

6 May 2019

Eyeopener

Bitter-sweet end of the week

PMI manufacturing bottoming out

US data surprised positively, Trump threatens to increase tariffs on China

Bond yields and EURPLN higher after European and US data

Today, PMI services and retail sales in the Eurozone

On Thursday, a set of manufacturing PMI indices was released (euro zone indicators in line with expectations, the reading for Poland above expectations). In the USA, labour productivity and industrial new orders surprised positively, while unit labour costs data were lower than expected. The Czech central bank raised interest rates by 25bp to 2.00% as expected, suggesting more can be done. On Friday, European inflation data proved stronger than expected, as did US non-farm payrolls. On the other hand, US wage growth disappointed. In general, the data from the recent days suggested that the fears about the scale of the global slowdown, expressed at the start of the year, were exaggerated. However, uncertainty about economic outlook may rise again at the start of this week due to Donald Trump's weekend unexpected remarks that all Chinese imports to the USA might be covered by a 25% tariff (possibly starting this Friday), only a few days before another round of trade talks with China. The information had a negative impact on Asian equities and the Chinese currency and may weigh on market sentiment today. Risk appetite at the start of the week may also be curbed by the weekend missile test by North Korea.

The **Polish manufacturing PMI** rose in April to 49 from 48.7. The rebound was slight and only implies a deceleration of contraction in the manufacturing sector. The survey still shows a significant decline of export orders, which is offset by improvement of domestic orders. The assessment of current output was at the highest level since November, however it was accompanied by continuing declarations of cuts in employment.

EURUSD fell for the second day in a row, as the dollar was supported by positive data on labour costs and productivity in the USA. This move was continued on Friday until release of the US labour market data, which made the pair rebound above 1.12 from local minimum below 1.11. Today the dollar is likely to gain in response to elevated global risk aversion.

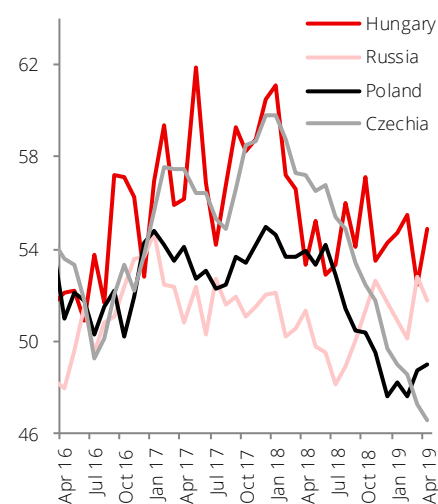
EURPLN slid on Thursday to 4.28 and to 4.275 on Friday, when the market was not very liquid. The zloty was supported by better-than-expected PMI, information from the global economy and rising stock markets. Today we are expecting EURPLN to go up given higher global risk aversion.

In the **CEE region**, EURHUF declined to 324 on Thursday and 323 on Friday from 324.60 thanks to better-than-expected Hungarian PMI and expectations for a high reading of flash inflation (this week). EURCZK jumped above 25.7 due to profit-taking after the central bank decision to hike rates by 25bps. USDRUB climbed on Thursday after sell-off of crude oil, then rebounded somewhat on Friday, but today it is higher again.

On the **domestic interest rate market**, Thursday changes were relatively small despite low market liquidity and quite active trade on the IRS market. Thus, yields climbed by 2bps and IRS rates by 3-4bps in the 5-10Y segment. These moves were an effect of some rises in US yields after quite good data from the industry. Today the domestic bond yields are likely to decline a bit following the core markets.

This week in the domestic calendar we have only one major event – the bond switch auction. Ministry of Finance will offer OK0521, PS1024, WZ0524, WZ0528 i DS1029, in swap for PS0719, DS1029, WZ1020 i PS0420. On the core markets we will see release of the Eurozone PMI-services, German new orders, industrial production and export. The German real sector data will probably not surprise positively which may push down the zloty and stabilise domestic debt. The switch auction may negatively affect the domestic bonds.

Manufacturing PMIs



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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2825 | CZKPLN | 0.1666 |
| USDPLN | 3.8274 | HUFPLN* | 1.3244 |
| EURUSD | 1.1189 | RUBPLN | 0.0585 |
| CHFPLN | 3.7645 | NOKPLN | 0.4370 |
| GBPPLN | 5.0214 | DKKPLN | 0.5736 |
| USDCNY | 6.7795 | SEKPLN | 0.3995 |

*for 100HUF

Last session in the FX market 03/05/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.275 | 4.289 | 4.287 | 4.276 | 4.2795 |
| USDPLN | 3.817 | 3.849 | 3.835 | 3.819 | 3.8177 |
| EURUSD | 1.114 | 1.121 | 1.118 | 1.120 | - |

Interest rate market

03/05/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0421 (2L) | 1.68 | 1 | 21 mar 19 | OK0521 | 1.633 |
| PS0424 (5L) | 2.36 | 3 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 3.02 | 3 | 21 mar 19 | DS1029 | 2.877 |

IRS on the interbank market**

| Term | PL | US | EZ |
|------|--------------|--------------|--------------|
| | % | % | % |
| | Change (bps) | Change (bps) | Change (bps) |
| 1L | 1.76 | 0 | -0.23 |
| 2L | 1.92 | 0 | -0.20 |
| 3L | 2.02 | 0 | -0.13 |
| 4L | 2.14 | 0 | -0.05 |
| 5L | 2.24 | 0 | 0.04 |
| 8L | 2.47 | 0 | 0.34 |
| 10L | 2.60 | 0 | 0.52 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.60 | 3 |
| T/N | 1.60 | 3 |
| SW | 1.56 | 0 |
| 2W | 1.58 | 0 |
| 1M | 1.64 | 0 |
| 3M | 1.72 | 0 |
| 6M | 1.79 | 0 |
| 9M | 1.81 | 0 |
| 1Y | 1.87 | 0 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 1.72 | 0 |
| 3x6 | 1.73 | 0 |
| 6x9 | 1.75 | 0 |
| 9x12 | 1.78 | 0 |
| 3x9 | 1.80 | 0 |
| 6x12 | 1.83 | 0 |

Measures of fiscal risk

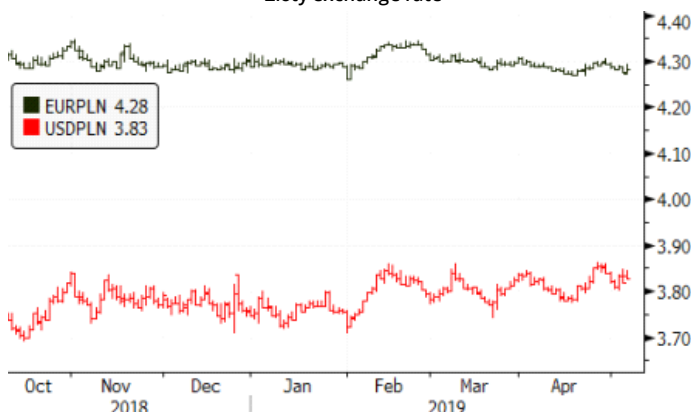
| Country | CDS 5Y USD Level | Change (bps) | 10Y spread* Level | Change (bps) |
|----------|------------------|--------------|-------------------|--------------|
| Poland | | | 3.03 | 5 |
| France | 28 | 0 | 0.35 | 1 |
| Hungary | | | 3.32 | 4 |
| Spain | 55 | -1 | 0.97 | 1 |
| Italy | 187 | 1 | 2.59 | 5 |
| Portugal | 61 | 0 | 1.10 | 1 |
| Ireland | 31 | 0 | 0.53 | 1 |
| 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



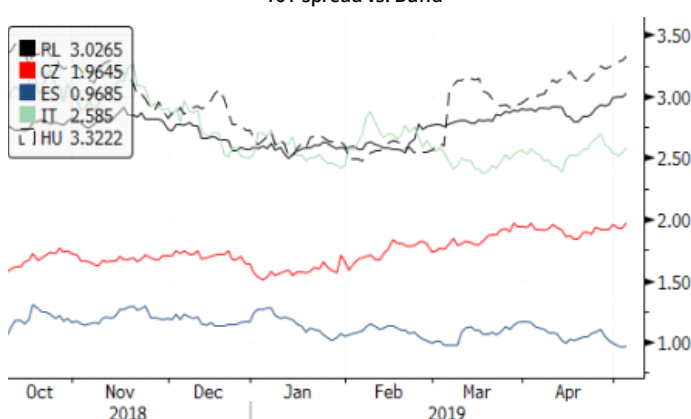
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST |
|-------------------|---------|-----------------------------|--------|----------|-----------|--------|--------|
| | | | | MARKET | SANTANDER | VALUE | VALUE* |
| FRIDAY (3 May) | | | | | | | |
| 11:00 | EZ | Flash HICP | Apr | % y/y | 1.6 | 1.7 | 1.4 |
| 14:30 | US | Change in Nonfarm Payrolls | Apr | k | 190 | 236 | 196 |
| 14:30 | US | Unemployment Rate | Apr | % | 3.8 | 3.6 | 3.8 |
| 16:00 | US | ISM services | Apr | pts | 57.0 | 55.5 | 56.1 |
| MONDAY (6 May) | | | | | | | |
| 03:45 | CN | Caixin China PMI Services | Apr | pts | 54.5 | 54.5 | 54.4 |
| 09:55 | DE | Markit Germany Services PMI | Apr | pts | 55.6 | - | 55.6 |
| 10:00 | EZ | Eurozone Services PMI | Apr | pts | 52.5 | - | 52.5 |
| 11:00 | EZ | Retail Sales | Mar | % m/m | 0.0 | - | 0.4 |
| TUESDAY (7 May) | | | | | | | |
| 08:00 | DE | Factory Orders | Mar | % m/m | 1.0 | - | -4.2 |
| WEDNESDAY (8 May) | | | | | | | |
| 08:00 | DE | Industrial Production SA | Mar | % m/m | -0.9 | - | 0.7 |
| 09:00 | HU | Industrial Production SA | Mar | % y/y | 0.0 | - | 5.9 |
| THURSDAY (9 May) | | | | | | | |
| 09:00 | CZ | Industrial Production | Mar | % y/y | 0.0 | - | 1.5 |
| 09:00 | HU | CPI | Apr | % y/y | 4.1 | - | 3.7 |
| 11:30 | PL | Switch Auction | | | | | |
| 14:30 | US | Initial Jobless Claims | | k | 215.0 | - | 230.0 |
| FRIDAY (10 May) | | | | | | | |
| 08:00 | DE | Exports SA | Mar | % m/m | 0.0 | - | -1.2 |
| 14:30 | US | CPI | Apr | % m/m | 0.4 | - | 0.4 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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