

14 May 2019

Eyeopener

Trade wars escalating

Trade wars weigh on the market sentiment
 Risk aversion and Czech inflation weakens the CEE currencies
 Polish debt stronger on worries about global growth
 Today Polish data on balance of payments, German ZEW

The start of the new week looked similar on the markets to what was happening for most of the last week – large declines on stock exchanges and of bond yields due to fears about the impact of trade wars on the global economy. China informed yesterday it will respond to the Friday US tariff hikes by raising its own trade tariffs on US products worth USD60bn on 1 June. This caused a deterioration of the market sentiment. The generated risk aversion made the CEE currencies suffer.

According to GUS, the average **growth of wages in the national economy** in 1Q19 was 7.1% y/y. This is a bit below 4Q reading, 7.7% y/y, but still above average wage growth recorded in the enterprise sector (6.7% y/y), which covers a smaller sample of employees. The data support expectations that private consumption growth should remain decent in the coming quarters, being additionally boosted by higher social transfers. We do expect tensions on the labour market to persist, which should keep wage growth elevated, gradually adding to inflationary pressure.

The Finance Minister Teresa Czerwińska said yesterday that according to preliminary calculations, **central budget deficit** after April was lower than PLN4.5bn recorded after March. This is in line with our forecast. According to the minister, CIT revenues rose by 17.5% y/y and PIT revenues by 9.7% y/y, which means an improvement compared to the previous months. This is likely an effect of shifts in payments of these taxes.

EURUSD rose yesterday for the third day running. At the start of the week there were no positive signals for the euro, so the depreciation of the dollar must have been caused by rising uncertainty about US economic prospects in the face of the escalation of trade wars. As a result, the exchange rate set a new maximum for May at 1.126. Today at 1100CET German ZEW index will be released. The sub-index describing current situation has been going down since the start of 2018 and its reading may be more important now than what happens to business expectations, which are on the rise since early 2019.

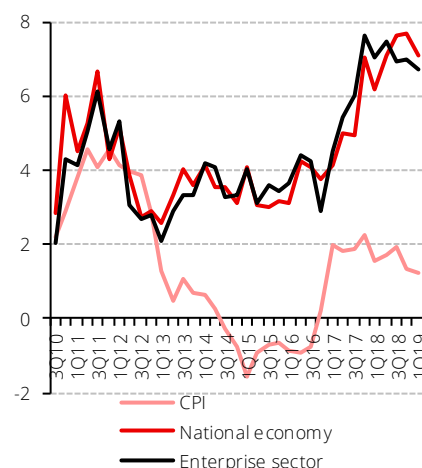
EURPLN started the week with a significant rise driven by falling domestic and global stock indexes and lower-than-expected Czech inflation. As a result, the zloty depreciated to 4.305 per euro. At the same time, USDPLN fell to 3.82 from 3.836 thanks to rebound of EURUSD. We do not see much room for the zloty appreciation in the short term.

In the case of CEE currencies, the Czech koruna was the weakest performer, after the Czech inflation decreased in April unexpectedly to 2.8% y/y from 3.0% y/y. This reading reduced chances for the further interest rates hikes, which suddenly pushed EURCZK up. In the morning, the forint and the ruble also lost, but during the day HUF trimmed its losses, while the ruble erased only the half of the morning drop. The ruble did not benefit too much from the significant oil prices rebound.

On the domestic interest rate market, the bond yields fell 2-6bp and IRS by 2-8bp, the biggest moves on the belly and long end of the curves. These changes were the result of a significant strengthening on the core debt market amid worries about the global economy (the 10Y USD yield fell by more than 6bp and Bund by c2bp. Polish debt was outperforming German bonds allowing the 10Y yield spread to ease somewhat from c300bp reached in late April.

Today at 14:00CET the NBP will release March balance of payments data. We expect a solid rise of exports in March (possibly making the 1Q average y/y growth beat the readings from 2018) and a double-digit rise of imports. Our forecast of the current account deficit is close to the market consensus.

Nominal wage growth and inflation, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3035	CZKPLN	0.1671
USDPLN	3.8290	HUFPLN*	1.3284
EURUSD	1.1239	RUBPLN	0.0586
CHFPLN	3.8038	NOKPLN	0.4382
GBPPLN	4.9594	DKKPLN	0.5763
USDCNY	6.8748	SEKPLN	0.3982

*for 100HUF

Last session in the FX market 13/05/2019

	min	max	open	close	fixing
EURPLN	4.294	4.309	4.296	4.308	4.3029
USDPLN	3.817	3.838	3.823	3.835	3.8321
EURUSD	1.122	1.126	1.124	1.124	-

Interest rate market 13/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.61	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.21	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.83	-6	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	1.74	0	2.43	-7	-0.24	0
2L	1.81	-2	2.26	-11	-0.21	-1
3L	1.87	-5	2.20	-11	-0.16	-1
4L	1.95	-5	2.19	-11	-0.09	-1
5L	2.03	-7	2.20	-10	-0.01	-1
8L	2.23	-9	2.30	-9	0.27	-3
10L	2.35	-9	2.36	-9	0.45	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.69	13
T/N	1.69	13
SW	1.59	4
2W	1.59	2
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	1.71	-1
6x9	1.73	0
9x12	1.74	-1
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

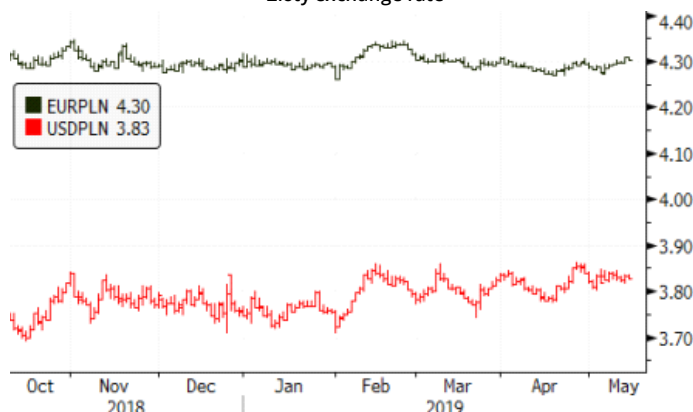
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.90 -6
France	29 0	0.40 -1
Hungary		3.24 -2
Spain	58 0	1.06 0
Italy	208 0	2.78 1
Portugal	65 0	1.22 0
Ireland	33 0	0.58 0
Germany	12 0	- -

* 10Y treasury bonds over 10Y Bunds

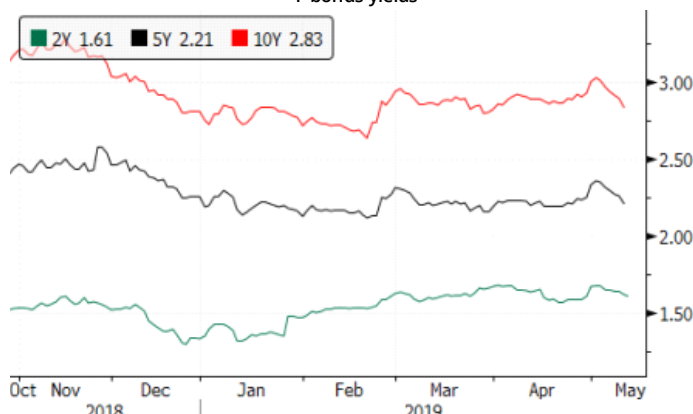
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



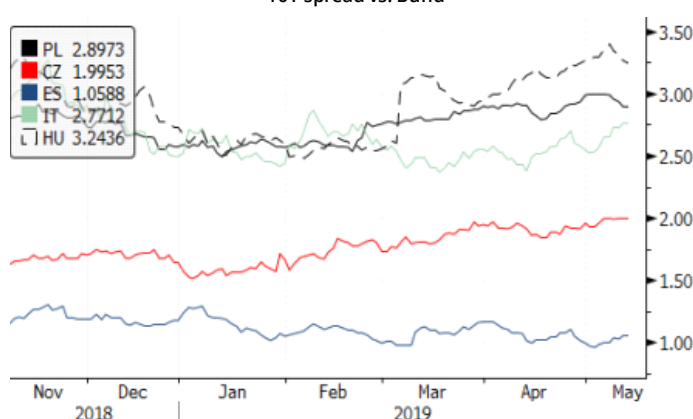
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (10 May)								
08:00	DE	Exports SA	Mar	% m/m	-0.4	-	1.5	-1.3
14:30	US	CPI	Apr	% m/m	0.4	-	0.3	0.4
MONDAY (13 May)								
09:00	CZ	CPI	Apr	% y/y	3.0	-		3.0
TUESDAY (14 May)								
08:00	DE	HICP	Apr	% m/m	1.0	-		1.0
11:00	EZ	Industrial Production SA	Mar	% m/m	-0.3	-		-0.2
11:00	DE	ZEW Survey Current Situation	May	pts	6.3	-		5.5
14:00	PL	Current Account Balance	Mar	€mn	-1 233	-1 187		-1 386
14:00	PL	Exports	Mar	€mn	19 804	19 772		18 324
14:00	PL	Imports	Mar	€mn	20 885	20 733		19 651
WEDNESDAY (15 May)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	GDP WDA	1Q	% y/y	0.7	-		0.6
09:00	CZ	GDP SA	1Q	% y/y	2.4	-		2.6
09:00	HU	GDP	1Q	% y/y	5.4	-		5.1
10:00	PL	CPI	Apr	% y/y	2.2	2.2		1.7
10:00	PL	GDP	1Q	% y/y	4.4	4.5		4.9
11:00	EZ	GDP SA	1Q	% y/y	1.2	-		1.2
14:30	US	Retail Sales Advance	Apr	% m/m	0.2	-		1.6
15:15	US	Industrial Production	Apr	% m/m	0.1	-		-0.1
THURSDAY (16 May)								
14:00	PL	CPI Core	Apr	% y/y	1.7	1.8		1.4
14:30	US	Initial Jobless Claims	week	k	220	-		228
14:30	US	Housing Starts	Apr	% m/m	7.11	-		-0.3
14:30	US	Index Philly Fed	May	pts	11.0	-		8.5
FRIDAY (17 May)								
11:00	EZ	HICP	Apr	% y/y	1.7	-		1.7
16:00	US	Michigan index	May	pts	97.9	-		97.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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