

9 May 2019

Eyeopener

EBRD raised forecasts for Poland

German production above forecast, rising worries about trade and geopolitics

EBRD raised forecasts for Poland

Bond yields lower, zloty quite stable

Today switch auction, Hungarian inflation, US labour market data

Wednesday data on German industrial output surprised positively, as did the Hungarian production. EBRD published an upgraded forecast of Polish GDP growth. Despite the positive surprise from German data, bond yields in Poland and on core markets were going down in the first half of the day, EURUSD was moving in a tight range and EURPLN rose somewhat. Stock markets recovered from the morning declines, on a temporary decrease of fears about US-China trade negotiations. However, Donald Trump's remarks on the topic in the evening cast even more doubts, which weighed on equity performance during the Asian session.

EBRD upgraded its forecast for the Polish economic growth to 4.1% in 2019 from 3.6% previously and to 3.5% in 2020. At the same time, the Bank commented that Poland could have problems with keeping the deficit below 3% of GDP and with obeying by the domestic spending rule, due to implementation of PiS pre-election proposals.

On Wednesday **EURUSD** was hovering between and 1.1190 and 1.210, as the euro was supported by better numbers from the German industry. In the evening the dollar gained markedly and then the exchange rate recovered somewhat. Today it will be difficult for the euro to gain further given worries about Sino-US trade wars and rising geopolitical pressure (including relations with Iran, which threatened to withdraw from the nuclear agreement).

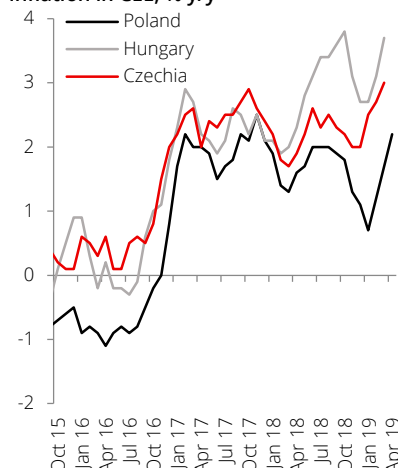
EURPLN moved between 4.2880 and 4.2930 on Wednesday, without a clear response to the German data or the temporary sense of relief in the US-China talks. This morning the zloty is weakening due to a wave of risk aversion and we think this could last, as the negative sentiment spreads among equity markets.

In case of other **CEE currencies**, EURHUF was rising intraday to 324.70, but eventually returned close to the opening level of 324. The forint weakened despite the positive surprise in March output (8% y/y vs 6.0% expectations and 5.9% recorded in February). EURCZK fell from 25.73 to 25.71 on positive news flow regarding the trade wars, while USDRUB went from 65.40 to 65.00 when oil prices increased in the afternoon.

On the **domestic interest rate market**, yields continued the down move until early afternoon, following the trend observed on the core markets. Only in later afternoon some rise was recorded in response to the sign of progress in the US-China trade talks that shortly later has been overshadowed by the Donald Trump's comments suggesting that tensions rose. On daily basis, the yield curve moved 2bp down in the 5-10Y segment while intraday the scale of move was even 4-5bp. The IRS rates moved at a similar scale. Today, we do not exclude that some profit taking could take place due to the bond switch auction but the room for the higher yields will be limited by the poor global market sentiment and increased risk aversion.

At the today's **switch auction** Ministry of finance will offer bonds OK0521, PS1024, WZ0524, WZ0528, DS1029 and will repurchase PS0719 (outstanding amount PLN13.1bn), DS1019 (PLN13.3bn), WZ0120 (PLN14.9bn), and PS0424 (PLN29.7bn).

Inflation in CEE, % y/y



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 | 4.2951 | CZKPLN | 0.1669 |
| USDPLN | 3.8343 | HUFPLN* | 1.3237 |
| EURUSD | 1.1202 | RUBPLN | 0.0587 |
| CHFPLN | 3.7638 | NOKPLN | 0.4371 |
| GBPPLN | 4.9912 | DKKPLN | 0.5753 |
| USDCNY | 6.8028 | SEKPLN | 0.3986 |

*for 100HUF

Last session in the FX market 08/05/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.288 | 4.294 | 4.291 | 4.293 | 4.2914 |
| USDPLN | 3.825 | 3.842 | 3.840 | 3.837 | 3.8325 |
| EURUSD | 1.117 | 1.121 | 1.118 | 1.119 | - |

Interest rate market 08/05/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0421 (2L) | 1.66 | 0 | 21 mar 19 | OK0521 | 1.633 |
| PS0424 (5L) | 2.29 | -2 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.94 | -2 | 21 mar 19 | DS1029 | 2.877 |

IRS on the interbank market**

| Rates on the interbank market | | | | | | |
|-------------------------------|------|--------------|------|--------------|-------|--------------|
| Term | PL | | US | | EZ | |
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.75 | 0 | 2.52 | 0 | -0.23 | 0 |
| 2L | 1.88 | 0 | 2.39 | 0 | -0.21 | 0 |
| 3L | 1.96 | -1 | 2.32 | 1 | -0.15 | 0 |
| 4L | 2.06 | -1 | 2.30 | 1 | -0.08 | 0 |
| 5L | 2.15 | -2 | 2.31 | 1 | 0.01 | 0 |
| 8L | 2.37 | -2 | 2.39 | 1 | 0.29 | 0 |
| 10L | 2.49 | -2 | 2.45 | 1 | 0.47 | 0 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.55 | 1 |
| T/N | 1.55 | 0 |
| SW | 1.55 | 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 | 1.74 | 0 |
| 9x12 | 1.78 | 1 |
| 3x9 | 1.80 | 0 |
| 6x12 | 1.81 | -1 |

Measures of fiscal risk

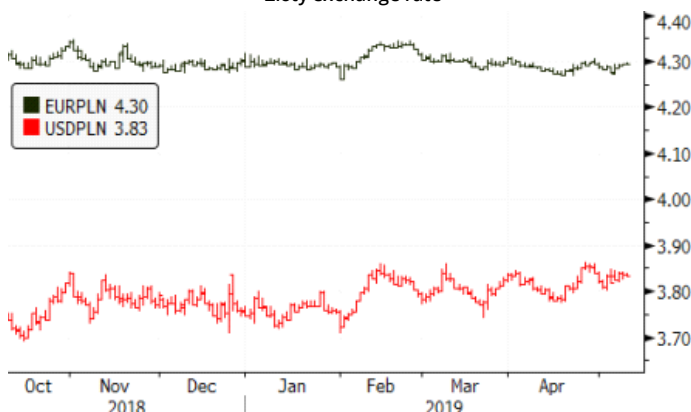
| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------------|--------------------|
| | Level Change (bps) | Level Change (bps) |
| Poland | | 2.99 -2 |
| France | 28 1 | 0.38 0 |
| Hungary | | 3.40 5 |
| Spain | 55 1 | 1.01 0 |
| Italy | 193 4 | 2.67 1 |
| Portugal | 62 0 | 1.13 0 |
| Ireland | 32 1 | 0.55 0 |
| Germany | 12 -1 | - - |

* 10Y treasury bonds over 10Y Bunds

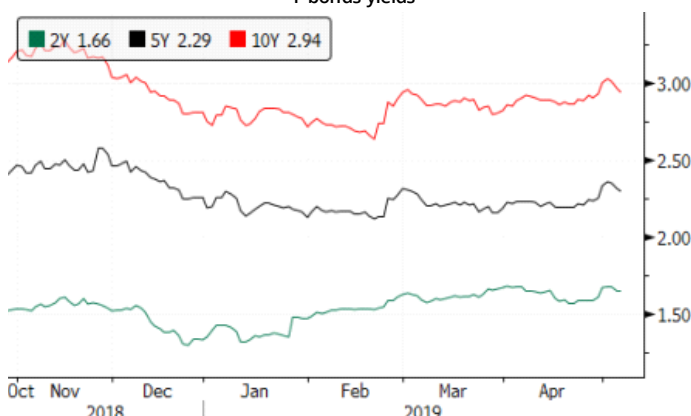
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



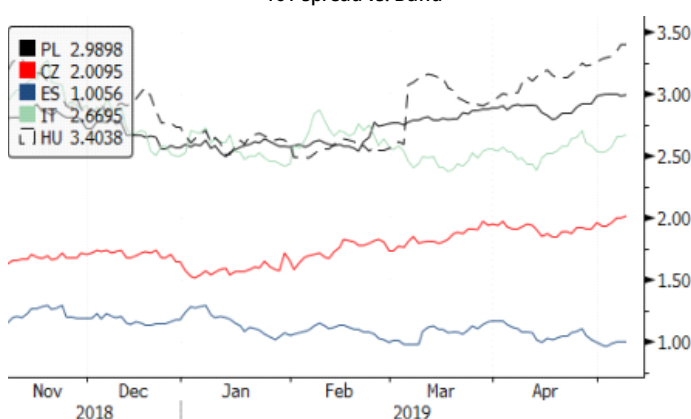
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| 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 | 6.0 | 8.0 | 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

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>.