

4 September 2019

Eyeopener

Rating agencies cautious about budget draft

Fitch and S&P not convinced about zero budget deficit in 2020
MPC's Kropiwnicki supports wait-and-see, with slight risk of hike
Zloty a bit stronger after US data
Today, services PMI in Europe

Weak data on US manufacturing were released on Tuesday. ISM fell to 49.1 in August from 51.2 in July. The most leading index component – new orders – was the lowest since 2012 and new export orders the lowest since 2009. The employment component fell as well. Industrial production data were weak also in other countries – e.g. in Brasil it fell by 2.5% y/y, 1.3pp worse than market expected. In UK, Prime Minister Boris Johnson lost his vote in parliament with a group of MPs opposing Britain's withdrawal from the EU without a deal, while losing support from 21 Conservative Party MPs and a majority in the House of Commons. Most likely today, parliament will try to vote on a legislation blocking the government from leaving the EU without a deal. Early elections are also becoming more likely. In Italy, the Democratic Party is increasingly likely to form a coalition with 5 Stars. After coalition news, government bond yields were setting new lows: the 10-year benchmark closed at 0.87%, and spread to Bund narrowed to 153bp. The market assumes that the new government will be less confrontational in talks with Brussels on budget limits.

Fitch Ratings director Arvind Ramakrishnan said that Poland may fail to eliminate fiscal deficit in 2020 because revenue growth assumptions may prove too optimistic. In his view the budget draft was designed to show fiscal discipline ahead of elections and may be changed afterwards. According to Fitch, VAT revenues seem too optimistic given that the VAT gap is already reduced to 13%. What is more, PIT revenues were seen as at risk of missing the estimate, being based on high growth of employment and wages – in case of a rapid slowdown these values would not be met. Also **S&P** representative Marcin Petrykowski said yesterday that budget revenues assumptions are too optimistic, especially VAT, and the general government deficit may reach 2% of GDP.

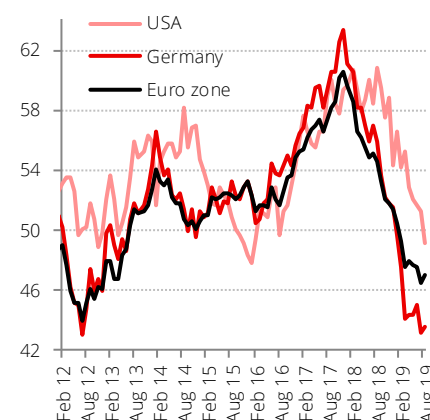
MPC member Jerzy Kropiwnicki in his interview for PAP (Polish Press Agency) said that he thinks that the best monetary policy strategy at the moment is still the "wait-and-see" approach, however the balance of risks is tilted more towards rate hikes. Kropiwnicki's rate hike view is being softened by the fact that the GDP growth is slowing and the CPI – in his opinion – would not rise above 3.5%. We think that this last assumption will prove wrong relatively quickly.

On Tuesday opening the **zloty** slightly weakened to 4.37 from 4.36, but later in the day gained significantly after the weaker US manufacturing data – traded 4.35 near close. On Wednesday morning zloty opens at 4.347. **Other regional currencies** traded similarly to zloty for example EURHUF strengthened to 330.1 from 331.3 (Wednesday open at 329.8), EURCZK to 25.85 from 25.9. USDRUB traded differently – closed weaker at 67.0 from 66.8, mostly due to weaker oil - WTI down 4pct 53.2. After the oil rebounded in the US session to 54.2, USDRUB opens today lower at 66.75.

The volatility was low on the **Polish FI market** – bond yield curve decreased by 4bp on the longer end, while the swap curve declined by 2bp on the longer end. The German market also saw small changes: 2Y yield went up by 2bp, 10Y by 1bp. The US curve went down by about 5bps in all tenors after weaker data, 10Y bond yield opened at 1.53% git daily low 1.43% and ended the day at 1.46%. Today in the morning bond yields in the euro zone are going up, which may be related to the yesterday evening's opinion of the ECB's François Villeroy de Galhau, who was quite sceptical about the resumption of QE. It is possible that the Polish debt will follow suit today.

Today, services PMI in China, Germany and the euro zone are the most important data releases. July retail sales in the euro zone is likely to gather attention. Also, the eyes will be on the UK parliament that will try to prevent Hard Brexit scenario.

Manufacturing sentiment indices (pts)



Source: Bloomberg, Markit, Santander

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FX market

Today's opening

EURPLN	4.3440	CZKPLN	0.1682
USDPLN	3.9571	HUFPLN*	1.3185
EURUSD	1.0978	RUBPLN	0.0594
CHFPLN	4.0071	NOKPLN	0.4359
GBPPLN	4.8045	DKKPLN	0.5826
USDCNY	7.1599	SEKPLN	0.4048

*for 100HUF

Last session in the FX market 03/09/2019

	min	max	open	close	fixing
EURPLN	4.345	4.370	4.360	4.345	4.3667
USDPLN	3.960	3.999	3.974	3.961	3.9882
EURUSD	1.093	1.098	1.097	1.097	-

Interest rate market 03/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.53	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.67	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.81	-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	1.68	0	1.74	-6	-0.51	0
2L	1.64	-1	1.44	-6	-0.57	0
3L	1.57	-2	1.33	-7	-0.57	0
4L	1.53	-2	1.28	-7	-0.56	0
5L	1.52	-2	1.25	-6	-0.53	1
8L	1.50	-2	1.28	-6	-0.39	0
10L	1.51	-3	1.33	-6	-0.28	0

WIBOR rates

Term	%	Change (bps)
O/N	1.64	-2
T/N	1.65	-1
SW	1.60	-1
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	1.72	0
3x6	1.70	0
6x9	1.66	1
9x12	1.60	1
3x9	1.77	0
6x12	1.70	0

Measures of fiscal risk

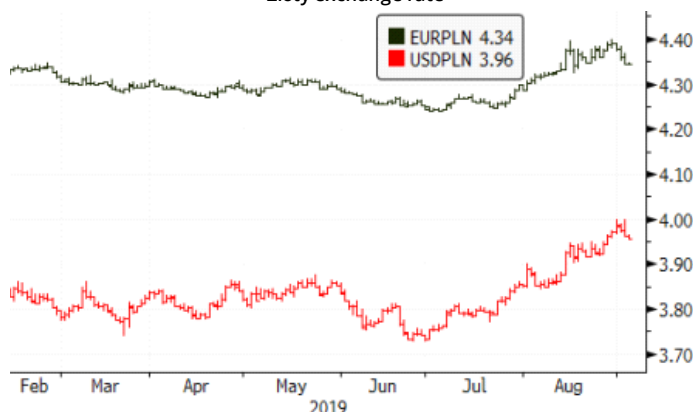
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.50	-5
France	21	0	0.31	0
Hungary			2.57	0
Spain	42	-1	0.80	-2
Italy	162	-10	1.49	-9
Portugal	42	1	0.80	-3
Ireland	34	-1	0.63	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

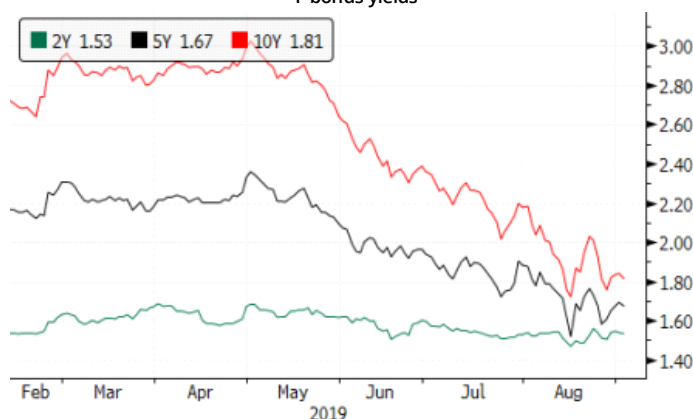
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

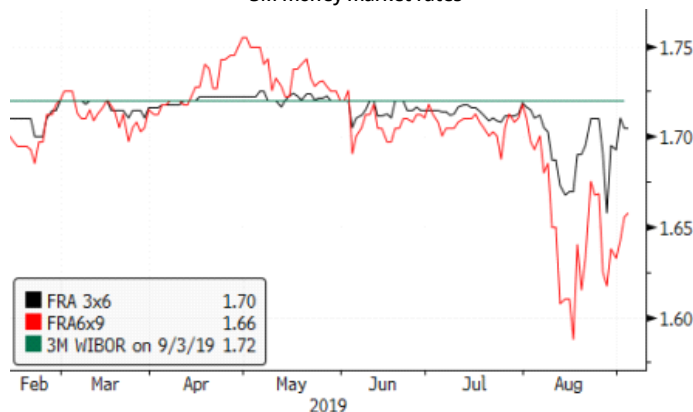
Zloty exchange rate



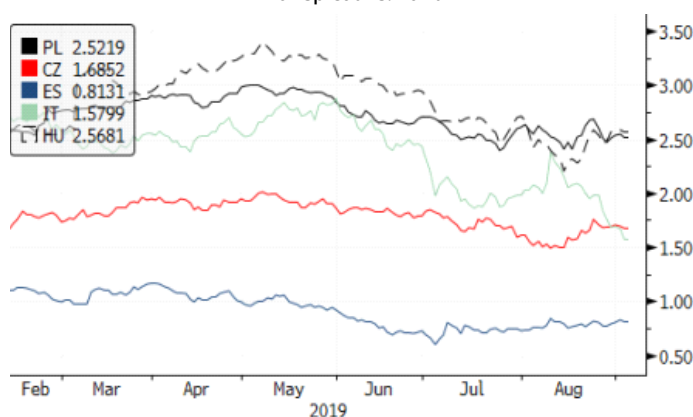
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD				
CET				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (30 August)							
06:50	PL	Central Budget Cumul.	Jul	mn PLN	-	-	-4 783
08:00	DE	Retail Sales	Jul	% m/m	-1.25	-	-2.2
09:00	CZ	GDP SA	2Q	% y/y	2.7	-	2.7
09:00	HU	GDP	2Q	% y/y	4.9	-	4.9
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.8
10:00	PL	GDP	2Q	% y/y	-	4.4	4.5
11:00	EZ	Flash HICP	Aug	% y/y	1.0	-	1.0
11:00	EZ	Unemployment Rate	Jul	%	7.5	-	7.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.6
14:30	US	Personal Income	Jul	% m/m	0.3	-	0.1
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.2
16:00	US	Michigan index	Aug	pts	92.3	-	89.8
MONDAY (2 September)							
09:00	PL	Poland Manufacturing PMI	Aug	pts	47.7	47.6	48.8
09:55	DE	Germany Manufacturing PMI	Aug	pts	43.6	-	43.5
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	47.0	-	47.0
TUESDAY (3 September)							
16:00	US	ISM manufacturing	Aug	pts	51.2	-	49.1
WEDNESDAY (4 September)							
03:45	CN	Caixin China PMI Services	Aug	pts	51.7	-	52.1
09:55	DE	Markit Germany Services PMI	Aug	pts	54.4	-	
10:00	EZ	Eurozone Services PMI	Aug	pts	53.4	-	
11:00	EZ	Retail Sales	Jul	% m/m	-0.45	-	
THURSDAY (5 September)							
08:00	DE	Factory Orders	Jul	% m/m	-1.4	-	
14:15	US	ADP report	Aug	k	143	-	
14:30	US	Initial Jobless Claims	week	k	214	-	
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	
16:00	US	ISM services	Aug	pts	53.6	-	
16:00	US	Factory Orders	Jul	% m/m	0.8	-	
FRIDAY (6 September)							
08:00	DE	Industrial Production SA	Jul	% m/m	0.4	-	
09:00	CZ	Industrial Production	Jul	% y/y	2.9	-	
09:00	HU	Industrial Production SA	Jul	% y/y	6.85	-	
11:00	EZ	GDP SA	2Q	% y/y	1.1	-	
14:30	US	Change in Nonfarm Payrolls	Aug	k	165	-	
14:30	US	Unemployment Rate	Aug	%	3.7	-	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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