

19 March 2019

# Eyeopener

## No vote today?

Markets calm awaiting Fed, procedural obstacle to third Brexit vote  
 Zloty and other CEE fx strengthened  
 Domestic bonds stable  
 Today Polish labour market data

Lack of major data releases and awaiting for tomorrow's FOMC decision as well as third meaningful vote which was supposed to be held today in the British Parliament caused that the market volatility was limited at the start of the week. Midday, John Bercow, the speaker of the House of Commons declared he does not allow for a third vote, unless the voted deal is markedly altered (and a change of Attorney General's opinion would not be enough). This did not, however, affect markets significantly, but the pound took some temporary hit. Stock indices went up, similarly as core bond yields. PM Theresa May is left with the option to ask other EU countries to delay Brexit date by a longer period, even 1 or 2 years at the Thursday summit. It is highly probable that the EU will allow for the extension, which helps markets stay calm, but if it does not happen, then no-deal Brexit would occur one week later.

**Core inflation** rose from 0.6% y/y in December to 0.8% in January and 1.0% in February. Core inflation ex food and energy is now already the highest in almost five years, and we expect it to climb to c2.5% by the end of the year. The March NBP inflation projection had core CPI climbing from 0.7% y/y on average in 4Q18 to c1.3% in 1Q19 (which would materialize if core inflation went to c2% y/y in March – our current forecast is 1.3%). This means the MPC was warned that there might be a significant rise of underlying inflation at the start of the year, but has not changed its tone. The NBP's three remaining measures of core inflation all rose in February in y/y terms but look relatively weak (below the levels seen over the course of 2018).

January's **Current Account Balance** was better than expected, showing a surplus of €2.3bn versus expectations at €1.6bn. The upward surprise was mostly due to low import growth, which expanded 2.2% y/y, while exports advanced 4.1% y/y. Exports outpaced imports for the first time since October 2017, which is quite puzzling given the deteriorating macro situation of Poland's main trading partners and still strong domestic demand in Poland. In our view, exports are likely to eventually reflect a deterioration of foreign demand, but it may happen somewhat later than anticipated. The positive export performance is supportive of a soft landing of the Polish economy, which we expect to grow 3.8% in 2019. In 2019, we believe the current account deficit is likely to remain very close to the level from 2018 (0.7% of GDP).

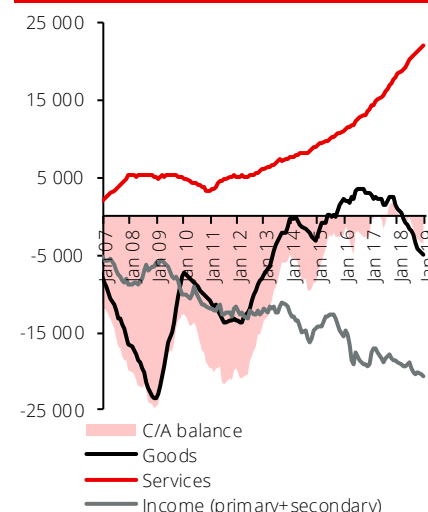
NBP report about situation on the **Polish real estate market** in 4Q18 showed a meaningful acceleration of apartment prices growth. The report mentions that the market is in a full bloom with a high supply of new apartments. According to the report, the growth of prices is generated by the shift of demand towards more expensive apartments as the government program of subsidizing cheaper ones for young people has ended. Transactional prices on the primary market of the seven biggest cities rose 9.5% y/y vs 6.5% y/y in 3Q while on the secondary market prices accelerated to 11.4% y/y from 9.9% y/y. In both cases, these were the highest readings since 2008. The authors of the report estimate that demand related to investment activity constitutes a historically high 40% of the total demand and 69% of apartments were purchased for cash (as far as apartments bought from developers are concerned). Our measure of apartment availability (defined as a relation of prices per square meter and average wage) fell again. The report revealed also that prices of building plots rose and costs related to raising apartments increased.

**EURUSD** was on the rise since the beginning of the day and reached the session peak at 1.136. The upside move was fueled by stock indexes rising at the opening but there was not strong desire for the exchange rate to rise amid uncertainty ahead of the FOMC meeting. As a result, the exchange rate soon moved towards the opening level. Today in the morning EURUSD is back close to 1.135.

Yesterday **EURPLN** fell to 4.29 and **USDPLN** to 3.783 thanks to positive global moods and a temporary rebound in EURUSD. PLN and other CEE currencies started to gain at the very end of the Polish session. It seems that during the last hours of trading the market was more and more convinced that the lack of third meaningful vote does not trigger any additional risk of no-deal Brexit. In our view, this gives EURPLN some space to go down.

On the **domestic interest rates**, bond yields did not change much and were oscillating slightly below the Friday close. Final decisions on Brexit should be crucial for the bond market. A significant lowering or removal of no-deal Brexit risk (we will get to know more at the 21-22 March EU summit) could be bond-positive, lowering the credit risk.

Balance of payments: main balances (12m moving sum)



Source: NBP, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2886	CZKPLN	0.1675
USDPLN	3.7774	HUFPLN*	1.3666
EURUSD	1.1353	RUBPLN	0.0588
CHFPLN	3.7778	NOKPLN	0.4420
GBPPLN	5.0113	DKKPLN	0.5747
USDCNY	6.7165	SEKPLN	0.4092

\*for 100HUF

### Last session in the FX market 18/03/2019

	min	max	open	close	fixing
EURPLN	4.289	4.310	4.297	4.289	4.2993
USDPLN	3.782	3.804	3.798	3.787	3.7876
EURUSD	1.132	1.136	1.133	1.133	-

## Interest rate market 18/03/2019

### 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)	2.21	-2	7 lut 19	PS0424	2.158
DS1029 (10L)	2.88	-1	7 lut 19	DS1029	2.820

### IRS on the interbank market\*\*

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	2.66	1	-0.22	0
2L	1.80	0	2.57	1	-0.17	0
3L	1.85	-1	2.50	1	-0.10	0
4L	1.94	0	2.47	1	-0.01	0
5L	2.03	-1	2.48	1	0.09	-1
8L	2.24	-2	2.55	1	0.38	-1
10L	2.37	-1	2.62	1	0.57	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.57	1
T/N	1.58	1
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	-1
6x9	1.72	0
9x12	1.72	-1
3x9	1.79	0
6x12	1.78	-1

### Measures of fiscal risk

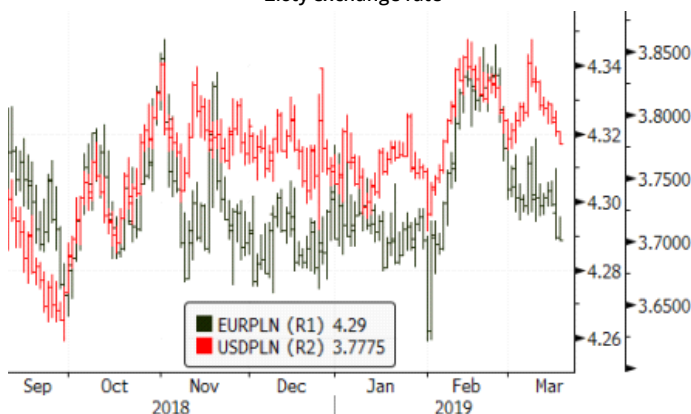
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	-1
France	28	2	0.37	0
Hungary			3.03	-2
Spain	59	-1	1.07	-1
Italy	188	1	2.37	0
Portugal	69	-1	1.17	0
Ireland	36	1	0.59	0
Germany	12	1	-	-

\* 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



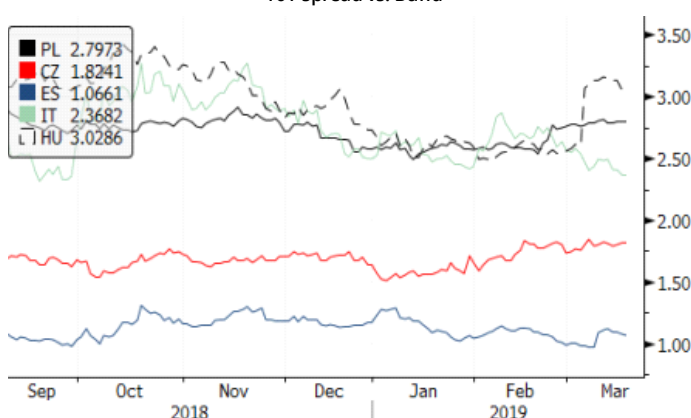
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (15 March)								
09:00	CZ	Industrial Production	Jan	% y/y	1.6	-	-1.1	-1.4
10:00	PL	CPI	Feb	% y/y	1.2	1.2	1.2	0.9
11:00	EZ	HICP	Feb	% y/y	1.5	-	1.5	1.4
14:15	US	Industrial Production	Feb	% m/m	0.4	-	0.1	-0.4
15:00	US	Michigan index	Mar	pts	95.7	-	97.8	93.8
MONDAY (18 March)								
14:00	PL	CPI Core	Feb	% y/y	1.0	1.0	1.0	0.8
14:00	PL	Current Account Balance	Jan	€mn	1 741	1 559	2 316	-1 400
14:00	PL	Trade Balance	Jan	€mn	-242	-493	279	-1 340
14:00	PL	Exports	Jan	€mn	18 694	18 694	18 492	16 005
14:00	PL	Imports	Jan	€mn	18 666	19 187	18 214	17 345
TUESDAY (19 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	2.9	2.9		2.9
10:00	PL	Average gross wages	Feb	% y/y	7.2	7.5		7.5
11:00	DE	ZEW Survey Current Situation	Mar	pts	13.0	-		15.0
15:00	US	Factory Orders	Jan	% m/m	0.3	-		0.1
WEDNESDAY (20 March)								
10:00	PL	Sold Industrial Output	Feb	% y/y	4.9	5.1		6.1
10:00	PL	PPI	Feb	% y/y	2.8	2.8		2.2
19:00	US	FOMC decision		%	2.5	-		2.5
THURSDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	4.5	8.0		3.2
10:00	PL	Retail Sales Real	Feb	% y/y	5.6	-		5.2
13:30	US	Initial Jobless Claims	week	k	225	-		229
13:30	US	Index Philly Fed	Mar	pts	4.0	-		-4.1
FRIDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	48.1	-		47.6
09:30	DE	Markit Germany Services PMI	Mar	pts	54.85	-		55.3
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.5	-		49.3
10:00	EZ	Eurozone Services PMI	Mar	pts	52.5	-		52.8
14:00	PL	Money Supply M3	Feb	% y/y	9.1	9.1		8.8
15:00	US	Existing Home Sales	Feb	% m/m	3.24	-		-1.2

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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