

8 May 2019

Eyeopener

EC does not expect fiscal consolidation in Poland

German industrial orders below forecast, but production above
EC lowered GDP forecast for the euro zone, increased for Poland
Bond yields and PLN lower amid slowdown in Europe and trade disputes

On Tuesday morning, we got to see surprisingly weak data on German factory orders. Moreover, new forecasts of the European Commission saw downward revision of growth for the euro zone, to 1.2% from 1.9% (and to 0.5% from 1.8% for Germany). News on the Sino-US trade talks were neither positive as both sides threatened to introduce new tariffs. In response, bond yields, IRS rates and stock markets fell on both sides of the pond, while the greenback appreciated. Today's data on German industrial output proved to be better than expected, on the other hand.

European Commission upgraded Poland's GDP growth forecast from 3.5% to 4.2% in 2019 and from 3.2% to 3.6% in 2020. HICP inflation forecast was lowered from 2.3% in 2019 to 1.8% and from 2.7% to 2.5% in 2020. As regards the fiscal outlook, The EC has included only some of the new proposals of the Polish government (mainly on spending side, not so much on the revenue side) and thus came out with a quite pessimistic GG balance forecasts: -1.6% GDP in 2019 and -1.4% in 2020 (in the autumn round it was -0.9% and -1.0% respectively). At the same time, the Commission said the risk for its forecast is to the upside. The most striking forecast revision regards the structural budget balance: the almost flat path at -2% of GDP from the autumn round has been replaced with a rapid deterioration from -1.4% in 2018 to -2.8% in 2019 and -3% in 2020. Such deterioration of the fiscal outlook theoretically could be enough to trigger Significant Deviation Procedure against Poland – something that the Ministry of Finance was concerned about not so long ago. However, we are not fully convinced if the EC will issue such recommendation already at the end of May. The EC triggered the procedure against Romania and Hungary after release of actual data confirming rise of structural deficit, not based on forecasts. Meanwhile, in 2018 Poland reduced its structural balance by 0.5pp (only Portugal, Bulgaria, Cyprus, Luxembourg and Germany did better).

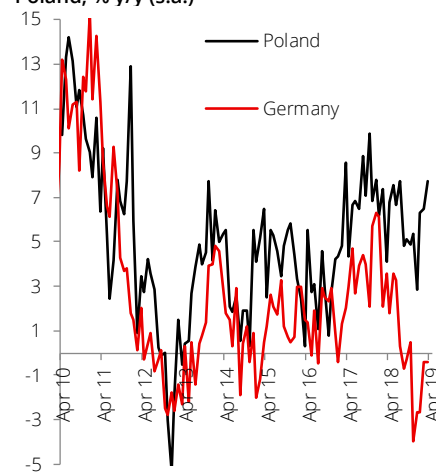
EURUSD eased to 1.119 from 1.122 in response to the below-consensus German factory orders data and downward revision of the growth forecasts for the euro zone. Additional support for the dollar came from the falling stock indexes and concerns about progress in the US-China trade talks. During the night, the euro recovered and we expect EURUSD to hold slightly above 1.12 during today's session. This could be thanks to the positive surprise in the morning German industrial output release and no more important data releases later in the day.

EURPLN rebounded after the drop recorded at the turn of the week amid stronger dollar and falling stock indexes. As a result, EURPLN climbed to 4.294 (its highest for a week) from 4.283. The euro's recovery vs the dollar and better German data could help the zloty to gain slightly but the scale of move may not be significant due to still shaky sentiment on the equity market.

In case of **other CEE currencies**, EURHUF continued its slow upward move reaching 324.0 from 323.8 amid poor global market mood. The relatively small increase might have been the effect of market expectations for a tomorrow's (probably high) inflation release. EURCZK also rose marginally amid weaker European economic outlook. Room for a bigger rise was neutralized by the stronger than expected rise of the retail sales. USDRUB fell to 65.2 from 65.4 despite lower oil price and data showing less sharp rise of inflation.

On Tuesday on the **domestic debt market** yields decrease was continued, following the core markets, and the drop amounted to 3-4bp. The IRS curve slid faster, the rates fell by 6-8bp in 3-10Y segment and by 4bp on the short end of the curve. The domestic IRS followed the strong move on the euro swap market. Today we expect yields to stabilise owing the surprisingly good Germany industrial production reading.

Industrial production in Germany and Poland, % y/y (s.a.)



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2892	CZKPLN	0.1667
USDPLN	3.8253	HUFPLN*	1.3233
EURUSD	1.1212	RUBPLN	0.0586
CHFPLN	3.7549	NOKPLN	0.4383
GBPPLN	4.9985	DKKPLN	0.5745
USDCNY	6.7692	SEKPLN	0.3997

*for 100HUF

Last session in the FX market 07/05/2019

	min	max	open	close	fixing
EURPLN	4.282	4.293	4.284	4.291	4.2858
USDPLN	3.818	3.843	3.824	3.840	3.8278
EURUSD	1.117	1.122	1.120	1.118	-

Interest rate market

07/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.65	-3	21 mar 19	OK0521	1.633
PS0424 (5L)	2.31	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.96	-4	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.75	2.53	-0.23
2L	1.88	2.39	-0.21
3L	1.97	2.31	-0.15
4L	2.07	2.29	-0.08
5L	2.17	2.30	0.00
8L	2.39	2.38	0.29
10L	2.51	2.44	0.47

WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.55	0
SW	1.55	-1
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	-1
6x9	1.74	-1
9x12	1.77	-1
3x9	1.80	-1
6x12	1.82	-1

Measures of fiscal risk

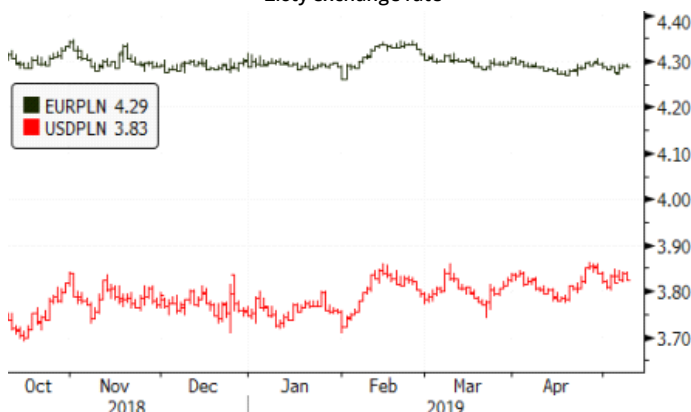
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			3.00	-5
France	28	1	0.37	0
Hungary			3.34	0
Spain	54	1	1.00	0
Italy	188	5	2.65	-1
Portugal	61	1	1.13	0
Ireland	31	1	0.54	0
Germany	12	0	-	-

* 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



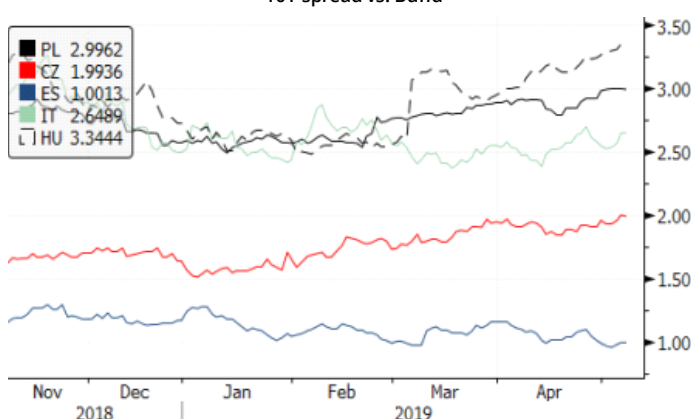
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (3 May)							
11:00	EZ	Flash HICP	Apr	% y/y	1.6	1.7	1.4
14:30	US	Change in Nonfarm Payrolls	Apr	k	190	236	196
14:30	US	Unemployment Rate	Apr	%	3.8	3.6	3.8
16:00	US	ISM services	Apr	pts	57.0	55.5	56.1
MONDAY (6 May)							
03:45	CN	Caixin China PMI Services	Apr	pts	54.5	54.5	54.4
09:55	DE	Markit Germany Services PMI	Apr	pts	55.6	55.7	55.6
10:00	EZ	Eurozone Services PMI	Apr	pts	52.5	52.8	52.5
11:00	EZ	Retail Sales	Mar	% m/m	-0.1	0.0	0.4
TUESDAY (7 May)							
08:00	DE	Factory Orders	Mar	% m/m	1.4	0.6	-4.2
WEDNESDAY (8 May)							
08:00	DE	Industrial Production SA	Mar	% m/m	-0.5	0.5	0.4
09:00	HU	Industrial Production SA	Mar	% y/y	0.0	-	5.9
THURSDAY (9 May)							
09:00	CZ	Industrial Production	Mar	% y/y	0.0	-	1.5
09:00	HU	CPI	Apr	% y/y	4.1	-	3.7
11:30	PL	Switch Auction					
14:30	US	Initial Jobless Claims		k	215.0	-	230.0
FRIDAY (10 May)							
08:00	DE	Exports SA	Mar	% m/m	0.0	-	-1.2
14:30	US	CPI	Apr	% m/m	0.4	-	0.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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