

21 March 2019

Eyeopener

Fed resigns from rate hikes

UK government wants to delay Brexit until 30 June
 Fed more dovish than markets expected
 Zloty up on strong Polish data, other CEE fx under pressure
 Significant strengthening of core bonds after Fed
 Today Polish retail sales and construction output, US data

The yesterday's event of the day was the PM Theresa May's request to the EU to delay Brexit until June 30. The market reaction to only three-month extension was negative – the pound started depreciating and equities in Europe fell. In the evening Donald Tusk stated that in light of consultations with EU member states, the short extension is possible but only if the Brexit deal is approved by the House of Commons next week. It means that at today's EU summit the decision about extension is not likely to be finalised, while the risk of no-deal Brexit has increased somehow. In these circumstances, the zloty was the only CEE currency that gained yesterday, due to strong production data. The Fed meeting in the evening caused a significant strengthening of Treasuries and weakened the dollar.

FOMC exceeded expectations, withdrawing from both interest rate hikes planned for this year. The GDP forecast for 2019 and 2020 was revised down and inflation forecast still suggests that the target should be met in the next two years. The statement underscored strong fundamentals of the US economy, but also its slowdown in 4Q18 and mixed picture shown by recent data. Jerome Powell announced patient waiting for the incoming data.

Poland's **central budget** showed a deficit of PLN0.8bn after February vs PLN6.6bn surplus in January. Deterioration of central budget results is typical for February but this time it was larger (PLN7.4bn) than in 2016-2018 on average (PLN5.0bn). Tax receipts rose at a healthy rate (VAT +9% y/y, CIT +14.5% y/y in February alone) with an exemption of VAT, which declined by 12% y/y in February. We do not find it worrying: recently the Finance Ministry developed a habit of accelerating/delaying VAT returns at the turn of the year. This is distorting the statistics and makes them difficult to interpret. Note that in December VAT receipts jumped by over 60% y/y, so a downward correction in another month should not be surprising. We think that budget deficit at the end of this year could be close to the planned PLN28.5bn. Chances for lower budget gap have been undermined by the announced new PiS spending package.

Polish **industrial output** expanded by 6.9% y/y in February, beating market expectations at 4.8% y/y. Manufacturing output rose 7.0% y/y, especially from export-oriented sectors like transport vehicles, electronic devices or chemicals. Output of investment goods rose by 8.8% y/y and supply goods by 8.7%. A considerable positive contribution was delivered by mining (0.5pp to headline) but this was likely due to reducing inventories rather than higher production. Polish industry remains puzzlingly robust to slowdown in the euro zone and 1Q19 is likely to show GDP growth markedly above 4% y/y.

wPolityce website reported that finance minister Teresa Czerwińska allegedly submitted a resignation after PiS announced its fiscal package. Spokesman of the ministry denied it. As we already signalled, fitting the new spending plan into the budget framework determined by the fiscal spending rule and EU limits could be a real challenge, particularly in 2020.

EURUSD EURUSD jumped to 1.144 in reaction to the outcome of the FOMC meeting after a calm session when it was hovering around 1.135.

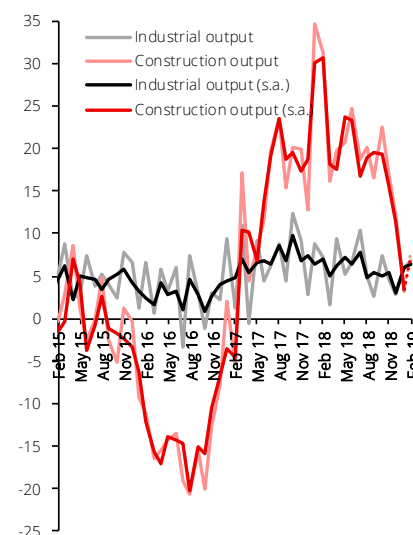
EURPLN eased to 4.28 and USDPLN to 3.765 thanks to the robust Polish macro data. Dovish Fed allowed the exchange rates to stay low despite the further complications of the Brexit issue.

In case of the **other CEE currencies**, EURHUF jumped to 313.8 from 312.6 after the PM Orban said that Fidesz could leave the European conservative group if his party is suspended. EURCZK climbed to 25.66 from 25.6 amid worries related to Brexit.

On the **domestic debt market** yields decreased by 1-2bp - today we see room for more decline after yesterday evening rally on core market bonds, on the FOMC message.

Fitch rating agency revised its Polish GDP growth forecast for 2019 up to 4.0% y/y from 3.8% (shown in December 2018) and to 3.5% y/y from 3.0% y/y for 2020. The change of forecasts was a reaction to the fiscal package. Fitch no longer expects changes in central bank interest rates until the end of 2020 (previously the agency had 2.50% in 2020, vs the current 1.50%). Fitch scheduled Poland's rating review for 29 March.

Output growth, %y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2825	CZKPLN	0.1670
USDPLN	3.7521	HUFPLN*	1.3633
EURUSD	1.1414	RUBPLN	0.0589
CHFPLN	3.7811	NOKPLN	0.4419
GBPPLN	4.9460	DKKPLN	0.5738
USDCNY	6.6833	SEKPLN	0.4111

*for 100HUF

Last session in the FX market 20/03/2019

	min	max	open	close	fixing
EURPLN	4.281	4.289	4.287	4.283	4.2864
USDPLN	3.767	3.781	3.776	3.771	3.7767
EURUSD	1.134	1.137	1.135	1.136	-

Interest rate market 20/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.62	0	7 lut 19	OK0521	1.493
PS0424 (5L)	2.21	-2	7 lut 19	PS0424	2.158
DS1029 (10L)	2.88	-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	1.79	-1	2.55	-1	-0.17	0
3L	1.84	-2	2.49	-2	-0.09	0
4L	1.91	-2	2.46	-2	0.00	0
5L	2.00	-3	2.46	-2	0.09	-1
8L	2.22	-3	2.53	-2	0.39	-1
10L	2.34	-3	2.59	-2	0.58	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.58	0
SW	1.55	-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	1.72	0
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

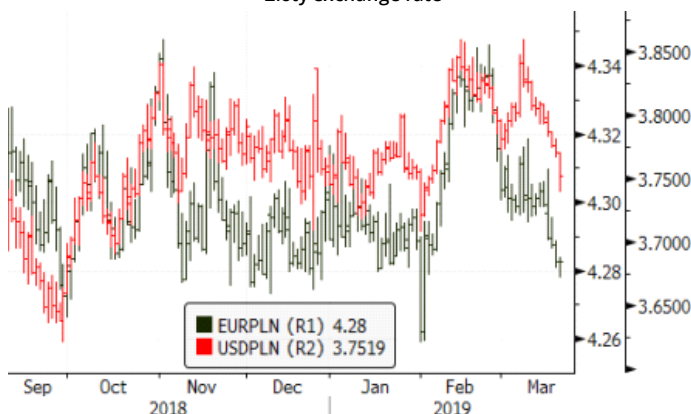
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.83 2
France	29 -1	0.38 1
Hungary		3.00 -3
Spain	60 0	1.09 1
Italy	195 2	2.43 -1
Portugal	71 -3	1.25 2
Ireland	39 -2	0.60 0
Germany	13 -1	- -

* 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



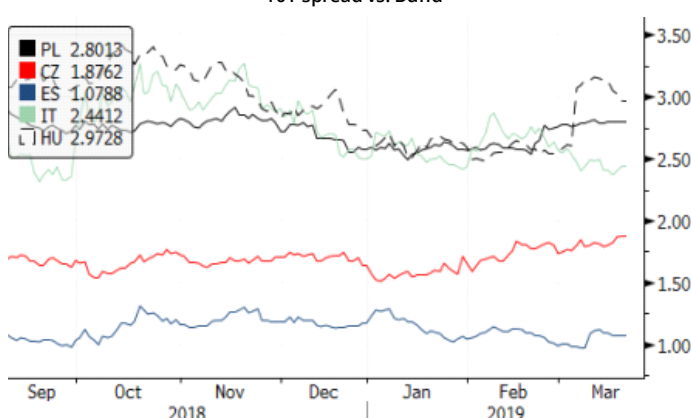
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					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	6,9	6.1
10:00	PL	PPI	Feb	% y/y	2.7	2.8	2,9	2.2
19:00	US	FOMC decision		%	2.5	-		2.5
THURSDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	4.9	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	4.8	-		-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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