

30 May 2019

Eyeopener

Zero budget deficit after April

Return of risk aversion hits zloty and supports bonds

January-April central budget deficit falls strongly

Energy prices is likely to defreeze in 2H2019

Today important US data

On Wednesday, fears about global growth returned to the markets. Weak data from Europe released last week (flash PMIs) and news flow regarding the US-China trade war made investors preoccupied, which translated to large falls of stock indexes yesterday. As a result, most of the EM currencies depreciated while core market bonds and euro zone periphery bonds strengthened. Head of the Polish government's Standing Committee Jacek Sasin said that the whole first PIT bracket will have its tax rate lowered from 18% to 17% (vs the indication in the Convergence Program Update that a new smaller bracket will be introduced for the promised 17% rate). Moody's rating agency wrote that the victory of PiS in the European Parliament elections decreases the risk of fiscal easing and if the party wins a second term in the autumn elections it will be a rating-neutral outcome.

Budget deficit of Poland was reduced from PLN4.5bn after March to just PLN0.08bn, which is a positive surprise (we assumed a reduction to PLN0.7-0.9bn). A similar improvement in the year-to-date budget balance in April was also seen last year (by PLN6.2bn), but in the period 2012-2017 the average April result was a deficit of PLN2.3bn. On the revenues side, total revenues in April were up 8.1% y/y, with another strong rise in CIT (34.5% y/y), but a marginal nominal y/y decline in VAT collection (for now we assume that the 2019 budget will be close to the planned amount of PLN28.5bn, but the VAT part adds some uncertainty). Total expenditures were 15.6% higher y/y due to a 66% higher transfer from the central budget to the Social Security System – this might be linked to the payout of the 13. pension (a part of the PiS Five fiscal package), but the earlier statement from the government was that the extra pension would be financed by the Social Security Institution alone, thanks to the strong labour market. Debt servicing costed 52% more y/y in April, and by 33% y/y in January-April period which suggests the Ministry of Finance was engaged in derivative trades.

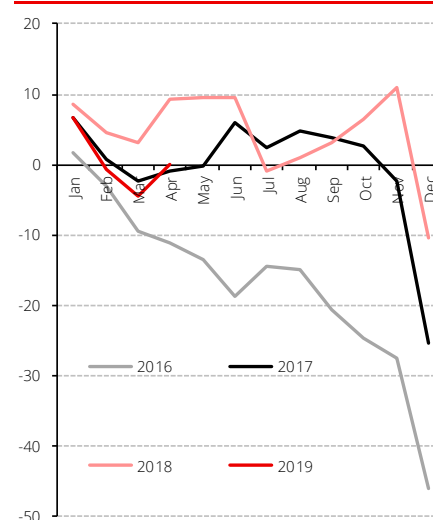
After talks with the European Commission, **the Ministry of Energy** announced that in 1H19 energy suppliers will be obliged to maintain prices from mid-2018 and compensate consumers for any price hikes. Energy suppliers, on the other hand, will be compensated from a state fund. In 2H19, households will still pay net prices at 2018 levels and the same will apply to the public sector and micro/small companies. Medium and big companies (employing 50 people or more on average and recording revenues above EUR10mn total in two years) will be charged with market prices and then will be eligible to apply for a state compensation based on the de minimis rule. According to this rule, the state help granted to one company cannot exceed EUR200k in three years. So far, we had assumed that companies will see rising energy costs in 2020. Thus, these changes pose upward risk for our CPI forecast, assuming reaching 3% y/y at the end of 2019 and with average close to 3% y/y in 2020.

Yesterday **EURUSD** slid to 1.113 due to rising demand for safe assets and is still only slightly above this year's low near 1.11, set last week. Today we will get to see US data – preliminary 1Q19 GDP, weekly jobless claims and pending home sales. In our view, these numbers need to surprise to the upside, in order to fuel a rise in EURUSD..

EURPLN rose to 4.304 and **USDPLN** above 3.86 amid high risk aversion persisting on the global market. The Czech koruna and Russian ruble also depreciated with the latter being additionally pressured by the plunge of the oil price. The forint gained vs the euro but it has lost sharply on Tuesday in response to the dovish Hungarian central bank rhetoric. The zloty remains under the impact of the global market sentiment that we do not expect to improve firmly in the coming days. That is why we do not see much room for the zloty appreciation in the nearest days and **EURPLN** could approach the May peak at 4.314.

On the domestic interest rate market bond yields fell 2-5bp on the long end and belly of the curve while the short end fell by 1bp. The IRS curve shifted 1-3bp down. Yesterday's changes on the domestic market were fuelled by higher risk aversion on the global market that boosted core and euro zone peripheral bonds. Polish debt outperformed its peers which might have been due to the significant drop of the state deficit after April. Today we expect domestic yields might rise amid profit taking on the core markets.

Cumulative budget performance, PLNbn



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FX market

Today's opening

EURPLN	4.2916	CZKPLN	0.1660
USDPLN	3.8538	HUFPLN*	1.3181
EURUSD	1.1136	RUBPLN	0.0594
CHFPLN	3.8227	NOKPLN	0.4408
GBPPLN	4.8690	DKKPLN	0.5746
USDCNY	6.9044	SEKPLN	0.4036

*for 100HUF

Last session in the FX market 29/05/2019

	min	max	open	close	fixing
EURPLN	4.295	4.304	4.297	4.295	4.3007
USDPLN	3.846	3.863	3.848	3.858	3.8554
EURUSD	1.113	1.117	1.117	1.113	-

Interest rate market 29/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.62	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.13	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.72	-5	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	1.73	0	2.35	-4	-0.27	0
2L	1.79	-2	2.11	-5	-0.26	-1
3L	1.84	-2	2.03	-5	-0.22	-1
4L	1.91	-2	2.01	-5	-0.16	-1
5L	1.98	-2	2.02	-5	-0.08	-1
8L	2.18	-3	2.11	-5	0.18	-1
10L	2.29	-4	2.17	-5	0.36	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-18
T/N	1.57	-2
SW	1.57	-1
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.73	0
9x12	1.73	0
3x9	1.79	0
6x12	1.80	-1

Measures of fiscal risk

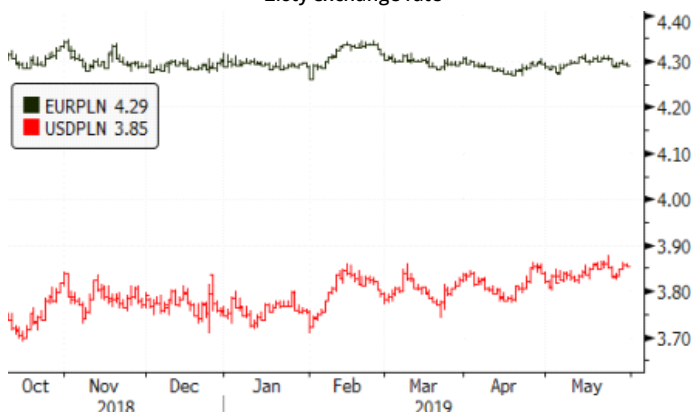
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.89	-6
France	31	0	0.40	0
Hungary			3.22	-4
Spain	56	-2	0.90	-1
Italy	227	-1	2.81	-1
Portugal	63	-1	1.02	0
Ireland	33	1	0.62	0
Germany	12	1	-	-

* 10Y treasury bonds over 10Y Bunds

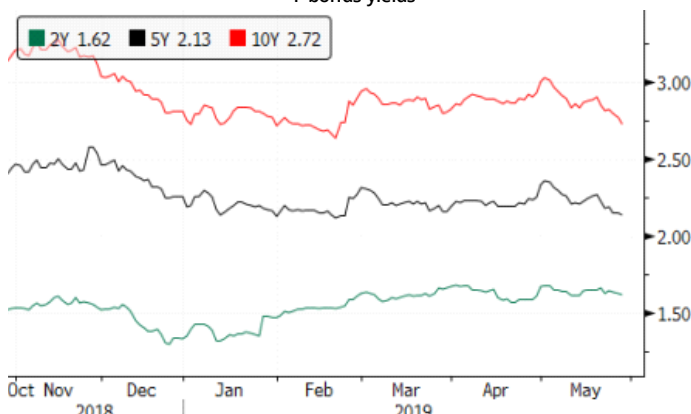
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



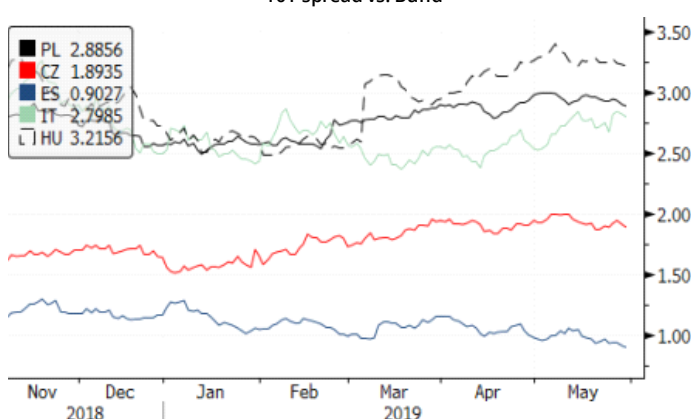
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (24 May)								
14:00	PL	Money Supply M3	Apr	% y/y	10.1	10.2	10.4	9.9
14:30	US	Durable Goods Orders	Apr	% m/m	-2.0	-	-2.1	2.6
MONDAY (27 May)								
10:00	PL	Unemployment Rate	Apr	%	5.6	5.6	5.6	5.9
TUESDAY (28 May)								
11:00	EZ	ESI	May	pct.	103.9	-	105.1	103.9
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
16:00	US	Consumer Conference Board	May	pts	130.0	-	134.1	129.2
WEDNESDAY (29 May)								
		No important events						
THURSDAY (30 May)								
14:30	US	GDP Annualized	1Q	% q/q	3.0	-		3.2
14:30	US	Initial Jobless Claims	week	k	215	-		211
16:00	US	Pending Home Sales	Apr	% m/m	0.5	-		3.8
FRIDAY (31 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.4	-		0.0
09:00	CZ	GDP SA	1Q	% y/y	2.5	-		2.5
09:00	HU	GDP	1Q	% y/y	5.3	-		5.3
10:00	PL	GDP	1Q	% y/y	4.6	4.6		4.9
14:00	DE	HICP	May	% m/m	0.3	-		1.0
14:30	US	Personal Spending	Apr	% m/m	0.2	-		0.9
14:30	US	Personal Income	Apr	% m/m	0.3	-		0.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-		0.2
16:00	US	Michigan index	May	pts	102.0	-		102.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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