDP path will be revised down. We assume that the ECB's tone will be more cautious than in the previous months, but the central bank will not want to scare investors. In particular, we think the ECB will not resign from suggestions that a rate cut is possible this year, but could indicate it would come in late 2019 and not in 2Q or 3Q. If this is the case, EURUSD might rise.

**EURPLN** was hovering around 4.30 and USDPLN remained near 3.805. We think that today's EURUSD reaction to the outcome of the ECB meeting would be crucial for the zloty. We see chances for the euro to gain vs the dollar which in turn could support the Polish currency.

**On the domestic interest rate market** yields and IRS fell benefiting from the changes observed abroad. Today, the situation on the core market should be key for the domestic bonds as well. We see risk that the outcome of the ECB meeting might generate an upside pressure on the global yields. However, we think the domestic debt could perform better than its core peers thanks to the still solid budget performance and the fact that this year's gross borrowing needs are covered in 52%.

### March NBP projection and Santander forecasts (in brackets)

	2019	2020
CPI	1.7 (1.6)	2.7 (2.7)
GDP	4.0 (3.8)	3.7 (3.4)

Source: NBP, Santander

### OECD forecasts: current vs November (in brackets)

	2019	2020
World	3.3 (3.5)	3.4 (3.5)
Euro zone	1.0 (1.8)	1.2 (1.6)
Germany	0.7 (1.6)	1.1 (1.4)
France	1.3 (1.6)	1.3 (1.5)
Italy	-0.2 (0.9)	0.5 (0.9)
UK	0.8 (1.4)	0.9 (1.1)
USA	2.6 (2.7)	2.2 (2.1)

Source: OECD, 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	4.3014	CZKPLN	0.1680
USDPLN	3.8037	HUFPLN*	1.3641
EURUSD	1.1308	RUBPLN	0.0577
CHFPLN	3.7870	NOKPLN	0.4390
GBPPLN	5.0081	DKKPLN	0.5765
USDCNY	6.7098	SEKPLN	0.4093

\*for 100HUF

### Last session in the FX market 06/03/2019

	min	max	open	close	fixing
EURPLN	4.297	4.302	4.301	4.299	4.2992
USDPLN	3.795	3.810	3.807	3.802	3.8038
EURUSD	1.129	1.133	1.130	1.131	-

## Interest rate market 06/03/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.60	-3	7 lut 19	OK0521	1.493
PS0424 (5L)	2.25	-3	7 lut 19	PS0424	2.158
DS1029 (10L)	2.90	-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	1.73	0	2.67	-2	-0.22	0
2L	1.80	-2	2.62	-3	-0.16	-1
3L	1.85	-2	2.57	-4	-0.07	-2
4L	1.95	-3	2.55	-5	0.02	-3
5L	2.06	-3	2.55	-5	0.13	-3
8L	2.29	-3	2.63	-5	0.44	-4
10L	2.42	-4	2.70	-5	0.65	-4

### WIBOR rates

Term	%	Change (bps)
O/N	1.58	2
T/N	1.57	1
SW	1.56	1
2W	1.58	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	-1
9x12	1.71	-2
3x9	1.79	0
6x12	1.78	-1

### Measures of fiscal risk

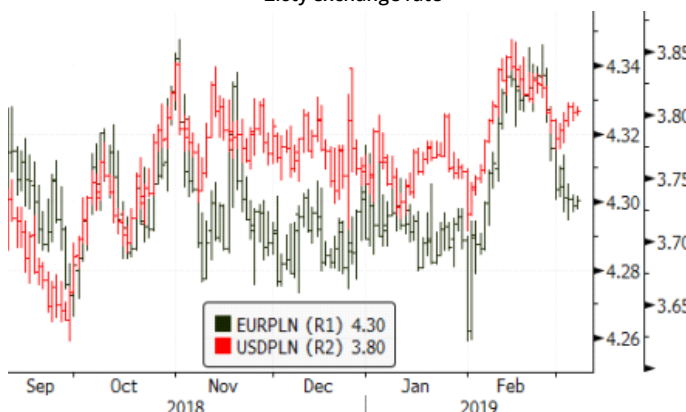
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.77 -2
France	31 -1	0.39 0
Hungary		3.08 1
Spain	61 -1	0.99 1
Italy	204 -3	2.48 1
Portugal	71 1	1.29 0
Ireland	37 -1	0.63 0
Germany	12 0	- -

\* 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



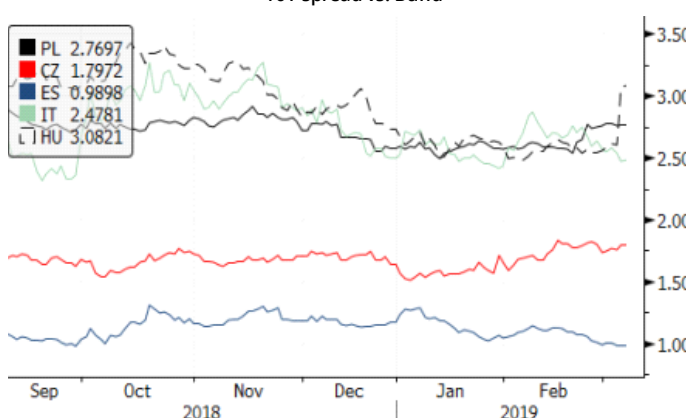
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
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	-	51.1	53.6
09:55	DE	Markit Germany Services PMI	Feb	pts	-	-	55.3	55.1
10:00	EZ	Eurozone Services PMI	Feb	pts	-	-	52.8	52.3
11:00	EZ	Retail Sales	Jan	% m/m	-	-	1.3	-1.4
16:00	US	ISM services	Feb	pts	57.2	-	59.7	56.7
16:00	US	New Home Sales	Dec	% m/m	0.9	-	3.7	9.1
WEDNESDAY (6 March)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
14:15	US	ADP report	Feb	k	190	-	183	300
20:00	US	Fed Beige Book						
THURSDAY (7 March)								
09:00	HU	Industrial Production SA	Jan	% y/y	3.2	-		5.7
11:00	EZ	GDP SA	4Q	% y/y	1.2	-		1.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		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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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>.