

29 May 2019

Eyeopener

Sovereigns gained owing the fears about global growth

Polish ESI slightly up
Zloty weakens in a reaction for the fall of stocks and EURUSD
Gloomy global mood pushed sovereigns yields down
Today lack of important data releases

There were no important price changes on the markets in the European trading hours on Tuesday. Markets were as calm as on Monday when there were holidays in the US and the UK. Once the US market opened yesterday, the mood worsened on the news that US-China trade tensions could rise. The ESI indices for the euro zone released yesterday showed no symptoms of a rebound. The only category going up was expected output, supported by a decrease of stocks of finished goods after several months of increases. However, new orders and employment indices did not go up – instead, they slipped to the levels seen during the moderate expansion of 2014-2016. Importantly, when the ESI survey was conducted Donald Trump announced new tariffs on Chinese exports, so their negative effect may not be seen in full scale yet in the business sentiment indices. This remark may also apply to the May US consumer sentiment – the measure published yesterday was well above expectations, setting a new high for 2019. In general, the yesterday releases did not cause a significant market reaction.

According to European Commission's **ESI indices for Poland**, in May there was a small rise in most sectors, although the business sentiment remained much weaker than at the start of the year. There was no rise in construction where the sentiment turned the worst in 1.5 years. Employment indices fell to the lowest levels in 1.5-2 years in almost all sectors. Price expectations of enterprises also declined, with the exception of retail trade sector, which saw a strong rebound to the highest level in six years. The ESI surveys has not shown a response of consumer inflation expectations to the recent rapid rise of CPI growth.

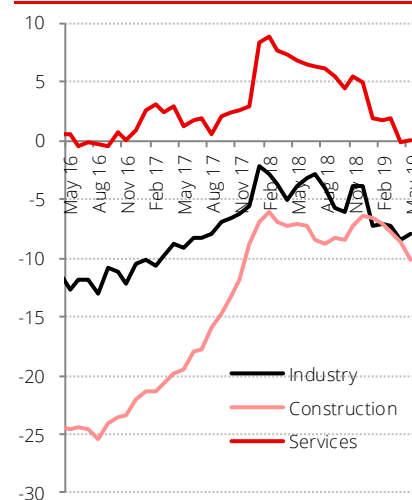
Yesterday in the first part of the day **EURUSD** was oscillating slightly below 1.12 and did not react to the incoming numbers. In the afternoon the pair slid to 1.1160 following losing stock markets and falling UST yields, as investors were becoming more pessimistic given information on growing Sino-US tensions. Today, we are expecting some pressure for stronger greenback fuelled by negative sentiments.

EURPLN climbed to 4.295 at the start of the day, while USDPLN reached 3.84 following the CEE market. At the end of the day EURPLN was at 4.297. Today the market opened at 4.299 and the exchange rate is likely to go further up given negative equity sentiment.

The central bank of Hungary did not surprise and left interest rates unchanged, with the main one at 0.90%. Statement after the meeting read that the internal demand will be fuelling a rise in inflation, but the external environment will be acting in the opposite direction. The bank announced that the monetary policy will remain loose and explained that the March hike of deposit rate to -0.05% from -0.15% was only a one-off adjustment.

On the domestic interest rate market, IRS rates and bond yields fell by 4bps on the longer end, 2bps in the middle and on the shorter end of the curve. Polish bonds took the cue from 10Y US and German bonds, which saw a drop in yields to levels last seen in autumn 2018 (2.24% for UST) and summer 2016 (-0.17% for Bund). Today, we are expecting the downward pressure on yields to hold given negative equity market moods.

ESI, business confidence indicators by sector



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.3023	CZKPLN	0.1664
USDPLN	3.8542	HUFPLN*	1.3134
EURUSD	1.1163	RUBPLN	0.0594
CHFPLN	3.8300	NOKPLN	0.4414
GBPPLN	4.8776	DKKPLN	0.5762
USDCNY	6.9141	SEKPLN	0.4016

*for 100HUF

Last session in the FX market 28/05/2019

	min	max	open	close	fixing
EURPLN	4.288	4.298	4.289	4.297	4.2967
USDPLN	3.831	3.849	3.833	3.848	3.8386
EURUSD	1.116	1.120	1.119	1.117	-

Interest rate market 28/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.63	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.15	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.77	-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	1.74	0	2.39	-2	-0.26	0
2L	1.81	-1	2.16	-4	-0.26	0
3L	1.87	-1	2.08	-5	-0.21	-1
4L	1.93	-2	2.06	-4	-0.15	-1
5L	2.00	-2	2.07	-4	-0.07	-1
8L	2.21	-3	2.16	-5	0.19	-1
10L	2.33	-2	2.22	-5	0.37	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.59	1
SW	1.58	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.73	0
9x12	1.74	1
3x9	1.79	0
6x12	1.80	1

Measures of fiscal risk

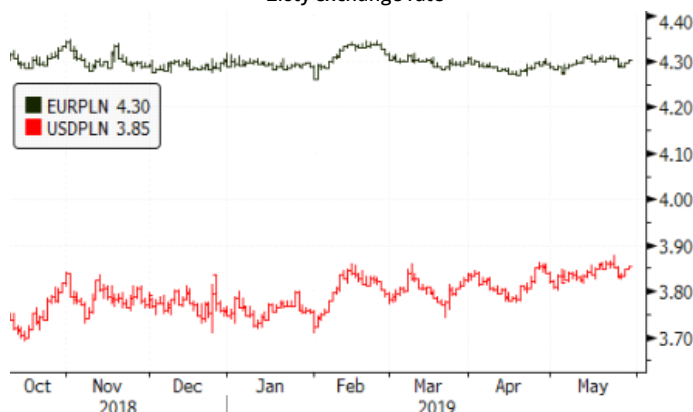
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.94	-2
France	31	0	0.41	0
Hungary			3.25	1
Spain	56	1	0.95	0
Italy	227	4	2.87	2
Portugal	63	-1	1.08	0
Ireland	33	1	0.63	0
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

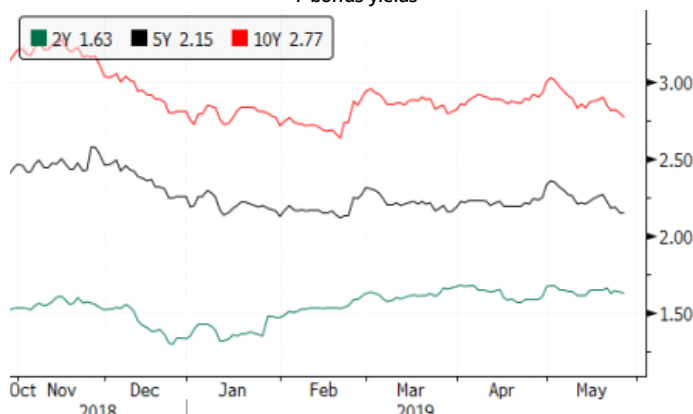
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



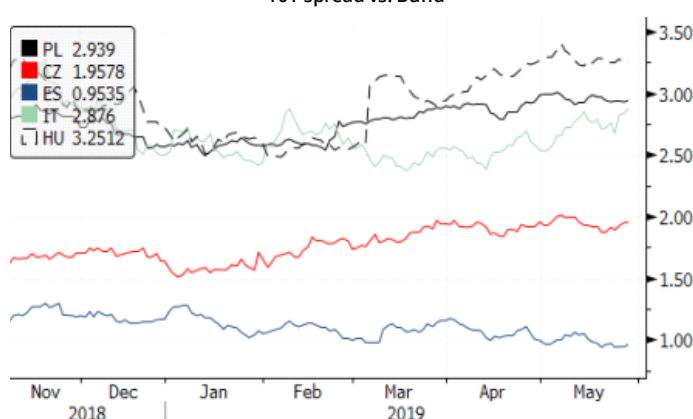
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (24 May)								
14:00	PL	Money Supply M3	Apr	% y/y	10.1	10.2	10.4	9.9
14:30	US	Durable Goods Orders	Apr	% m/m	-2.0	-	-2.1	2.6
MONDAY (27 May)								
10:00	PL	Unemployment Rate	Apr	%	5.6	5.6	5.6	5.9
TUESDAY (28 May)								
11:00	EZ	ESI	May	pct.	103.9	-	105.1	103.9
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
16:00	US	Consumer Conference Board	May	pts	130.0	-	134.1	129.2
WEDNESDAY (29 May)								
		No important events						
THURSDAY (30 May)								
14:30	US	GDP Annualized	1Q	% q/q	3.1	-		3.2
14:30	US	Initial Jobless Claims	week	k	214	-		211
16:00	US	Pending Home Sales	Apr	% m/m	0.8	-		3.8
FRIDAY (31 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.4	-		0.0
09:00	CZ	GDP SA	1Q	% y/y	2.5	-		2.5
09:00	HU	GDP	1Q	% y/y	5.3	-		5.3
10:00	PL	GDP	1Q	% y/y	4.6	4.6		4.9
14:00	DE	HICP	May	% m/m	0.3	-		1.0
14:30	US	Personal Spending	Apr	% m/m	0.2	-		0.9
14:30	US	Personal Income	Apr	% m/m	0.3	-		0.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-		0.2
16:00	US	Michigan index	May	pts	102.0	-		102.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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