

29 March 2019

Eyeopener

The day the Brexit was to be

Poor US data, bonds give up part of gains

Zloty stable waiting for the trigger, CEE currencies a little weaker

Today: flash CPI in Poland, Fitch revises Polish rating, a lot of US data

During the Thursday session there were small increases on stock exchanges, which encouraged investors to take profit from the Wednesday solid rise of bond prices. The euro lost vs the dollar for a third session, which weighed on CEE fx. The final reading of US 4Q GDP growth disappointed slightly, by showing 2.2% vs the previous estimate of 2.6% and 2.3% market expectations. German inflation was also lower than expected. However, today's German retail sales reading was a big positive surprise, confirming that domestic demand remains the strong point of the largest European economy.

EURUSD fell yesterday to almost 1.12 due to Wednesday signals from the ECB. The dollar appreciation halted in the second half of the day after weaker-than-expected data on the US GDP. Today we will get to see new US data and the market will be vulnerable to news from the United Kingdom. The exchange rate is currently only slightly above this year's down at 1.117 recorded at the start of the month.

Yesterday **EURPLN** climbed to 4.30 and **USDPLN** to 3.83 and both rates were slightly below these levels at the end of the day. **EURPLN** remains in range set by minimum and maximum from the last Friday. We do not expect the inflation data or the Fitch rating review to affect the trade markedly, global factors are likely to be key and they will set a direction for **EURUSD**.

In case of the other CEE currencies, the session evolved similarly to changes recorded for **EURPLN** – after the morning depreciation, the koruna and forint gained temporarily after the below-consensus US GDP data. The ruble was under pressure for the whole day due to a noticeable drop of the oil price. The Czech central bank kept interest rates unchanged with the main rate still at 1.75%. Bank's governor Jiri Rusnok said that rates could remain unchanged or rise by no more than 50bp this year.

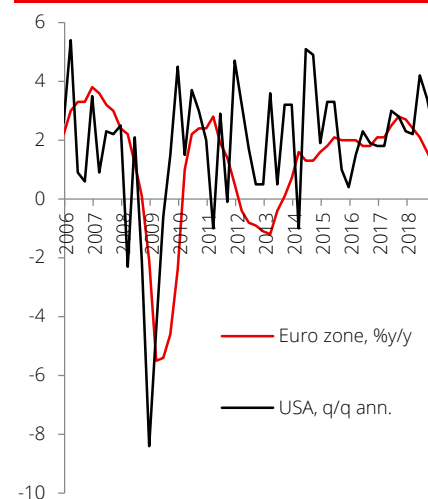
On the domestic interest rate market yields moved fractionally up amid bond weakening seen abroad. Still, Polish debt outperformed its core and euro zone peripheral peers. Our forecasts of the March flash CPI is in line with the market consensus and so we do not expect this reading could have a meaningful market impact.

Today at 10:00CET the stat office will release flash March CPI. We expect inflation rose to 1.6% y/y due to the low base effect in services prices. However, that reading would confirm our scenario of a gradual inflation rise this year.

Today in the evening, Fitch could releases a review of the Polish credit rating. The Agency will likely keep the rating and its outlook unchanged but the statement could elaborate more on the fiscal spending plan recently announced by the government. An initial comment was released in early March and suggested a clear deviation from fiscal consolidation path. Since then, the analysis could have broadened which might have been reflected by the upside GDP growth forecast revision by Fitch announced last week. At the occasion of the previous rating review in October, agency analysts stated that "any signals that the relevance of the 3% of GDP EU deficit criteria weakens as a fiscal anchor" could have a negative impact on the rating. We cannot exclude that the today's statement would underline this even more. The change of the tone without a change of rating outlook shall not trigger any meaningful market reaction.

Today, on the day that was supposed to be the last day of the UK membership in the EU, the British parliament is expected to take third attempt to accept the **Brexit deal** negotiated by the government. Chances for a successful vote are still low because the DUP party is still against it. If the vote is lost, we will head towards hard Brexit on April 12 unless some additional action is taken at the very last moment – there will be a motion for a long extension or to abandon Brexit.

GDP growth



Source: Bloomberg, 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	4.2943	CZKPLN	0.1663
USDPLN	3.8233	HUFPLN*	1.3394
EURUSD	1.1232	RUBPLN	0.0590
CHFPLN	3.8400	NOKPLN	0.4432
GBPPLN	4.9825	DKKPLN	0.5753
USDCNY	6.7200	SEKPLN	0.4122

*for 100HUF

Last session in the FX market 28/03/2019

	min	max	open	close	fixing
EURPLN	4.291	4.301	4.292	4.296	4.2998
USDPLN	3.810	3.832	3.813	3.824	3.8202
EURUSD	1.121	1.127	1.125	1.124	-

Interest rate market

28/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.67	1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.16	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.81	1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.72	2.52	-0.23
2L	1.76	2.34	-0.21
3L	1.79	2.25	-0.15
4L	1.85	2.23	-0.07
5L	1.91	2.23	0.01
8L	2.10	2.31	0.28
10L	2.21	2.37	0.46

WIBOR rates

Term	%	Change (bps)
O/N	1.52	0
T/N	1.53	1
SW	1.54	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	1.71	0
6x9	1.71	0
9x12	1.71	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.87	0
France	31	-1	0.38	0
Hungary			2.93	4
Spain	64	-1	1.16	0
Italy	208	-1	2.54	-1
Portugal	74	-1	1.33	-1
Ireland	38	1	0.61	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



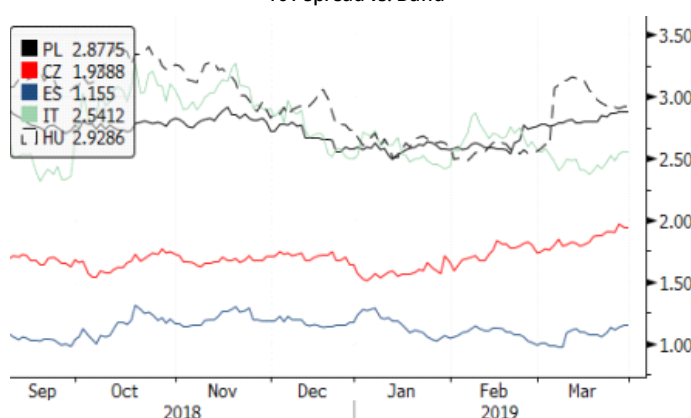
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
THURSDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	4.9	8.0	15.1	3.2
10:00	PL	Retail Sales Real	Feb	% y/y	5.6	5.0	5.6	6.1
13:30	US	Initial Jobless Claims	week	k	225	-	221	230
13:30	US	Index Philly Fed	Mar	pts	4.8	-	13.7	-4.1
FRIDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	48.0	-	44.7	47.6
09:30	DE	Markit Germany Services PMI	Mar	pts	54.8	-	54.9	55.3
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.5	-	47.6	49.3
10:00	EZ	Eurozone Services PMI	Mar	pts	52.7	-	52.7	52.8
14:00	PL	Money Supply M3	Feb	% y/y	9.0	-	9.8	8.8
15:00	US	Existing Home Sales	Feb	% m/m	3.2	-	11.8	-1.2
MONDAY (25 March)								
10:00	DE	IFO Business Climate	Mar	pts	98.5	-	99.6	98.5
10:00	PL	Unemployment Rate	Feb	%	6.1	6,1	6.1	6.1
TUESDAY (26 March)								
13:30	US	Housing Starts	Feb	% m/m	-1.6	-	-8,7	11.7
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
15:00	US	Consumer Conference Board	Mar	pts	132.5	-	124.1	131.4
WEDNESDAY (27 March)								
No important releases								
THURSDAY (28 March)								
11:00	EZ	ESI	Mar	pct.	-	-	105.5	106.2
13:00	CZ	Central Bank Rate Decision		%	1.88	-	1.75	1.75
13:30	US	GDP Annualized	4Q	% Q/Q	2.35	-	2.2	2.6
13:30	US	Initial Jobless Claims	week	k	225	-	211	216
14:00	DE	HICP	Mar	% m/m	0.0	-	0.4	0.4
15:00	US	Pending Home Sales	Feb	% m/m	0.5	-	-1.0	4.3
FRIDAY (29 March)								
	PL	Fitch Rating Review						
8:00	DE	Retail Sales	Feb	% m/m	-1.0	-	0.9	2.9
10:00	PL	CPI	Mar	% y/y	1.6	1.6		1.2
13:30	US	Personal Spending	Feb	% m/m	0.3	-		0.6
13:30	US	Personal Income	Feb	% m/m	0.3	-		-0.1
13:30	US	PCE Deflator SA	Jan	% m/m	0.02	-		0.1
15:00	US	Michigan index	Mar	pts	97.7	-		97.8
15:00	US	New Home Sales	Feb	% m/m	2.1	-		-6.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.