

10 May 2019

Eyeopener

Unemployment falling at slower pace

Another rise of tension in USA-China trade relations
 Polish unemployment rate keeps falling, although at slower pace
 Bond yields lower, EURPLN higher amid worsening global moods
 Today, German export and US inflation

On Thursday markets were getting nervous about the looming tariff increase in case of failure of US-China trade talks and about the Donald Trump's threat to impose sanctions on Iran covering other resources than energy. Worries regarding the first element materialized quite quickly, as the US formally decided to boost tariffs this morning after the round of trade negotiations brought no breakthrough. Yesterday, US labour market data were a bit worse than expected, while Hungarian inflation was in line with forecasts, which weakened expectations for interest rate hike. Czech industrial production was lower than expected. In reaction to rising geopolitical tension and escalating trade wars, stock prices and bond yields were declining, the zloty weakened, and euro strengthened versus dollar. Today in the morning we saw very good data about German exports (+1.5% m/m, vs expected -0.4%) – another signal that the biggest economy in Europe may be recovering from the doldrums.

According to the Ministry of Labour, in April the **registered unemployment rate** amounted to 5.6%, in line with our forecast. Data after seasonal adjustment point to a further fall in unemployment in Poland, yet the downward trend is weaker than last year. Low unemployment will be supportive for the consumer demand, which will remain the main GDP driver in 2019.

On Thursday **EURUSD** climbed to 1.1230 from 1.1190, hitting 1.1150 on the way, following the falling stock markets and declining expectations for Fed interest rates. The most considerable move took place after the New York market opened, as it reacted negatively to suggestions of tit-for-tat tariffs between China and USA. Today we are expecting the euro to gain versus the dollar given surprisingly good data on German exports and euro's resistance to negative news on the Sino-US negotiations.

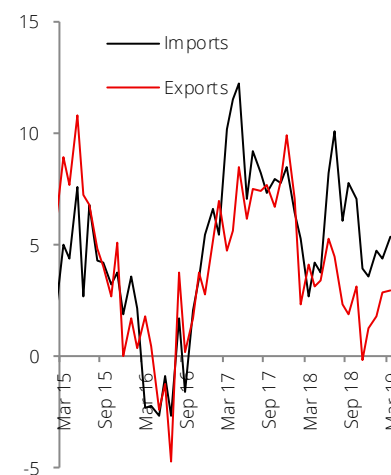
Yesterday **EURPLN** climbed to 4.3000 from 4.2930, with daily peak at 4.3030. The zloty weakening happened mostly in reaction to falling stock indices in the US and afternoon weakening of European equities. Today we are expecting the zloty to gain with help of German data.

In case of **other CEE currencies**, EURHUF moved in a wide range of 323.3-324.8, at first rising on the published data (confirmation of the rise of inflation in Hungary). EURCZK remained quite stable (moving from 25.73 to 25.74). USDRUB rose from 65 to 65.4, observing a decline of oil prices and due to the declines of equities.

On Thursday, on the **domestic interest rate market** the yields fell by 2bp across the curve. In case of IRS rates we saw a slightly larger decline (by 3bp), in line with the USD curve (EUR rates were stable). Polish switch auction caused a temporary sell-off on the long end of the bond curve. Today we expect stabilisation of bond pricing due to positive German exports data on one hand and a rise of tension in US-China trade talks on the other.

On the **switch auction**, the Ministry of Finance bought back PS0719, DS1019, WZ0120 and PS0420 bonds (worth PLN3.98bn) and sold papers OK0521 (PLN0.37bn), PS1024 (PLN2.05bn), WZ0524 (PLN0.69bn), WZ0528 (PLN0.35bn) and DS1029 (PLN0.62bn). Judging by the investors' behaviour in the recent months, the highest demand for PS1024 (the new 5Y benchmark) may have come from domestic banks and foreign investors. After the auction, the gross borrowing needs are covered in 72%.

Germany: international trade, % y/y



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2999	CZKPLN	0.1671
USDPLN	3.8303	HUFPLN*	1.3262
EURUSD	1.1226	RUBPLN	0.0587
CHFPLN	3.7746	NOKPLN	0.4369
GBPPLN	4.9812	DKKPLN	0.5759
USDCNY	6.8040	SEKPLN	0.3970

*for 100HUF

Last session in the FX market 09/05/2019

	min	max	open	close	fixing
EURPLN	4.291	4.303	4.293	4.298	4.2977
USDPLN	3.822	3.847	3.837	3.832	3.841
EURUSD	1.117	1.125	1.119	1.122	-

Interest rate market 09/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.65	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.27	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.91	-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	1.75	0	2.51	-2	-0.24	0
2L	1.86	-2	2.37	-2	-0.21	0
3L	1.94	-2	2.30	-2	-0.15	0
4L	2.03	-3	2.29	-2	-0.08	0
5L	2.12	-3	2.30	-1	0.01	0
8L	2.33	-4	2.38	-1	0.29	1
10L	2.46	-3	2.45	0	0.48	1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.55	0
SW	1.55	0
2W	1.57	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	1.72	0
6x9	1.73	-2
9x12	1.75	-2
3x9	1.80	0
6x12	1.81	-1

Measures of fiscal risk

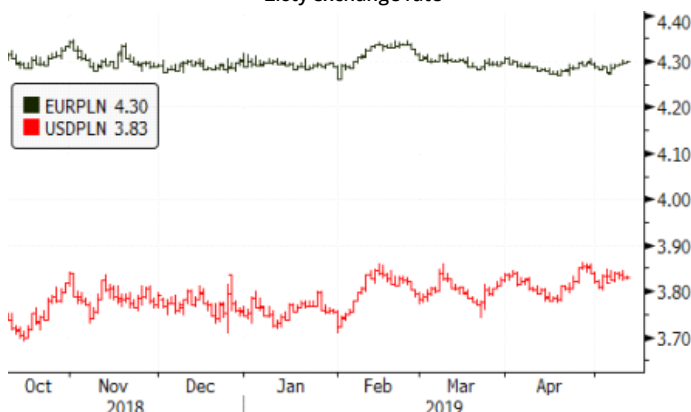
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.96 -3
France	29 0	0.39 0
Hungary		3.34 -6
Spain	57 -1	1.03 0
Italy	205 1	2.72 -1
Portugal	63 0	1.16 0
Ireland	32 1	0.56 0
Germany	11 1	- -

* 10Y treasury bonds over 10Y Bunds

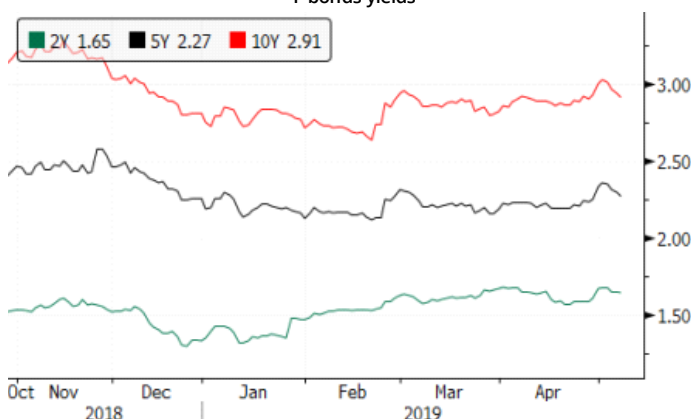
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



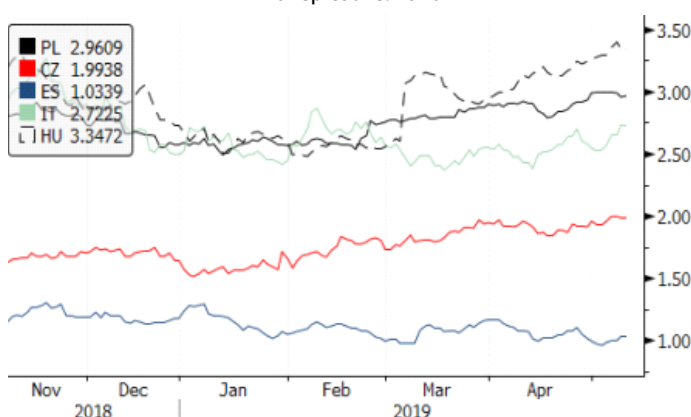
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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	55.7	55.6
10:00	EZ	Eurozone Services PMI	Apr	pts	52.5	52.8	52.5
11:00	EZ	Retail Sales	Mar	% m/m	-0.1	0.0	0.4
TUESDAY (7 May)							
08:00	DE	Factory Orders	Mar	% m/m	1.4	0.6	-4.2
WEDNESDAY (8 May)							
08:00	DE	Industrial Production SA	Mar	% m/m	-0.5	0.5	0.4
09:00	HU	Industrial Production SA	Mar	% y/y	6.0	8.0	5.9
THURSDAY (9 May)							
09:00	CZ	Industrial Production	Mar	% y/y	0.8	0.1	1.5
09:00	HU	CPI	Apr	% y/y	3.9	3.9	3.7
11:30	PL	Switch Auction					
14:30	US	Initial Jobless Claims		k	215.0	228.0	230.0
FRIDAY (10 May)							
08:00	DE	Exports SA	Mar	% m/m	0.0	1.5	-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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