

17 September 2019

Eyeopener

Polish share of EU budget may shrink

Market sentiment dampened by the weekend attack on Saudi Arabia
 German EU budget proposals could significantly reduce funds for Poland
 EURUSD, zloty and bonds rather stable
 Today ZEW index and US production

On Monday markets were quite stable amid slightly negative moods after a strong jump in oil prices (by about 13-15%). European and US stock markets ended the day in black, EM currencies were stable, while the greenback gained a bit. Yesterday the ECB chief economist Philip Lane assured that the central bank will not meet any limitations of the APP programme for a prolonged period and purchases of bonds will be possible even without change in the programme structure. Bank of Spain's Pablo Hernández de Cos said that the focus is now on finishing the European banking union and more progress towards the European fiscal union is necessary. The Fed meeting is scheduled for Wednesday, but the US President Donald Trump has already encouraged the central bank to cut rates strongly. Given recent solid data from the US economy, e.g. on retail sales, consumer confidence and rising core inflation, we think, similarly as the market consensus, that tomorrow the Fed will cut rates by 25bps. Let us underline that strong rises of oil price made the market price-in a 30% probability of no cut tomorrow.

On Monday **UK PM Boris Johnson met with EC's Jean-Claude Juncker**. PM Johnson's speaker informed after the meeting that the 17/18 Oct summit will be the last opportunity to strike a deal. If the deal is secured (which depends on removing the so called backstop) there would be no need to prolong the A50 talks and the UK parliament will probably ratify the deal. Juncker said that the UK is expected to suggest an alternative to backstop, and so far such a suggestion has not been made.

According to Thomson Reuters and Rzeczpospolita daily, **Germany want to introduce changes to the 2021-2027 EU budget that would be meaningful for Poland**. The size of the budget would be reduced to 1.0% of GNI from 1.11% and more funds would be allotted to climate and migration – at the expense of cohesion funds and common agricultural policy of which Poland is a great beneficiary. Additionally, German want the rule of law to be the criteria for disbursement of all of the budget funds to the EU countries. The EC claims Poland broke that rule. Germany and France have a common proposition to introduce a financial transaction tax that would fund the EU budget. Hungary already said they will veto these propositions. According to Rzeczpospolita daily, if the changes proposed by Germany are introduced, Poland would have received PLN13bn (or even twice of that) less than according to the most recent budget version.

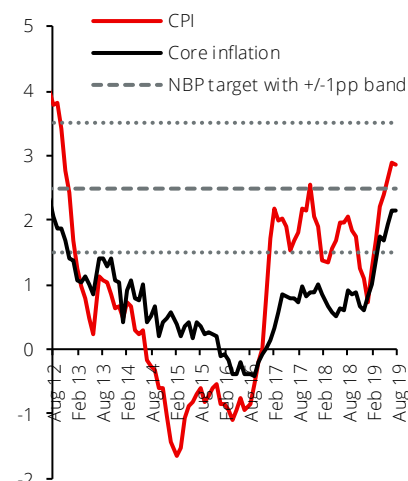
In August, **Poland core CPI** after excluding food and energy prices held unchanged at 2.2% y/y seen in July. The other core inflation measures also did not change or eased slightly. We expect core CPI to rise in the months to come and it could surpass 3% at the turn of the year, in our view.

EURUSD traded lower on Monday by around 0.8% to 1.10 from 1.108. In general, the dolar index gained around 0.6% to 99.6 from 99.0. **EURPLN** remained in a narrow range throughouth the day between 4.325 and 4.33 and closed at 4.326. USDPLN rose because of the dolar strength and closed at 3.93 (2.5 figures higher vs open) while CHFPLN at 3.9620 (2 figures above open). Forint weakened a bit to 332 from 331.5 whereas koruna remained stable at 25.85. Ruble gained (ruble basket up ca 1%) as a result of significantly higher oil prices and USDRUB traded slightly lower to 63.9.

On the Polish **fixed income market** the bond yields tracked the slow day on the core markets and remained stable. Polish 10Y bond closed at 2.13% and swaps at 1.82% just 1bp lower (asset swap remained stable). German bonds yields decreased a little - the 10Y bund closed at -0.48% or -3bp. As a result the 10Y spread to Bund widened to 261 bp.

Today at 11:00 CET there is a publication of ZEW surveys in Germany. Also, industrial production for August m/m will be published at 15:15 CET in the US.

CPI and core inflation, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.3313	CZKPLN	0.1676
USDPLN	3.9348	HUFPLN*	1.3039
EURUSD	1.1007	RUBPLN	0.0615
CHFPLN	3.9660	NOKPLN	0.4391
GBPPLN	4.8840	DKKPLN	0.5801
USDCNY	7.0894	SEKPLN	0.4073

*for 100HUF

Last session in the FX market 16/09/2019

	min	max	open	close	fixing
EURPLN	4.319	4.330	4.324	4.328	4.3262
USDPLN	3.897	3.936	3.903	3.934	3.9116
EURUSD	1.099	1.109	1.108	1.100	-

Interest rate market 16/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.52	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.87	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.12	-2	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	1.93	-3	-0.40	1
2L	1.77	-1	1.74	-5	-0.43	0
3L	1.77	-1	1.66	-6	-0.42	0
4L	1.78	-1	1.63	-6	-0.40	-1
5L	1.79	-1	1.63	-6	-0.36	-2
8L	1.79	-3	1.67	-7	-0.18	-4
10L	1.82	-2	1.72	-7	-0.05	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.65	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	1.71	1
9x12	1.69	0
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

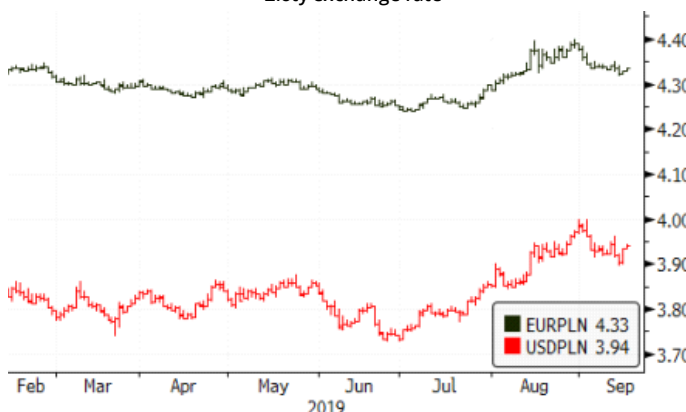
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.61 -2
France	20 1	0.28 0
Hungary		2.54 -2
Spain	39 -1	0.74 1
Italy	121 -3	1.33 -3
Portugal	41 -1	0.76 -4
Ireland	29 4	0.53 -2
Germany	11 1	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

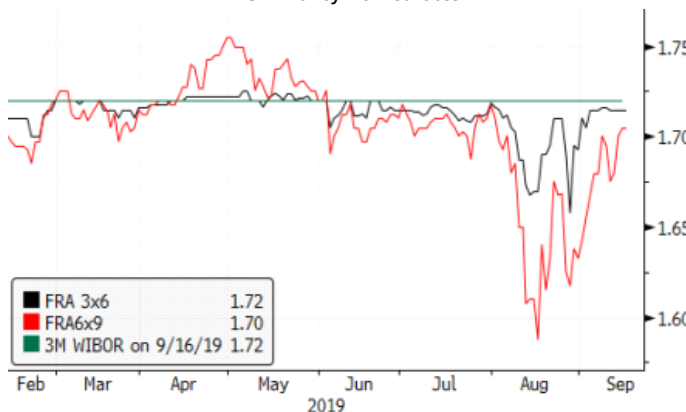
Zloty exchange rate



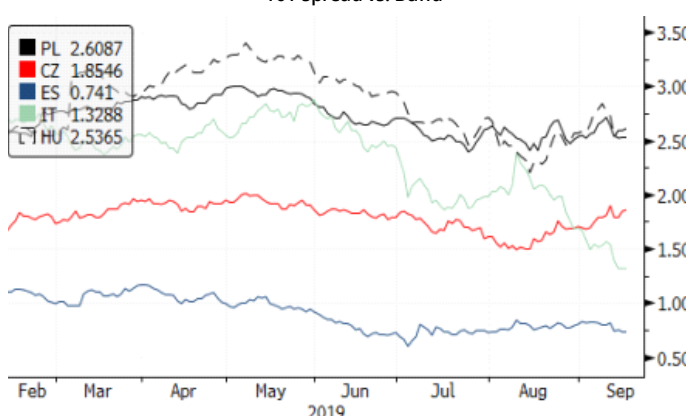
T-bonds yields



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 (13 September)								
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.9	2.8
14:00	PL	Current Account Balance	Jul	€mn	-295	-401	-814	21
14:00	PL	Trade Balance	Jul	€mn	-111	-14	-376	-77
14:00	PL	Exports	Jul	€mn	19077	18845	19239	18068
14:00	PL	Imports	Jul	€mn	18966	18859	19615	18145
14:30	US	Retail Sales Advance	Aug	% m/m	0.2		0.4	0.7
16:00	US	Michigan index	Sep	pts	90.8		92.0	89.8
MONDAY (16 September)								
14:00	PL	CPI Core	Aug	% y/y	2.1	2.1	2,2	2.2
TUESDAY (17 September)								
11:00	DE	ZEW Survey Current Situation	Sep	pts	-13.0		-	-13.5
15:15	US	Industrial Production	Aug	% m/m	0.2		-	-0.22
WEDNESDAY (18 September)								
10:00	PL	Employment in corporate sector	Aug	% y/y	2.7	2.72	-	2.7
10:00	PL	Average Gross Wages	Aug	% y/y	6.75	6.73	-	7.4
11:00	EZ	HICP	Aug	% y/y	1.0		-	1.0
14:30	US	Housing Starts	Aug	% m/m	4.95		-	-4.0
20:00	US	FOMC decision	Sep.19		2.0		-	2.25
THURSDAY (19 September)								
10:00	PL	Sold Industrial Output	Aug	% y/y	1.25	0.9	-	5.8
10:00	PL	PPI	Aug	% y/y	0.8	0.95	-	0.6
14:30	US	Initial Jobless Claims	Sep.19	k	215.0		-	204.0
14:30	US	Index Philly Fed	Sep		10.75		-	16.8
16:00	US	Existing Home Sales	Aug	% m/m	-0.56		-	2.46
FRIDAY (20 September)								
10:00	PL	Retail Sales Real	Aug	% y/y	5.2	4.36	-	5.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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