

9 September 2019

Eyeopener

New election promises

Market with no major reaction to the US data
 EURPLN and EURUSD stable
 PiS showing new election promises; Brudziński: budget for 2020 will be updated
 In CEE region, HUF and CZK lost, RUB gained
 Polish bond yields to further up

At the beginning of the Friday session the trading on major currencies became much more stable than in the previous days of the past week. The trade was calmer ahead of the nonfarm payrolls due for release in the afternoon. The ADP report published a day earlier surprised very positively but the government reading was not as optimistic and showed a second month of decreasing employment growth. On the other hand, wage data were stronger than expected, which might have been the reason why the markets did not react abruptly to relatively poor payrolls. China reduced its reserve requirements rate by 50bp to support the economy. This morning's German exports data were stronger than expected.

At the weekend PiS party summit, the leaders showed **new election promises**: the payout of two 13. pensions in 2021, an increase of the minimum wage to PLN2600 at the start of 2020 (currently PLN2250), PLN3000 by the end of 2020, PLN4000 by the end of 2023, increase of direct payments to Polish farmers to equal the transfers of their Western European peers. What is more, the minimum pension was promised to be increased to PLN1200 (from the current PLN1100), a PLN2bn fund for modernisation of hospitals will be created and another one for modernisation of schools. Another promise was to increase the limit on revenues for the use of a lump-sum income tax (from €250k to €1mn, and possibly to €2mn at a later date). Today in an interview for Polish Radio 1, PiS head of election campaign Joachim Brudziński said the 2020 budget (which is yet not approved) will be amended to make room for the 13. pension next year.

In line with market expectations, the **Central Bank of Russia** trimmed interest rates by 25 bp on Friday, with reference rate falling to 7%. That was the third cut this year during rather weak domestic macro data and slowing inflation. In its statement, the Bank of Russia underlined that in the next few months it will consider the rationale of further monetary policy easing. The head of the Bank, Elvira Nabiullina said that the main interest rate currently sits at the upper limit of its neutral range of 6-7%. The tone regarding the potential for further interest rate cuts was more conservative than in the previous months and that strengthened the ruble at the end of the week.

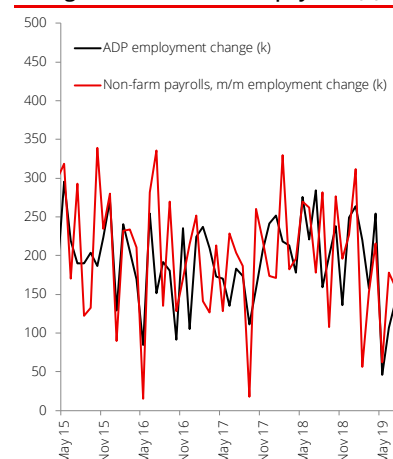
EURUSD traded on Friday within Thursday's range. The market reaction post US data was insignificant and at the end of the day the pair closed at 1,104. The Germany July exports figures this morning have not moved the market either and we assume that the market reaction to this morning's and the forthcoming figures won't be significant before Thursday's ECB meeting.

EURPLN traded near 4.34 for a third day in a row, while USDPLN remained close to 3.93. The EURPLN downward move until the end of August is almost the same in size as the 2-day correction which occurred in the middle of last month. This means that next few days might be crucial to decide if during the next weeks the zloty will still be gaining vs euro or will give back some of the latest gains. As for the **other CEE currencies** there was some volatility on both the forint and koruna. Both of the currencies weakened vs euro – EURHUF traded close to 331 (slightly below all time high set at the end of August) and EURCZK 25.85 (remained within a Wednesday range). The ruble traded relatively stronger thanks to central bank's rhetoric.

On the domestic interest rate market, IRS curves and yields shifted up by 1-4 bp, stronger in the second case. Polish debt did not benefit from the US data – the 10-year Bund gained 3 bp in yields – and as a result spread rose to ca. 236 bp. In mid-August, it fluctuated near the lower limit of the 250-300 bp range in which the spread has been moving since 2018.

The key event of this week would be the ECB decision, in our view. The central bank is expected to ease its policy but we assume that it might not turn out as dovish as expected. Out of the global data releases we see US CPI and retail sales as the most relevant for the market, as these could have an impact on Fed's approach to further rate cuts. Polish MPC meets after the summer break with higher inflation than before the holidays but we do not think the rhetoric could tilt to the hawkish side. The global growth uncertainty and monetary easing abroad gives the MPC good reasons to stick to wait-and-see approach and keep rates stable for longer. We continue to expect unchanged rates this year and next. Later in the week we will see some Polish data – inflation and C/A balance. If the ECB turns out not as dovish as expected, a temporary market disappointment will possibly drive core and Polish bond yields higher. At the same time, for technical reasons we expect the zloty to hold on to or even increase the recent gains.

Change of the US nonfarm payrolls (k)



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3343	CZKPLN	0.1676
USDPLN	3.9316	HUFPLN*	1.3135
EURUSD	1.1024	RUBPLN	0.0599
CHFPLN	3.9759	NOKPLN	0.4386
GBPPLN	4.8212	DKKPLN	0.5809
USDCNY	7.1324	SEKPLN	0.4079

*for 100HUF

Last session in the FX market 06/09/2019

	min	max	open	close	fixing
EURPLN	4.334	4.346	4.339	4.340	4.3392
USDPLN	3.924	3.939	3.930	3.932	3.9315
EURUSD	1.102	1.106	1.104	1.103	-

Interest rate market 06/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.55	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.80	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	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	1	1.79	1	-0.48	2
2L	1.72	2	1.53	0	-0.53	3
3L	1.69	3	1.42	0	-0.53	0
4L	1.69	2	1.38	0	-0.51	3
5L	1.69	2	1.37	0	-0.47	4
8L	1.69	3	1.40	-1	-0.29	7
10L	1.72	3	1.45	-1	-0.16	9

WIBOR rates

Term	%	Change (bps)
O/N	1.64	0
T/N	1.65	0
SW	1.60	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	1.72	0
3x6	1.72	0
6x9	1.68	0
9x12	1.64	0
3x9	1.79	1
6x12	1.76	3

Measures of fiscal risk

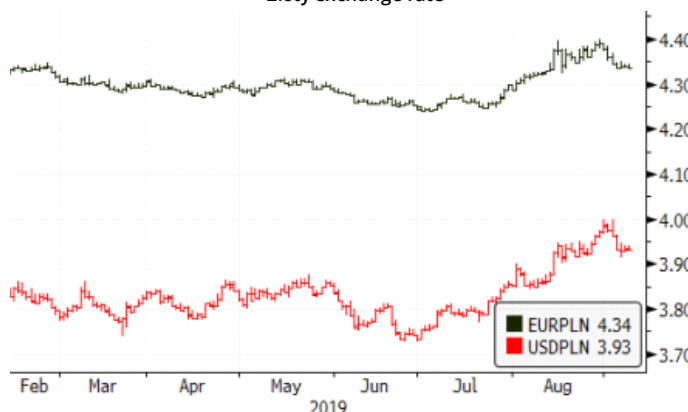
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.65	3
France	21	0	0.30	0
Hungary			2.78	-1
Spain	42	0	0.81	0
Italy	148	2	1.52	1
Portugal	44	0	0.83	0
Ireland	33	0	0.57	-6
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

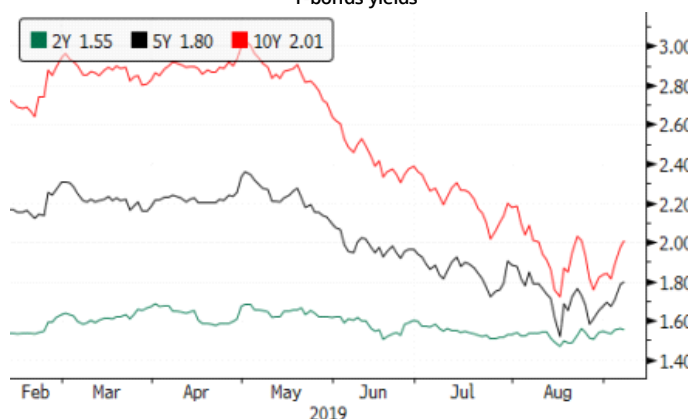
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

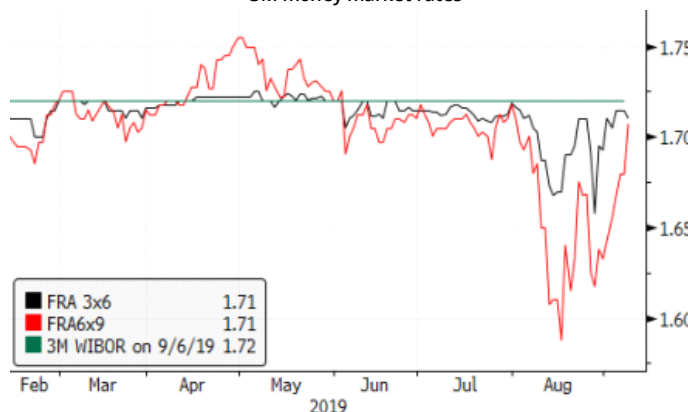
Zloty exchange rate



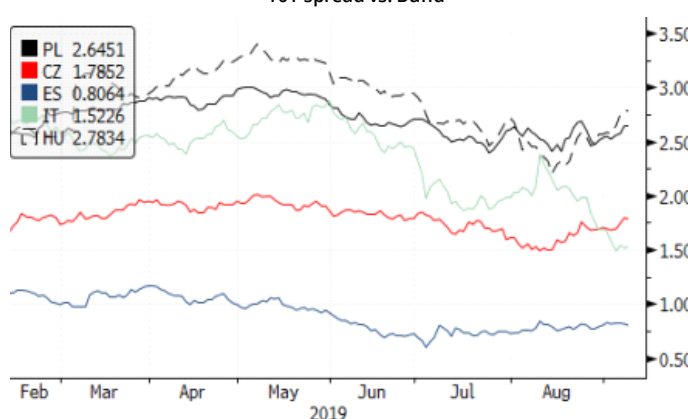
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD	MARKET	SANTANDER	VALUE	VALUE*
CET							
FRIDAY (6 September)							
08:00	DE	Industrial Production SA	Jul % m/m	0.4	-	-0.6	-1.5
09:00	CZ	Industrial Production	Jul % y/y	2.9	-	0.1	-3.8
09:00	HU	Industrial Production SA	Jul % y/y	5.85	-	8.7	4.1
11:00	EZ	GDP SA	2Q % y/y	1.1	-	1.2	1.1
14:30	US	Change in Nonfarm Payrolls	Aug k	160	-	130	159
14:30	US	Unemployment Rate	Aug %	3.7	-	3.7	3.7
MONDAY (9 September)							
08:00	DE	Exports SA	Jul % m/m	-0.7	-		-0.1
TUESDAY (10 September)							
09:00	CZ	CPI	Aug % y/y	2.8	-		2.9
09:00	HU	CPI	Aug % y/y	3.2	-		3.3
WEDNESDAY (11 September)							
	PL	MPC decision	%	1.50	1.50		1.50
THURSDAY (12 September)							
08:00	DE	HICP	Aug % m/m	-0.1	-		-0.1
11:00	EZ	Industrial Production SA	Jul % m/m	-0.05	-		-1.6
13:45	EZ	ECB Main Refinancing Rate	Sep.19 %	0.0	-		0.0
14:30	US	CPI	Aug % m/m	0.1	-		0.3
14:30	US	Initial Jobless Claims	week k	215	-		217
FRIDAY (13 September)							
10:00	PL	CPI	Aug % y/y	-	2.8		2.8
14:00	PL	Current Account Balance	Jul €mn	4.0	-400		21
14:00	PL	Trade Balance	Jul €mn	-80	-14		-77
14:00	PL	Exports	Jul €mn	19 046	18 845		18 068
14:00	PL	Imports	Jul €mn	18 955	18 859		18 145
14:30	US	Retail Sales Advance	Aug % m/m	0.2	-		0.7
16:00	US	Flash Michigan index	Sep pts	90.2	-		89.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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