

15 March 2019

Eyeopener

UK needs more time

UK parliament wants to delay Brexit
Zloty slightly weaker to euro and US dollar
Domestic bond yields rose somewhat
Today Polish CPI and important US data

On Thursday zloty lost slightly amid strengthening dollar globally, but fluctuations were still quite small. The votes in the UK parliament did not have a persistent impact on the market and did not prevent equity markets from rising. Risk appetite negatively affected core market bonds, which in turn put an upward pressure on Polish bond yields. US data (weekly jobless claims, new home sales) were lower than expected, but did not affect markets much. Market sentiment seems to be quite good, despite the news about a delay of planned meeting between US and Chinese presidents.

British House of Commons yesterday passed the motion instructing the government to delay Brexit date. The vote is not legally binding. All other EU member states must agree for the extension, the opportunity for which will be the European Council summit on March 21-22. If the UK parliament approves the Brexit deal before the summit, the PM May will ask for Brexit extension until June 30. Otherwise, the extension will be probably much longer. It would also imply that the UK will have to participate in the European elections and the EU would probably need a clear reason for the longer delay. The EU President Donald Tusk said he would try to convince the member states to grant UK a long extension to rethink its Brexit strategy. In the other votes yesterday the UK parliament rejected the proposal of second referendum and of indefinite delay to Brexit. Also, the proposal that the House should take control on the further Brexit process was rejected by small majority of votes. The pound showed lower volatility yesterday than in the previous days, but Friday started with a visible rise.

Polish central bank governor **Adam Glapiński** said yesterday that he could risk a statement that interest rates are likely to remain stable until the end of his term (2022). He added that the domestic economy should enjoy moderate inflation and decent growth for a long time without any imbalances generated by the new fiscal package, among others. At the same time, MPC's **Łukasz Hardt** said in an interview for Bloomberg that it is difficult to exclude the option of considering a rate hike in 2020. In his view, strong fiscal boost warrants even more cautious analysis of inflation trends and he would not be surprised if in 2020 CPI rises above the path from the March NBP projection (that is 2.7% on average).

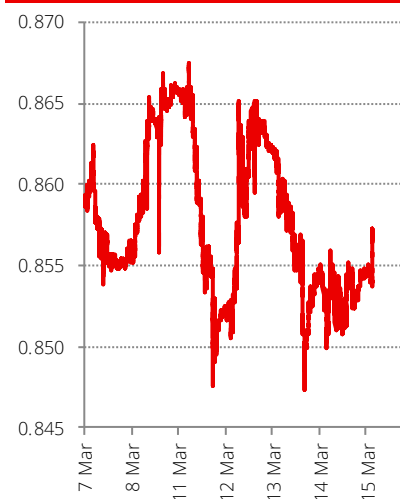
EURUSD recorded a correction after the four consecutive sessions of an increase and closed the session at 1.13 vs 1.133 at the opening. Today in the afternoon, we will see next US data, among others about the industrial output that could drive the exchange rate during the Friday's session.

EURPLN and **USDPLN** were rising slowly since the beginning of the day amid dollar strengthening and recorded session peaks at c4.305 and c3.81, respectively. Elsewhere in the CEE region, the forint gained vs the euro third day in a row while the ruble gave up part of its recent gains vs the dollar due to pause in the oil price rise. We expect EURPLN to hold close to 4.30 today.

On the **domestic interest rate market** the bond curve moved up by 1-3bp, the most on the long end amid yields rising on the core markets, particularly in Germany. Yesterday Polish debt underperformed Bunds and Treasuries as it was catching up after the lack of weakening on Wednesday.

Today at 10:00CET GUS is to reveal full **inflation** data for January and February calculated based on new basket weights. Our forecast for February is 1.2% y/y, in line with the market consensus, so the release is unlikely to affect the market. According to our estimates, the basket reweighing may raise the inflation path slightly at the start of the year, but in general the impact should be minute. Also, we would not rule out a correction of January changes in energy prices. New GUS data will help us explain what the culprits behind the January rebound in core inflation to c1.0% y/y were. In our view, this was mostly attributable to changes in clothing prices, which, on the other hand, may be due to methodological issues.

EURGBP exchange rate



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3021	CZKPLN	0.1676
USDPLN	3.7978	HUFPLN*	1.3686
EURUSD	1.1328	RUBPLN	0.0581
CHFPLN	3.7890	NOKPLN	0.4441
GBPPLN	5.0227	DKKPLN	0.5764
USDCNY	6.7175	SEKPLN	0.4097

*for 100HUF

Last session in the FX market 14/03/2019

	min	max	open	close	fixing
EURPLN	4.298	4.306	4.301	4.303	4.3015
USDPLN	3.792	3.811	3.805	3.809	3.8018
EURUSD	1.129	1.134	1.130	1.130	-

Interest rate market 14/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.61	0	7 lut 19	OK0521	1.493
PS0424 (5L)	2.22	1	7 lut 19	PS0424	2.158
DS1029 (10L)	2.87	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	2.65	0	-0.23	0
2L	1.80	1	2.57	0	-0.17	0
3L	1.86	1	2.51	0	-0.10	0
4L	1.93	1	2.49	0	0.00	1
5L	2.04	2	2.49	1	0.10	1
8L	2.26	1	2.57	1	0.40	1
10L	2.38	2	2.64	1	0.59	2

WIBOR rates

Term	%	Change (bps)
O/N	1.56	0
T/N	1.57	0
SW	1.56	0
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	1.72	0
9x12	1.72	0
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

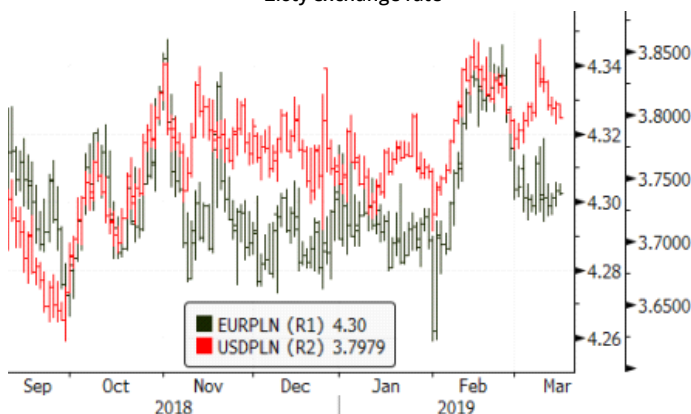
Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	3
France	29	1	0.38	0
Hungary			3.15	2
Spain	60	1	1.11	0
Italy	192	0	2.44	3
Portugal	69	0	1.25	1
Ireland	36	1	0.59	0
Germany	13	1	-	-

* 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



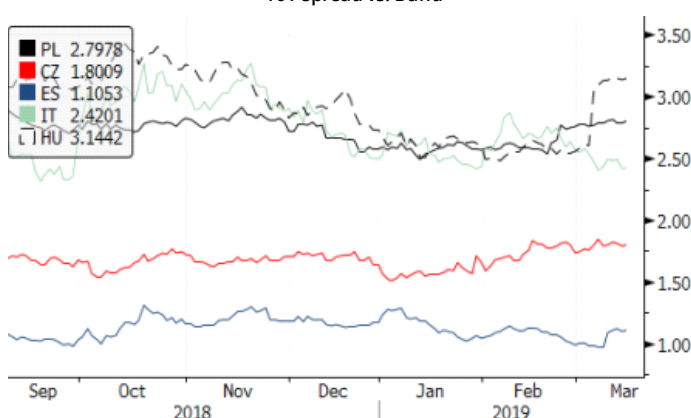
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (8 March)								
08:00	DE	Factory Orders	Jan	% m/m	0.5	-	-2.6	-1.6
09:00	HU	CPI	Feb	% y/y	2.9	-	3.1	2.7
14:30	US	Change in Nonfarm Payrolls	Feb	k	180.0	-	20.0	304.0
14:30	US	Housing Starts	Jan	% m/m	10.86	-	18.6	-11.2
14:30	US	Unemployment Rate	Feb	%	3.9	-	3.8	4.0
MONDAY (11 March)								
08:00	DE	Exports SA	Jan	% m/m	-0.5	-	0.0	1.5
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	-	-0.8	-0.4
09:00	CZ	CPI	Feb	% y/y	2.6	-	2.7	2.5
13:30	US	Retail Sales Advance	Jan	% m/m	0.0	-	0.2	-1.6
TUESDAY (12 March)								
13:30	US	CPI	Feb	% m/m	0.2	-	0.1	0.0
WEDNESDAY (13 March)								
11:00	EZ	Industrial Production SA	Jan	% m/m	0.5	-	1.4	-0.9
13:30	US	Durable Goods Orders	Jan	% m/m	-0.8	-	0.4	1.3
THURSDAY (14 March)								
08:00	DE	HICP	Feb	% m/m	0.5	-	0.5	0.5
13:30	US	Initial Jobless Claims	week	k	225	-	229	223
15:00	US	New Home Sales	Jan	% m/m	0.2	-	-6.9	3.8
FRIDAY (15 March)								
09:00	CZ	Industrial Production	Jan	% y/y	1.6	-	-1.1	1.0
10:00	PL	CPI	Feb	% y/y	1.2	1.2		0.9
11:00	EZ	HICP	Feb	% y/y	1.5	-		1.5
14:15	US	Industrial Production	Feb	% m/m	0.4	-		-0.58
15:00	US	Michigan index	Mar	pts	95.7	-		93.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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