

29 April 2019

Eyeopener

Bonds gain after US data

Strong headline but poor details of the US GDP

Zloty and dollar lose vs the euro

Polish and core bonds gain

Today US inflation

On Friday, the first estimate of the US 1Q GDP was released with the main figure coming much stronger than expected (3.2% q/q annualised vs consensus at 2.3%). However the growth structure was a disappointment, and so was the GDP deflator. As a result, the bond yields and IRS rates fell on core markets and in Poland, with lower oil prices supporting the move. The US data release had a negative influence on the dollar while the zloty weakened vs the euro despite EURUSD going up.

Fitch agency said that the OFE overhaul, announced after the March Fitch rating overview, is neutral for Poland's credit score. It was noted that changes in the pension system mitigate the risk of deficit exceeding 3% of GDP in 2019 and 2020.

EURUSD trimmed part of the down move posted on the previous days. The dollar weakened due to US GDP data, which proved to be higher than expected, but its breakdown disappointed. As a result, EURUSD climbed to 1.116 from 1.114. Today in the afternoon, we will get to see important US data – April consumer income and spending as well as inflation. These reading are likely to affect the exchange rate at the start of the week but its impact is unlikely to be major, given the Wednesday FOMC decision and Friday monthly data from the US labour market. Last week, EURUSD set a new minimum of the year but so far the dollar appreciation is not continued.

EURPLN was going down for the better part of the day, as the zloty was supported by the improved market sentiment. In the afternoon, EURPLN rebounded above the opening level due to weaker US data, which fuelled worries about global growth prospects. As a result, at the end of the day the exchange rate was at 4.295. EURPLN stabilised after a rise in the first half of the last week and we are expecting no significant changes for today.

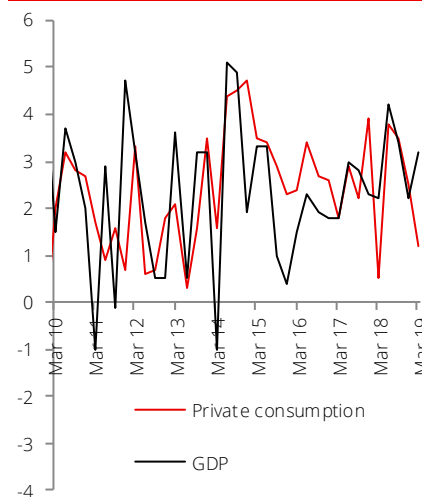
In the CEE region, EURHUF was hovering around 322.10 and did not respond to swings in global moods. EURCZK went down to 25.70 from 25.75, as the koruna was backed by return of expectations for a rate hike on Thursday. USDRUB jumped to 64.80 from 64.60 due to lower oil prices. Additionally, the ruble was hit by wording of the Russian central bankers, who decided to keep rates unchanged and suggested that cuts are possible in 2Q or 3Q19 (two months ago the market was pricing hikes).

On the domestic interest rate market, yields declined by 1bp and IRS rates by 2-3bp in the 5-10Y segment. The reason for the move were lower oil prices and the declines of yields on core markets after the release of US GDP data. Today we expect the yields to fall further.

Poland early May's traditional "long-weekend" is characterized by thin liquidity on the Polish market. **However, in this week**, we will see important data, particularly from the USA. In early May, the April manufacturing ISM and monthly nonfarm payrolls will be released. The former stabilized in early 2019 after a decline recorded in 2H18 while the latter recovered after a poor February. In the meantime, the FOMC will hold a meeting. In late March, the Committee removed two rate hikes previously planned for 2019. The tone of the statement is likely to remain dovish but likely the rhetoric should not be softened further. In Poland, we will see flash April CPI that according to our forecasts has further gone up and reached 2% y/y.

EURPLN retreated from the lower end of the 4.26-4.34 range in which it had been holding since August and we expect the gradual upside move to continue in the weeks to come. Next week could be volatile on the core and Polish debt market. There seems to be a chance for a positive surprise in the nonfarm payrolls that could pressure bonds. Polish CPI release, together with the recently less dovish comments of the Polish MPC members might generate an upside pressure on the rates on the front end of the curve.

US economic growth, %q/q ann.



Source: Bloomberg, Santander Bank Polska

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2958 | CZKPLN | 0.1671 |
| USDPLN | 3.8500 | HUFPLN* | 1.3325 |
| EURUSD | 1.1158 | RUBPLN | 0.0595 |
| CHFPLN | 3.7759 | NOKPLN | 0.4433 |
| GBPPLN | 4.9808 | DKKPLN | 0.5754 |
| USDCNY | 6.7297 | SEKPLN | 0.4047 |

*for 100HUF

Last session in the FX market 26/04/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.287 | 4.298 | 4.292 | 4.297 | 4.2906 |
| USDPLN | 3.840 | 3.860 | 3.854 | 3.854 | 3.8508 |
| EURUSD | 1.111 | 1.117 | 1.114 | 1.115 | - |

Interest rate market

26/04/2019

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) | 2.23 | -1 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.90 | -2 | 21 mar 19 | DS1029 | 2.877 |

IRS on the interbank market**

| Term | PL | US | EZ |
|------|--------------|--------------|--------------|
| | % | % | % |
| | Change (bps) | Change (bps) | Change (bps) |
| 1L | 1.74 | 2.54 | -0.23 |
| 2L | 1.85 | 2.39 | -0.20 |
| 3L | 1.92 | 2.32 | -0.14 |
| 4L | 2.01 | 2.31 | -0.06 |
| 5L | 2.10 | 2.32 | 0.03 |
| 8L | 2.32 | 2.42 | 0.31 |
| 10L | 2.44 | 2.49 | 0.50 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.56 | -1 |
| T/N | 1.56 | -2 |
| SW | 1.56 | 0 |
| 2W | 1.57 | 0 |
| 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

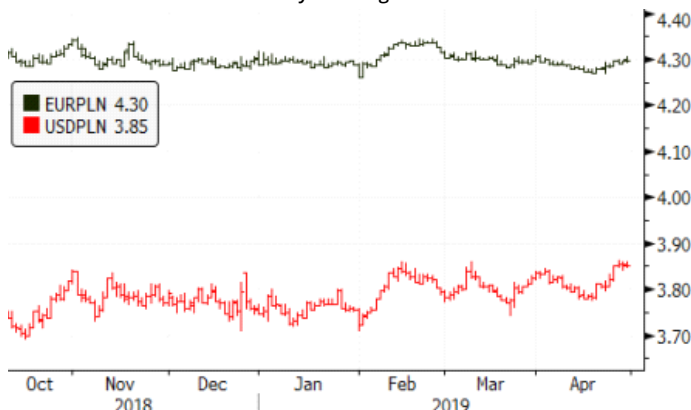
| Country | CDS 5Y USD Level | Change (bps) | 10Y spread* Level | Change (bps) |
|----------|------------------|--------------|-------------------|--------------|
| Poland | | | 2.91 | -3 |
| France | 29 | -1 | 0.37 | -1 |
| Hungary | | | 3.21 | -1 |
| Spain | 59 | 0 | 1.03 | -1 |
| Italy | 197 | -8 | 2.56 | -5 |
| Portugal | 67 | -1 | 1.14 | -1 |
| Ireland | 30 | 3 | 0.56 | -1 |
| 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



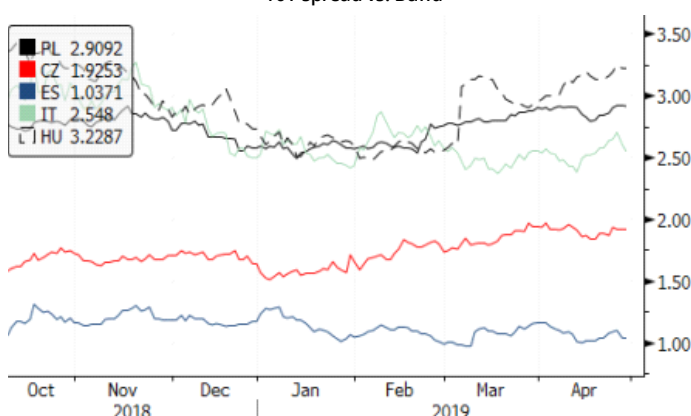
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST | |
|--------------------|---------|----------------------------|--------|----------|-----------|--------|--------|-------|
| | | | | MARKET | SANTANDER | VALUE | VALUE* | |
| FRIDAY (26 April) | | | | | | | | |
| 14:30 | US | GDP Annualized | 1 Q | % Q/Q | 2.3 | - | 3.2 | 2.2 |
| 16:00 | US | Michigan index | Apr | pts | 97.0 | - | 97.2 | 96.9 |
| MONDAY (29 April) | | | | | | | | |
| 11:00 | EZ | ESI | Apr | pct. | 105.0 | - | | 105.5 |
| 14:30 | US | Personal Spending | Mar | % m/m | 0.7 | - | | 0.1 |
| 14:30 | US | Personal Income | Mar | % m/m | 0.4 | - | | 0.2 |
| 14:30 | US | PCE Deflator SA | Mar | % m/m | 0.3 | - | | -0.1 |
| TUESDAY (30 April) | | | | | | | | |
| 10:00 | PL | CPI | Apr | % y/y | 1.7 | 2.0 | | 1.7 |
| 11:00 | EZ | GDP SA | 1 Q | % y/y | 1.0 | - | | 1.2 |
| 11:00 | EZ | Unemployment Rate | Mar | % | 7.8 | - | | 7.8 |
| 14:00 | HU | Central Bank Rate Decision | | % | 0.9 | - | | 0.9 |
| 14:00 | DE | HICP | Apr | % m/m | 0.5 | - | | 0.5 |
| 16:00 | US | Consumer Conference Board | Apr | pts | 126.0 | - | | 124.1 |
| 16:00 | US | Pending Home Sales | Mar | % m/m | 1.0 | - | | -1.0 |
| WEDNESDAY (1 May) | | | | | | | | |
| 14:15 | US | ADP report | Apr | k | 180 | - | | 128 |
| 16:00 | US | ISM manufacturing | Apr | pts | 55.0 | - | | 55.3 |
| 20:00 | US | FOMC decision | | % | 2.5 | - | | 2.5 |
| THURSDAY (2 May) | | | | | | | | |
| 08:00 | DE | Retail Sales | Mar | % m/m | -0.4 | - | | 0.5 |
| 09:00 | PL | Poland Manufacturing PMI | Apr | pts | 48.5 | 49.2 | | 48.7 |
| 09:55 | DE | Germany Manufacturing PMI | Apr | pts | 44.5 | - | | 44.5 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Apr | pts | 47.8 | - | | 47.8 |
| 13:00 | CZ | Central Bank Rate Decision | | % | 2.0 | - | | 1.75 |
| 14:30 | US | Initial Jobless Claims | week | k | 200 | - | | 230 |
| 16:00 | US | Durable Goods Orders | Mar | % m/m | 0.8 | - | | 2.7 |
| 16:00 | US | Factory Orders | Mar | % m/m | 1.0 | - | | -0.5 |
| FRIDAY (3 May) | | | | | | | | |
| 11:00 | EZ | Flash HICP | Apr | % y/y | 1.6 | - | | 1.4 |
| 14:30 | US | Change in Nonfarm Payrolls | Apr | k | 181 | - | | 196 |
| 14:30 | US | Unemployment Rate | Apr | % | 3.8 | - | | 3.8 |
| 16:00 | US | ISM services | Apr | pts | 57.2 | - | | 56.1 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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