26 April 2019

Eyeopener

Bonds sell-off after poor auction

FX market calm, profit taking on the bonds market
Poor domestic bonds auction
Today important US data

The Thursday session was much quieter than the previous days. The yen was an exception, gaining visibly against the euro and the dollar after the Bank of Japan meeting. Bond yields of euro zone peripheral countries rose significantly after last days' declines, while Bunds and Treasuries were stable. In the USA, weekly jobless claims data were worse than expected (having surprised positively several times in recent weeks) while durable goods orders surprised positively. Taken together, the readings were mixed and have not affected the market much.

The government decided on Wednesday to drop the „entrepreneur testing" – one of the elements of the Convergence Programme Update, expected to secure PLN1.2bn budget revenues per annum. The test was aimed at eliminating "fake" self-employment. According to the government, this decision does not mean that curbing "fake" self-employment is not the policy target, but it will be achieved with use of available instruments and there is no need to create new ones.

In the first part of the session, **EURUSD** continued the downward trend and reached 1.111, the lowest level since mid-May 2017. In the second part of the day the rate corrected to 1.115. Today we will get to see new US data, especially the advanced GDP reading for 1Q19. This number is likely to determine the development of EURUSD at the end of the week.

EURPLN reached its fresh weekly high at 4.30 in the morning but later in the day the exchange rate retreated to c4.29. The pace of USDPLN rise faded as well – the exchange rate temporarily broke the local peaks from February and March it climbed to its highest since May 2017 at 3.865. Swings of EURUSD have recently been important driver for EURPLN and we expect this will hold today.

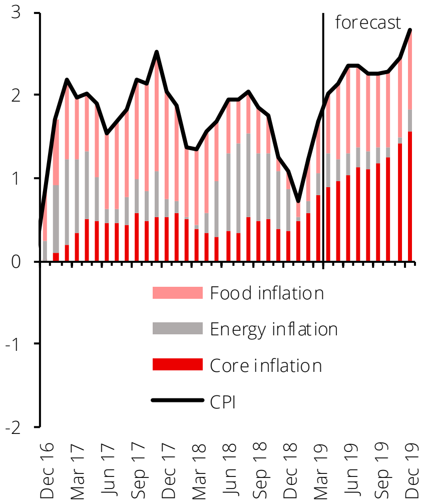
In case of the other CEE currencies, the forint and ruble remained under pressure despite rise of the oil price and pause in the dollar appreciation. EURHUF broke the local peak from mid-April and reached its highest level since mid-January. The koruna was stable awaiting the next week's Czech central bank meeting.

On the domestic interest rate market IRS and yields rose by 1-3bp in response to the sell-off on the euro zone peripheries and weaker than one would expect result of the Polish bond auction (details below). Upside move was fuelled also by the further rise of the oil prices that spurred concerns about faster increase of inflation. Today, Polish market should be under the impact of the core debt reaction to the US data.

The Ministry of Finance sold bonds for nearly PLN6bn (at the upper end of the planned supply) amid demand at PLN8bn. According to the Ministry, after the yesterday's auction this year's gross borrowing needs are now covered in 70%. We expected that the buyback of OK0419 (more than PLN8bn) would result in a bigger demand at the auction.

Yesterday, we released our April MACROscope where we write about emerging inflationary factors, nearing European Parliament elections and what could happen on the Polish FX and FI markets in the coming weeks..

Structure of inflation, %y/y.



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2904	CZKPLN	0.1668
USDPLN	3.8501	HUFPLN*	1.3322
EURUSD	1.1144	RUBPLN	0.0595
CHFPLN	3.7741	NOKPLN	0.4446
GBPPLN	4.9707	DKKPLN	0.5746
USDCNY	6.7350	SEKPLN	0.4045

*for 100HUF

Last session in the FX market 25/04/2019

	min	max	open	close	fixing
EURPLN	4.290	4.300	4.296	4.292	4.2959
USDPLN	3.846	3.865	3.850	3.854	3.8537
EURUSD	1.112	1.117	1.116	1.114	-

Interest rate market 25/04/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.59	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.24	3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.92	3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	1	2.56	1	-0.23	0
2L	1.86	2	2.43	1	-0.20	1
3L	1.93	3	2.36	1	-0.14	1
4L	2.03	4	2.35	1	-0.06	1
5L	2.12	3	2.36	1	0.03	1
8L	2.35	3	2.45	1	0.32	1
10L	2.48	4	2.52	1	0.51	1

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-2
T/N	1.58	-1
SW	1.56	0
2W	1.57	-1
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.75	0
9x12	1.76	0
3x9	1.79	0
6x12	1.82	0

Measures of fiscal risk

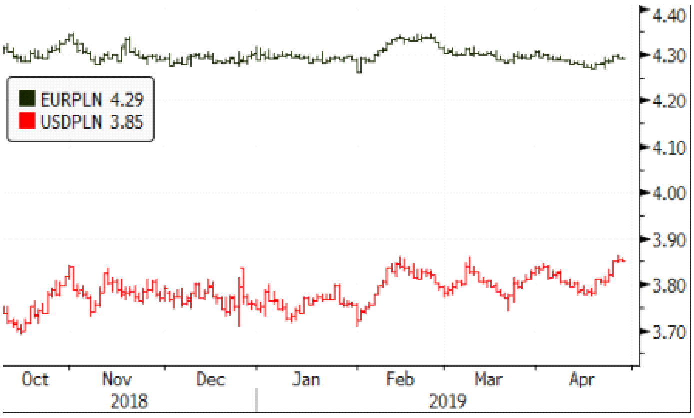
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.93	4
France	29	0	0.38	0
Hungary			3.25	0
Spain	59	2	1.10	0
Italy	199	4	2.70	0
Portugal	65	4	1.19	0
Ireland	33	0	0.57	1
Germany	13	-1	-	-

* 10Y treasury bonds over 10Y Bunds

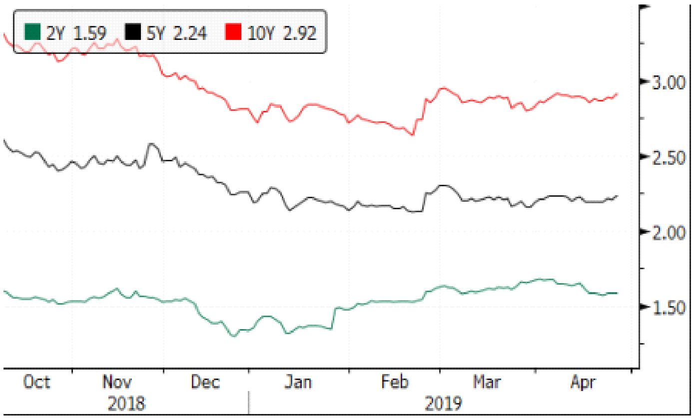
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

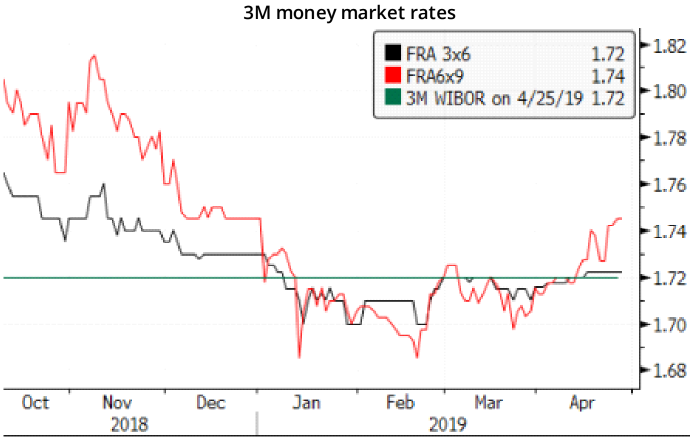
Zloty exchange rate



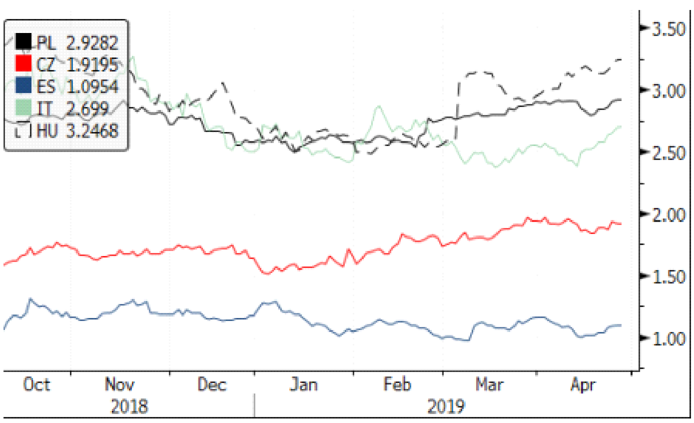
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (19 April)					
14:30	US	Housing Starts	Mar	% m/m	5.8	-	-0.3	-12.0
			MONDAY (22 April)					
16:00	US	Existing Home Sales	Mar	% m/m	-3.8	-	-4.9	11.2
			TUESDAY (23 April)					
10:00	**PL**	**Retail Sales Real**	**Mar**	**% y/y**	**2.7**	**1.4**	**1.8**	**5.6**
14:00	**PL**	**Money Supply M3**	**Mar**	**% y/y**	**9.6**	**9.9**	**9.9**	**9.8**
16:00	US	New Home Sales	Mar	% m/m	-3.3	-	4.5	5.9
			WEDNESDAY (24 April)					
10:00	DE	IFO Business Climate	Apr	pts	99.9	-	99.2	99.7
10:00	**PL**	**Construction Output**	**Mar**	**% y/y**	**9.0**	**10.6**	**10.8**	**15.1**
10:00	**PL**	**Unemployment Rate**	**Mar**	**%**	**5.9**	**5.9**	**5.9**	**6.1**
			THURSDAY (25 April)					
11:00	**PL**	**Bond auction**						
14:30	US	Durable Goods Orders	Mar	% m/m	0.8	-	2.7	-1.61
14:30	US	Initial Jobless Claims	week	k	200	-	230	193
			FRIDAY (26 April)					
14:30	US	GDP Annualized	1Q	% Q/Q	2.3	-		2.2
16:00	US	Michigan index	Apr	pts	97.0	-		96.9

Source: Santander Bank Polska. Bloomberg, Parkiet
** in case of the revision the data is updated*

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