

13 May 2019

Eyeopener

Is China going to retaliate?

Moods stable at the end of the week, weaker today
 CEE currencies stable, EURUSD slightly higher
 Polish debt gained further, core markets with no major changes
 Today Czech inflation

On Friday, the USA introduced higher trade tariffs on Chinese goods, but the declaration that negotiations will continue caused a somewhat positive end of the week on the markets. What also supported the sentiment were the Friday morning data on German exports. European stock indices were moving above local minima, CEE currencies stopped to lose value and bond yields on core markets stabilised. April inflation in the USA was slightly lower than expected which had some positive influence on the euro vs the dollar. This morning the sentiment looks a bit worse as investors expect a retaliation from China to the US tariffs hike.

EURUSD rose to 1.125 from c1.122, which means it went above the Thursday top. Good German data, lower-than-expected US CPI and improving sentiment all worked towards a rise of the euro vs the dollar. The wave pushing EURUSD higher that started in the last month of April is currently of the same size that the upward move from the 1H of April (that had proved to be short-lived). Today the exchange rate is slightly above 1.123 and we do not expect it to move much from here ahead of more important data coming later in the week.

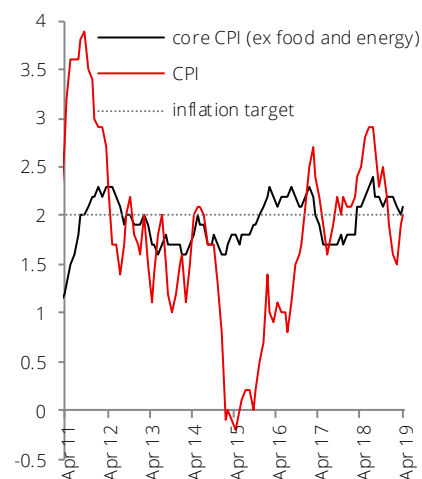
EURPLN stayed on Friday below 4.30, USDPLN declined to 3.82 from slightly above 3.83. This means a break in the four day-long depreciation of the zloty to the euro, thanks to improved European equity market sentiment and a rise of EURUSD. We think today EURPLN will stick close to 4.30, with larger changes coming later in the week.

In the case of **other CEE fx**, EURHUF dropped to 323 from 324, taking advantage of the recovery on equity markets after several negative sessions last week. The koruna did not gain from the rise of demand for risk assets, because the last meeting of the Czech central bank, where rates were raised to 2.00% from 1.75%, ended with a statement that according to a majority of members rates could be changed in both directions in the following months. This morning Czech inflation for April is due.

On the domestic interest rates market the decreasing trend of yields and IRS was continued, but rates fell in a slower pace than in the previous days – yields slid by 1bp, while IRS by 2bp. The yield of 10Y Bund rose by 1bp, which led to the slight narrowing of the PL10Y/DE10Y spread, which was rising the end of April to about 300bp.

This week we will get to see 1Q flash GDP, final April CPI reading, core inflation and current account numbers. The Polish MPC is making decision on interest rates. On the core market we will get to see euro zone GDP, inflation and industrial production data as well as US retail sales and production data. The EURPLN upward shift is expected to continue, as a response to the rising geopolitical tensions. The room for the EURPLN upward move will be limited by domestic flash GDP data release (which is likely to surprise on the positive side). After the strong decreases of yields over the last week, this week we expect the move to be partly erased. The yields upward move will be supported by the US retail sales data which is likely to surprise on the positive side (owing to the strong stance of US labour market). In the second half of the week we anticipate the stabilisation of bonds market amid the lack of important data in the calendar.

US inflation, % y/y



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3010	CZKPLN	0.1671
USDPLN	3.8291	HUFPLN*	1.3298
EURUSD	1.1233	RUBPLN	0.0586
CHFPLN	3.7882	NOKPLN	0.4382
GBPPLN	4.9832	DKKPLN	0.5760
USDCNY	6.8611	SEKPLN	0.3974

*for 100HUF

Last session in the FX market 10/05/2019

	min	max	open	close	fixing
EURPLN	4.294	4.301	4.298	4.297	4.2955
USDPLN	3.819	3.834	3.832	3.824	3.8242
EURUSD	1.121	1.125	1.122	1.123	-

Interest rate market 10/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.64	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.26	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.89	-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	1.74	-1	2.50	0	-0.24	0
2L	1.84	-2	2.37	0	-0.21	0
3L	1.92	-2	2.31	0	-0.15	0
4L	2.00	-2	2.29	0	-0.08	0
5L	2.10	-2	2.30	0	0.01	0
8L	2.31	-2	2.39	1	0.29	1
10L	2.44	-2	2.45	1	0.48	1

WIBOR rates

Term	%	Change (bps)
O/N	1.56	1
T/N	1.56	1
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	1
9x12	1.75	0
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

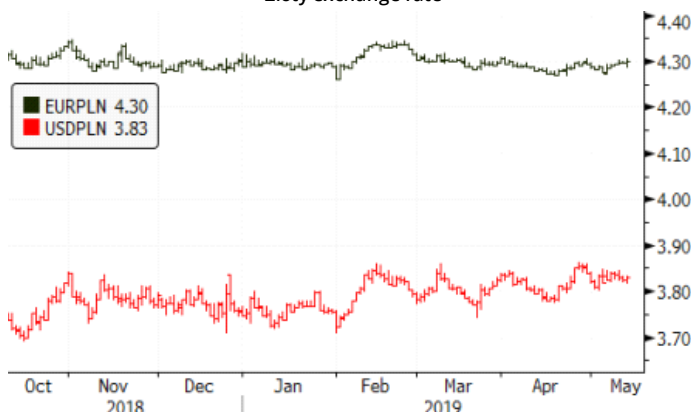
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.94 -2
France	29 0	0.39 0
Hungary		3.32 -3
Spain	57 -2	1.03 1
Italy	205 1	2.74 1
Portugal	63 -1	1.16 0
Ireland	32 1	0.58 2
Germany	11 1	- -

* 10Y treasury bonds over 10Y Bunds

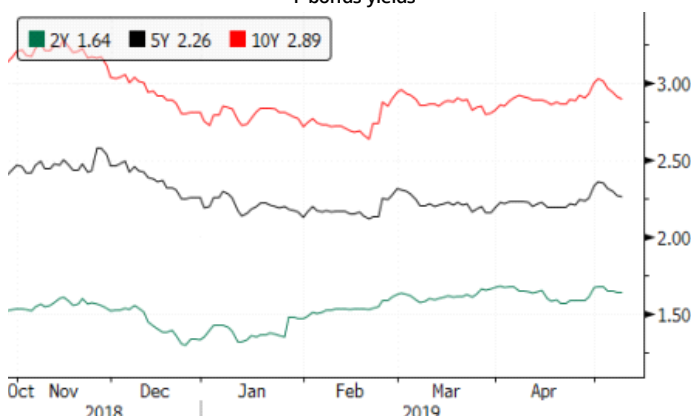
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



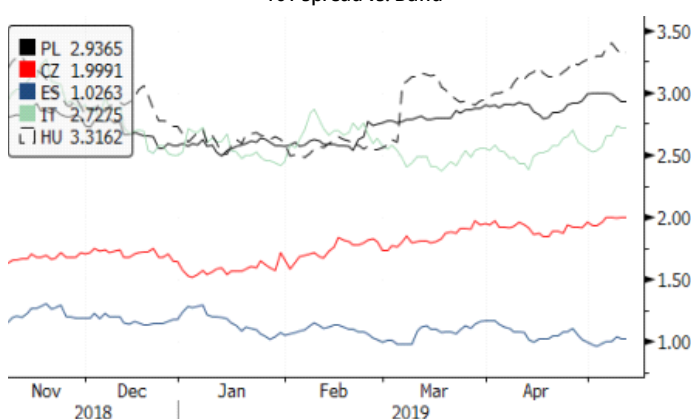
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (10 May)								
08:00	DE	Exports SA	Mar	% m/m	-0.4	-	1.5	-1.3
14:30	US	CPI	Apr	% m/m	0.4	-	0.3	0.4
MONDAY (13 May)								
09:00	CZ	CPI	Apr	% y/y	3.0	-		3.0
TUESDAY (14 May)								
08:00	DE	HICP	Apr	% m/m	1.0	-		1.0
11:00	EZ	Industrial Production SA	Mar	% m/m	-0.4	-		-0.2
11:00	DE	ZEW Survey Current Situation	May	pts	5.6	-		5.5
14:00	PL	Current Account Balance	Mar	€mn	-1 310	-1 187		-1 386
14:00	PL	Exports	Mar	€mn	19 682	19 772		18 324
14:00	PL	Imports	Mar	€mn	20 921	20 733		19 651
WEDNESDAY (15 May)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	GDP WDA	1Q	% y/y	0.7	-		0.6
09:00	CZ	GDP SA	1Q	% y/y	2.4	-		2.6
09:00	HU	GDP	1Q	% y/y	5.4	-		5.1
10:00	PL	CPI	Apr	% y/y	2.2	2.2		1.7
10:00	PL	GDP	1Q	% y/y	4.4	4.5		4.9
11:00	EZ	GDP SA	1Q	% y/y	1.2	-		1.2
14:30	US	Retail Sales Advance	Apr	% m/m	0.2	-		1.6
15:15	US	Industrial Production	Apr	% m/m	0.1	-		-0.1
THURSDAY (16 May)								
14:00	PL	CPI Core	Apr	% y/y	1.7	1.8		1.4
14:30	US	Initial Jobless Claims	week	k	220	-		228
14:30	US	Housing Starts	Apr	% m/m	7.11	-		-0.3
14:30	US	Index Philly Fed	May	pts	11.0	-		8.5
FRIDAY (17 May)								
11:00	EZ	HICP	Apr	% y/y	1.7	-		1.7
16:00	US	Michigan index	May	pts	97.9	-		97.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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