

18 June 2019

# Eyeopener

## Budget deficit burdened by pensions

Budget deficit for January-May at PLN2.2bn  
 Rating agencies revise forecasts for Poland: upwards and downwards  
 Core inflation for May in line with expectations  
 Today HICP in euro zone and ZEW in Germany

On Monday global market moods improved, which caused an appreciation of the euro vs the dollar. European bond yields stabilised while the US ones finished the day in the starting point having tried to rebound during the day. Polish bonds and currency weakened yesterday. Polish May budget performance and core inflation were released. Bundesbank showed estimates of a decrease in activity of German economy for 2Q, while New York Empire State index recorded a surprisingly large decline.

**After May, the central budget registered a PLN2.2bn deficit (in year-to-date terms).**

In May alone the budget result worsened by cPLN2bn, while in the previous two years there had been a small surplus in this month. Budget revenues were at PLN32.7bn and 13.3% higher than a year ago. In particular, VAT revenues rose c20% y/y and this was the first strong reading after several months of disappointment. It might be the case there is a new seasonal pattern of VAT revenues, due to the way Ministry of Finance manages tax return dates. Spending after May was equal to PLN34.8bn and was 21.6% higher y/y. A substantial rise of subsidy to social funds is what struck us. – in May it was PLN10bn vs PLN5.2bn a year ago. In our view this may be the result of the payout of 13. pension. So far we assumed the government would try to finance the extra pensions outside the central budget (e.g. with loans). If it was done via subsidies then the chances of a full-year budget deficit coming below the plan (PLN28.5bn) have decreased.

**Moody's rating agency lowered the GDP forecast for Poland** in 2019 to 4.2% to 4.4% and in 2020 to 3.4% from 3.7%. Last month, after the strong reading of 1Q GDP and April data on output and sales there were mostly upside revisions to GDP forecasts by analysts (including us, with 2019 growth forecast pushed up to 4.3%). New estimates were also released by **Fitch. The agency raised the Polish GDP forecast** for 2019 to 4.2% from 4% and the 2020 figure was maintained at 3.5% (the slowdown is expected to come from worse external environment and capacity constraints in the Polish economy). According to the agency, inflation should stay close to the target of 2.5% in the following years, as the effects of economic slowdown and fiscal stimulus could cancel out.

Deputy Prime Minister Jacek Sasin said in an interview for DGP that the government is not planning any new social transfer in such a big scale as in the previous years, but wants to make the **13. pension a permanent benefit**. However, the necessary bill would be prepared after the election.

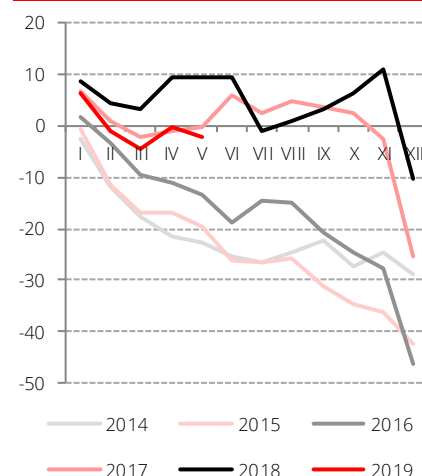
**The main measure of core inflation**, excluding food and energy, stayed in May at 1.7% y/y, having risen for four months in a row. The remaining three measures of core inflation continued to rise in May, with two of them – CPI excluding most volatile components and 15-percent trimmed mean – reached the highest levels in more than six years, and the last one, inflation excluding administered prices, hit 2.5% y/y. In our view inflation ex food and energy will now return to the upward trend, and will rise to c2.5% in late 2019, while the May break in the trend was just an atypical behaviour of transport services prices.

On Monday **EURUSD** climbed to 1.1240 from 1.1210, supported by rising stock markets and falling spread between UST and Bunds. In the upcoming days we are expecting some rise in EURUSD ahead of the "dovish" FOMC conference.

At the start of the week **EURPLN** climbed to 4.2600 from 4.2560 due to profit-taking. The zloty weakening was not stopped by decline in UST yields. Today we are expecting some correction and downward pressure on EURPLN ahead of Wednesday FOMC statement.

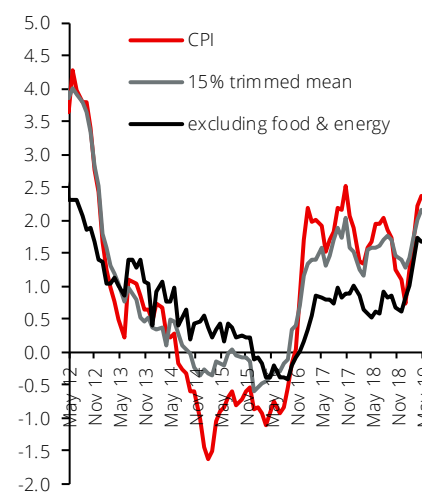
On Monday **yields of Polish bonds** jumped, correcting for recent gains. The yield curve shifted up by 1bp on the short end of the curve and by 3bp in the 5-10Y segment, amid moderate market activity. Today we expect the bond prices to stabilise, ahead of the Wednesday's FOMC conference.

Central budget deficit, PLNbn ytd



Source: Finance Ministry, Santander

Core inflation measures, % y/y



Source: NBP, Santander

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## FX market

### Today's opening

EURPLN	4.2622	CZKPLN	0.1667
USDPLN	3.7941	HUFPLN*	1.3229
EURUSD	1.1233	RUBPLN	0.0590
CHFPLN	3.8028	NOKPLN	0.4347
GBPPLN	4.7568	DKKPLN	0.5708
USDCNY	6.9232	SEKPLN	0.4004

\*for 100HUF

### Last session in the FX market 17/06/2019

	min	max	open	close	fixing
EURPLN	4.253	4.263	4.254	4.262	4.2599
USDPLN	3.788	3.802	3.798	3.796	3.7989
EURUSD	1.120	1.125	1.121	1.123	-

## Interest rate market 17/06/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.55	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.97	3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.42	3	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	1.71	0	2.11	3	-0.30	0
2L	1.73	0	1.89	3	-0.32	0
3L	1.75	1	1.82	3	-0.29	0
4L	1.79	2	1.81	2	-0.24	0
5L	1.85	3	1.83	2	-0.16	1
8L	2.00	4	1.94	1	0.09	1
10L	2.10	3	2.02	1	0.26	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.53	-4
T/N	1.54	-3
SW	1.56	-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	1.71	0
6x9	1.70	-1
9x12	1.68	-1
3x9	1.78	1
6x12	1.77	0

## Measures of fiscal risk

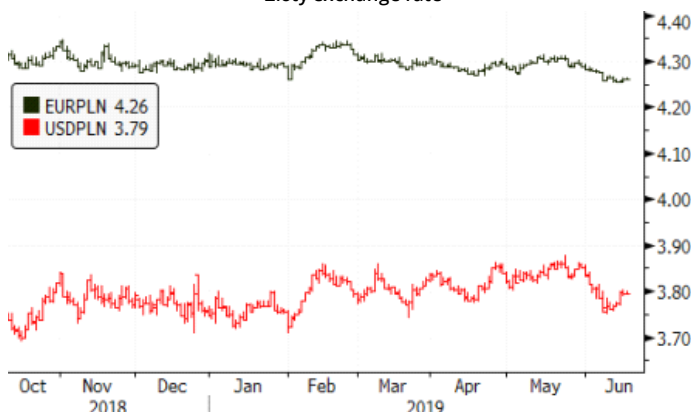
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	4
France	28	-1	0.35	0
Hungary			3.01	1
Spain	40	2	0.77	0
Italy	217	-5	2.54	0
Portugal	48	-2	0.88	0
Ireland	29	0	0.56	3
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

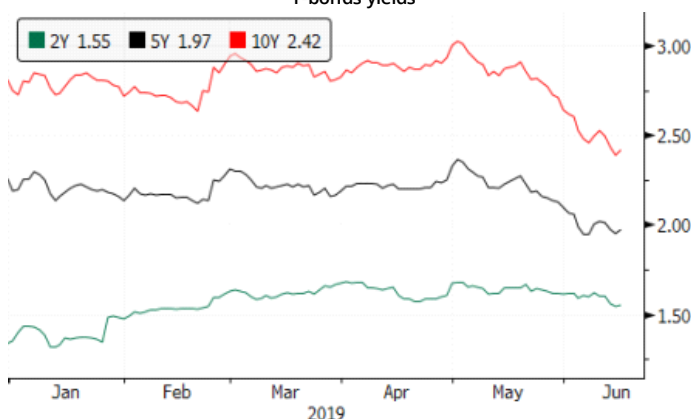
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



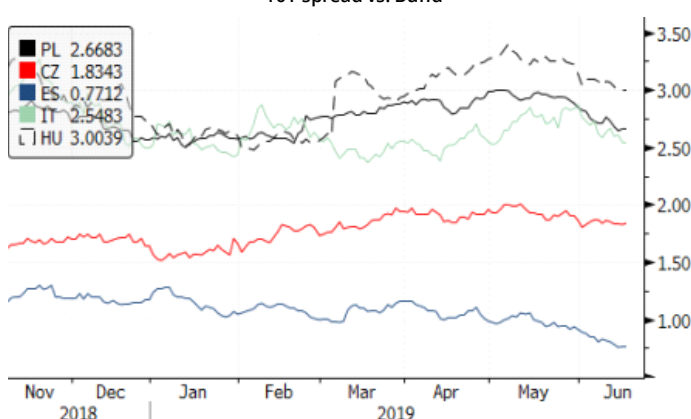
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
<b>FRIDAY (14 June)</b>								
10:00	PL	CPI	May	% y/y	2.3	2.3	2.4	2.3
14:30	US	Retail Sales Advance	May	% m/m	0.6	-	0.5	-0.3
15:15	US	Industrial Production	May	% m/m	0.2	-	0.4	-0.4
16:00	US	Michigan index	Jun	pts	98.0	-	97.9	100.0
<b>MONDAY (17 June)</b>								
14:00	PL	CPI Core	May	% y/y	1.7	1.7	1.7	1.7
<b>TUESDAY (18 June)</b>								
11:00	EZ	HICP	May	% y/y	1.2	-		1.2
11:00	DE	ZEW Survey Current Situation	Jun	pts	7.0	-		8.2
14:30	US	Housing Starts	May	% m/m	0.4	-		5.7
<b>WEDNESDAY (19 June)</b>								
10:00	PL	Employment in corporate sector	May	% y/y	3.0	3.0	-	2.9
10:00	PL	Average Gross Wages	May	% y/y	7.2	7.0	-	7.1
20:00	US	FOMC decision		%	2.5	-	-	2.5
<b>THURSDAY (20 June)</b>								
14:30	US	Initial Jobless Claims	week	k	220	-		222
14:30	US	Index Philly Fed	Jun	pts	10.5	-		16.6
<b>FRIDAY (21 June)</b>								
09:30	DE	Flash Germany Manufacturing PMI	Jun	pts	44.6	-		44.3
09:30	DE	Flash Markit Germany Services PMI	Jun	pts	55.2	-		55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Jun	pts	48.0	-		47.7
10:00	EZ	Flash Eurozone Services PMI	Jun	pts	53.0	-		52.9
10:00	PL	Sold Industrial Output	May	% y/y	7.8	8.7		9.2
10:00	PL	PPI	May	% y/y	1.6	1.5		2.6
16:00	US	Existing Home Sales	May	% m/m	2.12	-		-0.38

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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