

20 March 2019

Eyeopener

Waiting for updated Fed forecasts

Markets slightly nervous due to US-China trade talks
 Zloty added to recent appreciation
 Domestic debt under pressure due to higher core yields
 Today Polish output data, FOMC decision in the evening

Market moods were quite positive on Tuesday. It seems that after last information from the United Kingdom investors are more and more certain that the Prime Minister Theresa May will be granted a long delay of Brexit. Yesterday, the pound was stable, while the euro gained versus the dollar, which – together with rising stock market – was positive for CEE currencies. Euro zone core and peripheral debt lost due to general market optimism and rise in ZEW expectations index, which climbed for the fifth month in a row. However, the current situation indicator fell for the sixth straight month, to the lowest level since December 2014. During the last months, we got to see some signals suggesting that the euro zone economic slowdown visible since start of 2018 may be ending, but in general so far the data were ambiguous. Yesterday US data were slightly worse than expected. Market sentiments deteriorated overnight due to news that China is questioning arrangements made so far during trade talks with the USA. Bloomberg reported that, according to persons close to the negotiation process, instead of delaying Brexit, the EU will allow for the third vote of the deal before 29 March (the current Brexit date). Depending on the vote outcome, a new date will be approved by the EU, probably without a need to organize a new summit (it takes a unanimous approval of all other EU countries to delay Brexit). Still, the UK has to state clearly what is the purpose of the delay.

Today in the evening FOMC will announce its decision about the interest rates. After the US central bank softened the tone significantly in January, there is a consensus that in March Fed interest rates will stay unchanged. Council's members will have an updated economic forecasts at their disposal. We do not expect any further change in the bank's rhetoric that is quite dovish already. The market is pricing rate cuts in the US next year which is unjustified, in our view.

In Poland in February, **wages advanced by 7.6% y/y and employment by 2.9% y/y**, in line with our expectations. In our view, wage growth should remain quite strong this year, supported by labour force squeeze. At the same time, employment growth should be slowing down given signals of weaker inflow of immigrant workers. High growth of households' disposable incomes will be supportive for consumption, which is likely to remain the main growth driver, especially in 2H19, when new social benefits are disbursed.

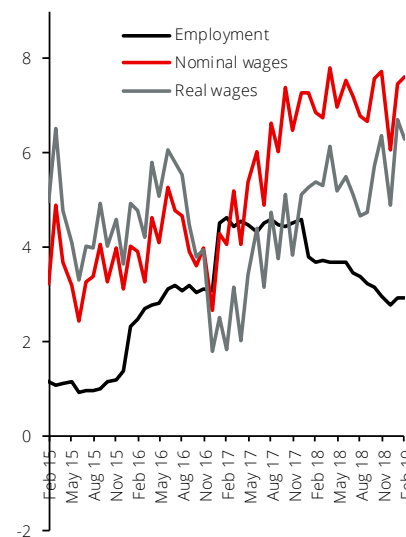
EURUSD broke Monday's peak slightly but did not continue the up move waiting how the Brexit case will evolve and for the today's FOMC decision.

EURPLN fell yesterday for the third session in a row benefiting from the decent global market mood and rising EURUSD. The exchange rate reached 4.285, the level last time seen in late January just before the FOMC decision. Back then, the surprising dovish shift in the US central bank rhetoric pushed EURPLN sharply down to 4.26 but soon the zloty started to depreciate amid worries about "hard Brexit", among others. We do not expect outcome of the today's FOMC meeting to trigger such noticeable moves like six weeks ago as the market is already expecting a dovish message.

In case of the **other CEE currencies**, the forint continued to gain vs the euro fueled by expectations that next week the Hungarian central bank will start monetary policy normalisation process and thanks to the positive global market sentiment. The koruna and ruble stabilized after the recent appreciation.

On the **domestic interest rate market** IRS and bond yields were on the rise driven by changes observed on the core and euro zone peripheral markets. Both Polish curves steepened. Today Poland February industrial output data will be released and our forecast is above market consensus. The release is likely to show a deceleration of the annual pace of growth vs January confirming that economic activity has cooled somewhat at the beginning of the year. As a result, domestic data shall not generate an upside pressure on yields.

Labour market statistics, % y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2851	CZKPLN	0.1671
USDPLN	3.7758	HUFPLN*	1.3693
EURUSD	1.1349	RUBPLN	0.0587
CHFPLN	3.7757	NOKPLN	0.4426
GBPPLN	4.9975	DKKPLN	0.5742
USDCNY	6.7039	SEKPLN	0.4102

*for 100HUF

Last session in the FX market 19/03/2019

	min	max	open	close	fixing
EURPLN	4.286	4.295	4.289	4.287	4.294
USDPLN	3.774	3.787	3.787	3.776	3.7823
EURUSD	1.133	1.136	1.133	1.135	-

Interest rate market 19/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.62	1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.23	2	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	2.65	-1	-0.22	0
2L	1.80	0	2.57	0	-0.17	0
3L	1.85	0	2.50	0	-0.09	0
4L	1.94	0	2.48	0	0.00	1
5L	2.03	0	2.48	0	0.10	1
8L	2.25	0	2.55	0	0.40	2
10L	2.37	0	2.62	0	0.59	2

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.58	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	1.71	0
9x12	1.72	0
3x9	1.79	0
6x12	1.78	1

Measures of fiscal risk

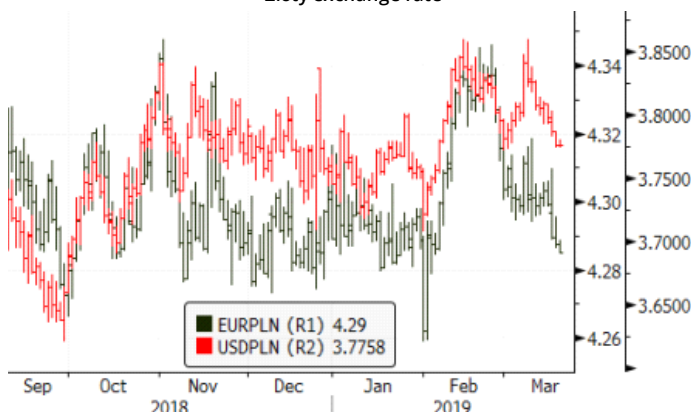
Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	2
France	26	7	0.37	0
Hungary			3.02	0
Spain	58	5	1.07	0
Italy	187	7	2.40	0
Portugal	66	8	1.20	0
Ireland	36	4	0.59	0
Germany	11	2	-	-

* 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



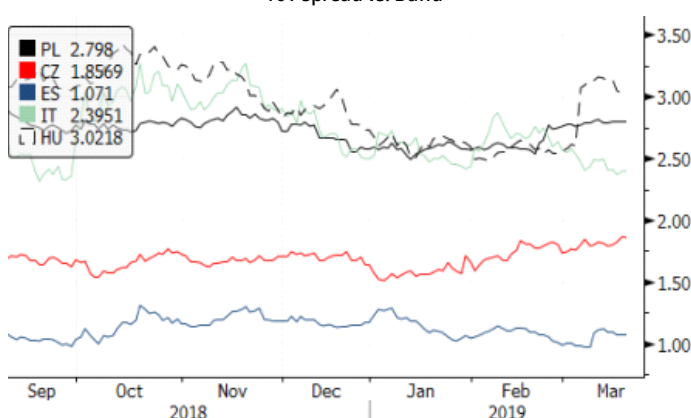
T-bonds yields



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	0.7
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	2.9
10:00	PL	Average gross wages	Feb	% y/y	7.2	7.5	7.6	7.5
11:00	DE	ZEW Survey Current Situation	Mar	pts	13.0	-	11.1	15.0
15:00	US	Factory Orders	Jan	% m/m	0.3	-	0.1	0.1
WEDNESDAY (20 March)								
10:00	PL	Sold Industrial Output	Feb	% y/y	4.8	5.1		6.1
10:00	PL	PPI	Feb	% y/y	2.7	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	5.0		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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