

28 August 2019

Eyeopener

2020 budget in balance

Zloty and its peers weaker
EURUSD stable
Polish bonds boosted by the budget news
Today no important data

Polish government approved on Tuesday the central budget draft for 2020, which assumed a zero deficit and revenues and expenditures at PLN429.5bn. We do not know the details, like the structure of revenues and expenditures, so it is hard to do an in-depth analysis of the budget. What struck us is the low level of assumed state expenditures, which in our view will be hard to align with the fiscal package promised in the so-called Kaczynski's five. Relative to GDP, expenditures are to be 17.7%, more than 1pp less than our forecast of the 2019 outcome, and the least since early 90s. Materialisation of such scenario would require cuts in various spending areas (e.g. investments), possibly relevant from the social and economic point of view. At the same time, the low level of expenditures implies in our view that there are no money earmarked for such ideas as the payment of the 13. pension or an extension of electricity price freeze. Assumed level seems achievable or could be even slightly higher in our view if the government implements earlier announced hikes in some taxes (higher excise tax for alcohol, elimination of 30x social security contribution threshold, retail tax); we are still not sure how many of those measures will be enforced. Strong boost for government revenues will be provided by one-offs: OFE transition fee, 5G auction, sale of CO2 licences. VAT revenues at c.PLN200bn seem to be slightly overestimated, given their cyclical nature and likely slowdown of consumption growth; however, it should be compensated by higher inflows in other areas. In general, the draft budget approved by the government seems to be a draft version indeed, which could be modified after the election. Still, a balanced budget will serve as an anchor for future actions and could be treated as a positive information for investors (as T-bonds supply in 2020 could be low).

In Italy, it is possible that the Five Star Movement will form coalition with centre-left Democratic Party lead by Prime Minister Conte (who earlier served as PM for Five Star Movement – Northern League coalition). Today the president Sergio Mattarella starts 3 day long talks on this matter. After this piece of news, 10Y Italian bond yields slid to 1.12% and spread to Bund narrowed to 182bps.

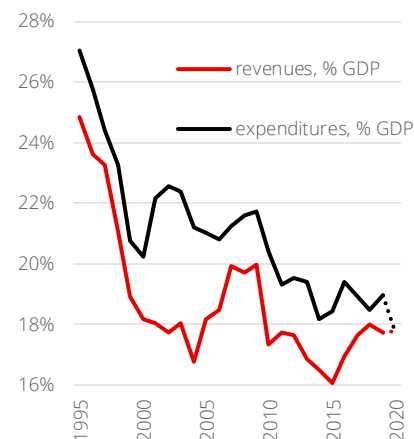
EURUSD traded around 1.11 and the daily range was narrowest this week so far. The exchange rate has not moved after the positive news from Italy. Today there are no major data releases hence the volatility should be subdued. Only tomorrow are there important US data releases on the agenda.

EURPLN opened around 4.36 and slowly grinded towards 4.37 at the end of the day. With stable EURUSD, the USDPLN traded similarly: opening at 3.92 and closed at 3.934, while CHFPLN closed at 4.005. **Regarding other CEE currencies**, EURHUF opened at 329, during the day trade at 328.5 only to trade back above the opening at 329.3 at the close. EURCZK was stable the whole day around 25.8.

Yesterday the central bank of Hungary left the base rate unchanged at 0.9% and the 1-day deposit rate at -0.05. The central bank commented that the monetary policy remains accommodative and in the longer term the risk to the inflation are to the downside. The decision was anticipated by the market and have had no major impact on the forint.

On the Polish fixed income market the trading session was under the influence of the balanced budget news. There was a strong demand for domestic bonds on the long end of the curve (10Y) but also, quite uncommonly, in the belly of the curve (5Y), mainly from the Polish financial institutions. As a result, the spreads vs Bund and vs UST narrowed yesterday significantly (vs Bund to 250bp, -10bp on the day). Polish swaps, which barely changed on Monday due to the UK bank holiday, on Tuesday caught up the Monday bond moves and on top of that traded lower on the balanced budget sentiment – 10Y IRS closed at 1.50 or -15bp on the day.

Revenues and expenditures of the central budget



Source: Ministry of Finance, GUS, Santander

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FX market

Today's opening

EURPLN	4.3772	CZKPLN	0.1694
USDPLN	3.9480	HUFPLN*	1.3288
EURUSD	1.1087	RUBPLN	0.0594
CHFPLN	4.0178	NOKPLN	0.4381
GBPPLN	4.8429	DKKPLN	0.5870
USDCNY	7.1588	SEKPLN	0.4081

*for 100HUF

Last session in the FX market 27/08/2019

	min	max	open	close	fixing
EURPLN	4.358	4.379	4.359	4.376	4.3684
USDPLN	3.923	3.949	3.924	3.943	3.9309
EURUSD	1.109	1.112	1.111	1.110	-

Interest rate market 27/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.51	-3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.58	-10	21 mar 19	PS0424	2.209
DS1029 (10L)	1.81	-12	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	1.66	-3	1.77	-2	-0.48	0
2L	1.61	-5	1.50	-3	-0.54	-1
3L	1.55	-7	1.39	-4	-0.55	-1
4L	1.51	-10	1.34	-4	-0.53	-2
5L	1.48	-11	1.32	-5	-0.51	-3
8L	1.48	-14	1.35	-6	-0.38	-5
10L	1.50	-15	1.39	-6	-0.27	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.60	0
SW	1.59	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	-1
3x6	1.67	-4
6x9	1.63	-4
9x12	1.57	-4
3x9	1.73	-4
6x12	1.68	-6

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.52	-11
France	21	0	0.28	0
Hungary			2.46	-10
Spain	43	-1	0.78	1
Italy	190	-16	1.85	1
Portugal	46	-1	0.82	1
Ireland	34	-1	0.60	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

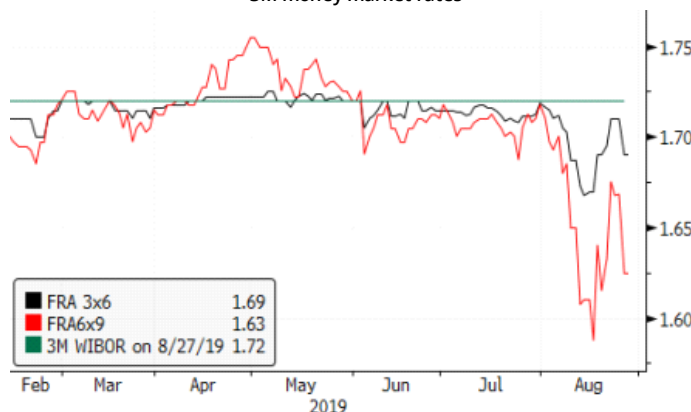
Zloty exchange rate



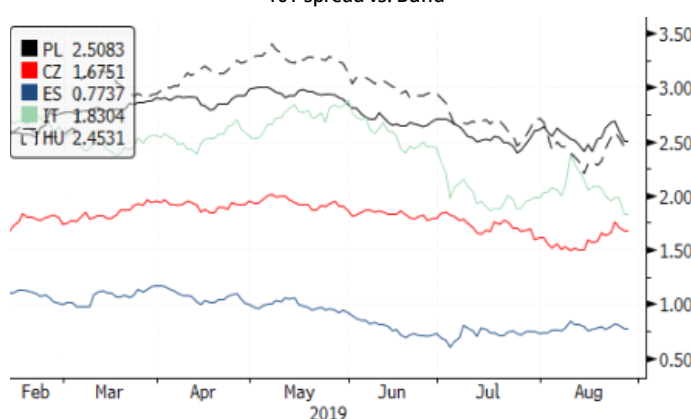
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar									
TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST		
CET				MARKET	SANTANDER	VALUE	VALUE*		
FRIDAY (23 August)									
14:00	PL	Money Supply M3	Jul % y/y	9.5	9.9	9.9	9.3		
16:00	US	New Home Sales	Jul % m/m	0.46	-	-12.8	20.9		
MONDAY (26 August)									
10:00	DE	IFO Business Climate	Aug pts	96.0	-	94.3	95.7		
10:00	PL	Unemployment Rate	Jul %	5.2	5.2	5.2	5.3		
14:30	US	Durable Goods Orders	Jul % m/m	1.1	-	2.1	1.8		
TUESDAY (27 August)									
08:00	DE	GDP	2Q % y/y	0.4	-	0.4	0.4		
14:00	HU	Central Bank Rate Decision	%	0.90	-	0.9	0.9		
16:00	US	Consumer Conference Board	Aug pts	129.0	-	135.1	135.8		
Wednesday (28 August)									
No important data releases									
THURSDAY (29 August)									
11:00	EZ	ESI	Aug pct.	0.0	-		102.7		
14:00	DE	HICP	Aug % m/m	0.0	-		0.4		
14:30	US	GDP Annualized	2Q % q/q	2.0	-		2.1		
14:30	US	Initial Jobless Claims	week k	216	-		220		
16:00	US	Pending Home Sales	Jul % m/m	0.0	-		2.8		
FRIDAY (30 August)									
09:00	CZ	GDP SA	2Q % y/y	2.7	-		2.7		
09:00	HU	GDP	2Q % y/y	-	-		4.9		
10:00	PL	CPI	Aug % y/y	-	2.8		2.9		
10:00	PL	GDP	2Q % y/y	-	4.4		4.4		
11:00	EZ	Flash HICP	Aug % y/y	1.1	-		1.1		
11:00	EZ	Unemployment Rate	Jul %	7.5	-		7.5		
14:30	US	Personal Spending	Jul % m/m	0.5	-		0.3		
14:30	US	Personal Income	Jul % m/m	0.3	-		0.4		
14:30	US	PCE Deflator SA	Jul % m/m	0.2	-		0.1		
16:00	US	Michigan index	Aug pts	92.3	-		92.1		

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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