

12 June 2019

Eyeopener

Conservative budget assumptions

Government releases 2020 budget assumptions

Zloty gives up part of gains, EURUSD stable

Polish bond yields rise second day in a row

Today US inflation

On Tuesday GUS presented data on foreign trade and the government released budget assumptions for 2020. In Czechia, May CPI was out, higher than expected, while Russian trade data were unimpressive. Donald Trump once again criticised the Fed for too restrictive monetary policy and the European Commission threatened Italy with sanction for breaching the fiscal pact. As a result, bond yields corrected the morning rise, EURUSD was stable, and EURPLN went up slightly. Today at the opening the sentiment looks worse than yesterday as the US president described in harsh words the trade negotiations with China.

According to **GUS foreign trade data**, in April exports and imports rose by c4% y/y and the trade balance was roughly neutral. As usual, we prefer to wait for the NBP C/A data to assess the trends in foreign trade, due tomorrow. The GUS data are signalling however that our forecast of the trade turnover and C/A balance may be set too high.

The government accepted macroeconomic **assumptions for 2020 budget**, which are in line with the Convergence Program Update released in April. Next year GDP growth is to be 3.7% and CPI 2.5%, vs our forecasts of 3.8% and 3.2% respectively. We agree with the government's assumptions that there is still some room for the unemployment rate to decline, but we think wage growth could be 7-8% next year instead of c6% assumed by the government. We do not think the assumption of a rising C/A gap in the following years is controversial. The macroeconomic assumptions look conservative, leaving even some space for a positive surprise with the size of nominal GDP next year.

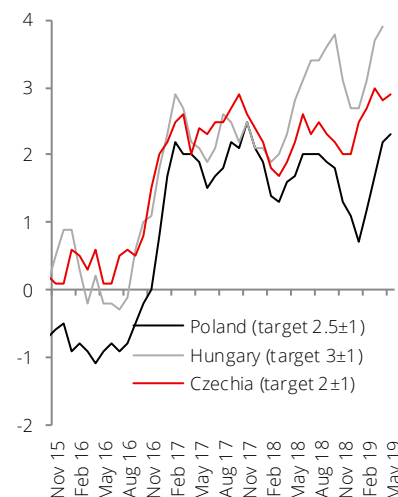
EURUSD was moving around 1.132 on Tuesday amid lack of important data releases. The exchange rate was not affected by rising equities, poor Sentix index and positive surprise with NFIB index in the USA. The dollar also ignored the Fed's criticism by Donald Trump. This morning EURUSD is going up somewhat, setting a new June high. The depreciation of the dollar – fuelled by expectations there will be rate cuts in the USA this year – may accelerate if the data to be released in the afternoon show that the US inflation was lower than expected.

EURPLN rose in the Tuesday session to 4.268 from 4.263 on profit taking after the recent zloty appreciation but later in the day the move reversed. Today in the morning the zloty is holding close to 4.265 but with European equities starting the day without much optimism we assume the exchange rate might try again to rebound today. In the afternoon it can be influenced by the reaction of EURUSD to the US CPI data.

In the case of CEE currencies, EURHUF rose to 321 from 320, amid lack of publication of important data. EURCZK slid to 25.61 from 25.63, which was partly driven by inflation data release (above the market consensus and central bank expectations). USDRUB decreased to 64.50 from 64.70 thanks to improving global mood after another criticism of the Fed's policy by Donald Trump. Worse than market forecast foreign trade data did not affect the ruble.

On Tuesday **on the fixed income market** yields were rising in the morning trading amid profit-taking after the fast downhill over the previous weeks. In the afternoon, Donald Trump comments questioning Fed policy reversed the trend on the core markets and helped to wipe-out part of morning losses. As a result, the domestic curve moved up by 3bp in 5-10Y segment and returned to the opening level in the 2Y tenor. During the day, yields were temporarily higher by another 2-3bp. The IRS rates followed the govie's yields. Today we believe the yields to stabilise waiting for US inflation data.

Inflation in CEE, % y/y



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2625	CZKPLN	0.1664
USDPLN	3.7610	HUFPLN*	1.3264
EURUSD	1.1333	RUBPLN	0.0582
CHFPLN	3.7951	NOKPLN	0.4359
GBPPLN	4.7862	DKKPLN	0.5708
USDCNY	6.9129	SEKPLN	0.3982

*for 100HUF

Last session in the FX market 11/06/2019

	min	max	open	close	fixing
EURPLN	4.260	4.269	4.263	4.263	4.2675
USDPLN	3.760	3.776	3.767	3.763	3.7722
EURUSD	1.130	1.133	1.132	1.133	-

Interest rate market 11/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.60	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.02	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.52	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	1	2.18	2	-0.29	0
2L	1.77	2	1.97	2	-0.30	0
3L	1.80	1	1.91	0	-0.27	0
4L	1.85	2	1.90	0	-0.22	-1
5L	1.91	2	1.93	0	-0.15	-1
8L	2.08	2	2.04	-1	0.10	-2
10L	2.20	2	2.11	-1	0.27	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-2
T/N	1.55	-2
SW	1.57	0
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	1.71	0
9x12	1.70	1
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

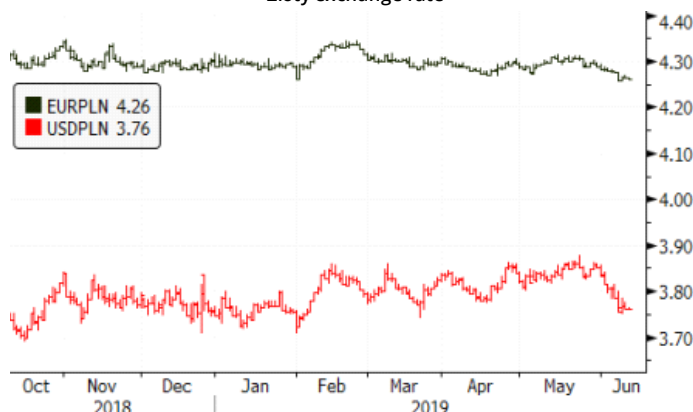
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.76 0
France	28 1	0.35 0
Hungary		3.07 -1
Spain	43 3	0.82 1
Italy	219 4	2.62 -1
Portugal	52 2	0.87 0
Ireland	29 1	0.54 0
Germany	12 0	- -

* 10Y treasury bonds over 10Y Bunds

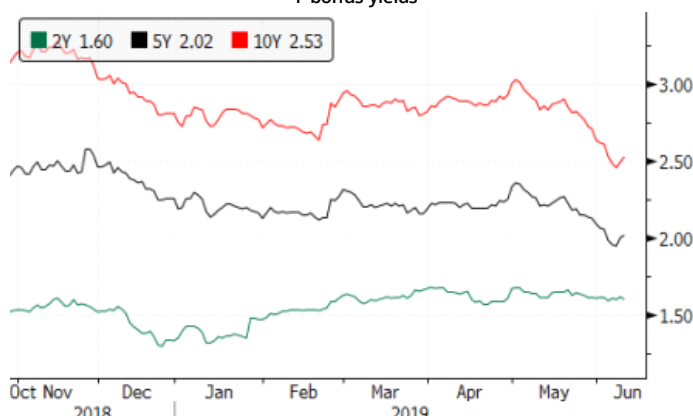
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



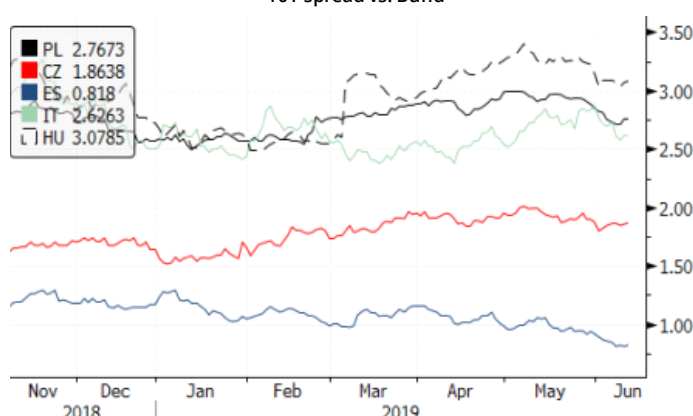
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (7 June)								
08:00	DE	Exports SA	Apr	% m/m	-0.9	-	-3.7	1.6
08:00	DE	Industrial Production SA	Apr	% m/m	-0.5	-	-1.9	0.5
09:00	HU	CPI	May	% y/y	3.9	-	3.9	3.9
14:30	US	Change in Nonfarm Payrolls	May	k	180	-	75	224
14:30	US	Unemployment Rate	May	%	3.6	-	3.6	3.6
MONDAY (10 June)								
No important events								
TUESDAY (11 June)								
09:00	CZ	CPI	May	% y/y	2.8	-	2.9	2.8
WEDNESDAY (12 June)								
14:30	US	CPI	May	% m/m	0.1	-		0.3
THURSDAY (13 June)								
11:00	EZ	Industrial Production	Apr	% m/m	-0.2	-		-0.3
14:00	PL	Current Account Balance	Apr	€mn	595	944		533
14:00	PL	Trade Balance	Apr	€mn	425	499		589
14:00	PL	Exports	Apr	€mn	19 517	19 430		19 654
14:00	PL	Imports	Apr	€mn	19 104	18 931		19 065
14:30	US	Initial Jobless Claims	week	k	-	-		218
FRIDAY (14 June)								
10:00	PL	CPI	May	% y/y	2.3	2.3		2.2
14:30	US	Retail Sales Advance	May	% m/m	0.6	-		-0.2
15:15	US	Industrial Production	May	% m/m	0.2	-		-0.5
16:00	US	Flash Michigan index	Jun	pts	97.0	-		100.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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