

4 June 2019

Eyeopener

No rebound of sentiment in industry

Trading influenced by data releases
Zloty gained more, EURUSD up
Domestic bond yields continued the descent
Today flash May CPI in Poland

At the first session of the week, the European stock market indices were initially falling, but sentiments were gradually improving in the following hours. This may have been caused by the euro zone data releases – final May PMI for manufacturing were in line with expectations and did not deteriorate vs the flash readings. We were worried that the flash indicators may have not fully reflected impact of Donald Trump's plans to impose tariffs on the European car sector. The mood cooled down at the end of the day, when we got to see the weaker-than-expected ISM for manufacturing in the USA, which unexpectedly fell in May to the lowest level since October 2016. This reading pushed the European stock indices back to the opening levels and halted the euro appreciation.

Polish PMI inched down in May to 48.8, from 49.0 in April. The three main components of the index: new orders, production and employment improved versus the previous month, although were still signalling decreasing economic activity. The factors that were responsible for index' decline were: shortening of delivery times and drop of inventories. As regards the new orders, external ones are still lagging behind domestic. The survey also shows weakening of inflationary pressure. Summing up, the PMI survey still paints quite gloomy outlook for the Polish industrial sector (albeit less gloomy than recently), but we have to remember that it has been a very poor predictor for trends in real data over the past two years. Therefore, we are still not very much concerned about the outlook for Polish manufacturing, and believe that industrial output growth remained close to 9% y/y in May and should be above 5% in 2H19.

Since the start of the day **EURUSD** was climbing as global moods were improving. Only the afternoon US data hit the euro as demand for safe assets intensified. The scale of yesterday's rebound was similar to the Friday's development. EURUSD receded from this year's minimum at 1.11, but is likely to approach this region again in reaction to Thursday ECB meeting, which could be perceived as dovish, in our view. However, we are not expecting the move to 1.11 to be persistent, as many negative factors have already been priced.

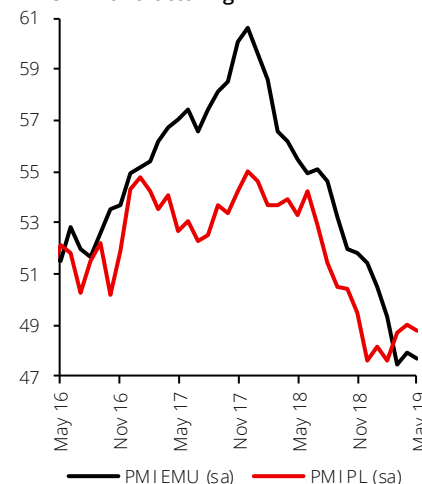
Yesterday **EURPLN** fell for the fourth session in a row, setting a daily low at 4.275, and USDPLN broke 3.82. The zloty was benefitting from the rising EURUSD and in our view the situation on this pair will remain crucial for the domestic currency in the days to come. We see some risk that ECB meeting will push EURUSD down and this could be PLN-negative.

In case of the **other CEE currencies**, EURHUF fell to 323.1 from 325 amid better mood in the region and higher-than-expected Hungarian PPI and PMI readings. EURCZK fell to 25.81 from 25.86 amid higher demand for the EM currencies. The ruble also benefited from higher optimism and rising oil prices with USDRUB easing to 65.2 from 65.7. Russian PMI's drop below 50pt did not affect the ruble much.

On the **domestic interest rate market** IRS and bond yields fell, catching up with the move recorded on the core markets on Friday evening and during Monday's Asia session. The trend was fuelled by Donald Trump's comments about limiting the access to the US market to some next countries. During the day, bonds gave up part of gains but this was amid very thin trade volume. As a result, the IRS and bond curve shifted 3bp down in the 5-10L segment and 1bp on the short end (intraday, the scale of moves was 2bp larger). The 10Y bond yield reached its lowest since autumn 2016. The downward move of yields on core markets was fuelled by the dovish comment of Fed's James Bullard who said that rate cuts are needed amid developing trade wars.

Today at 10:00CET Poland May flash CPI will be released. We expect, just like the consensus, that the pace of the prices growth accelerated to 2.4% y/y but this shall not make any big impression on the MPC that is holding a meeting this week. At 10:30CET, changes in the Polish government are to be announced.

PMIs in manufacturing



Source: Markit, Santander

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FX market

Today's opening

EURPLN	4.2810	CZKPLN	0.1660
USDPLN	3.7966	HUFPLN*	1.3272
EURUSD	1.1276	RUBPLN	0.0582
CHFPLN	3.8330	NOKPLN	0.4377
GBPPLN	4.8164	DKKPLN	0.5732
USDCNY	6.9080	SEKPLN	0.4028

*for 100HUF

Last session in the FX market 03/06/2019

	min	max	open	close	fixing
EURPLN	4.276	4.289	4.282	4.281	4.2809
USDPLN	3.816	3.842	3.837	3.817	3.8292
EURUSD	1.116	1.122	1.117	1.122	-

Interest rate market 03/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.62	1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.07	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.62	-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	1.73	0	2.18	-6	-0.28	0
2L	1.78	0	1.93	-5	-0.28	0
3L	1.81	-1	1.86	-4	-0.24	0
4L	1.86	-1	1.86	-3	-0.18	-1
5L	1.92	0	1.89	-3	-0.10	0
8L	2.10	-1	2.00	-1	0.15	-1
10L	2.22	-1	2.07	-1	0.33	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.58	3
T/N	1.58	1
SW	1.58	1
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	1.72	0
9x12	1.72	0
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.83 -1
France	31 0	0.40 0
Hungary		3.04 1
Spain	55 -1	0.90 1
Italy	238 -7	2.80 4
Portugal	59 2	0.97 1
Ireland	32 0	0.62 0
Germany	13 -1	- -

* 10Y treasury bonds over 10Y Bunds

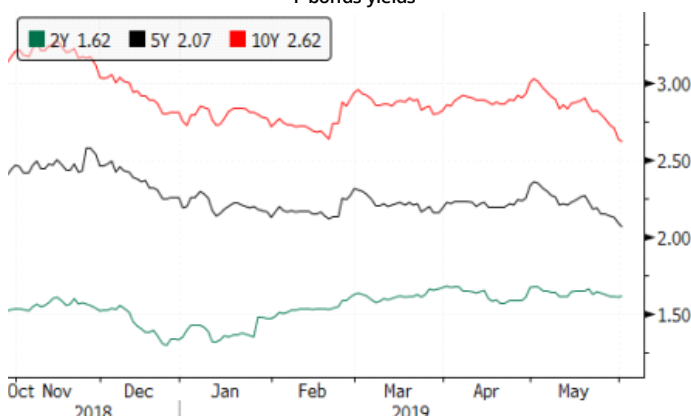
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



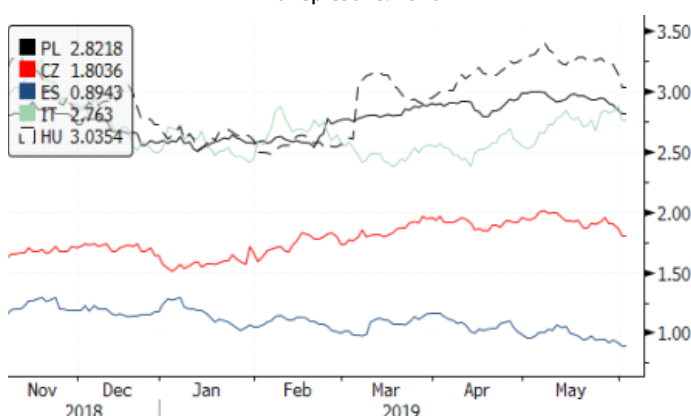
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (31 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.1	-	-2.0	-0.2
09:00	CZ	GDP SA	1Q	% y/y	2.5	-	2.6	2.5
09:00	HU	GDP	1Q	% y/y	5.3	-	5.3	5.3
10:00	PL	GDP	1Q	% y/y	-	4.6	4.7	4.6
14:00	DE	HICP	May	% m/m	0.3	-	0.3	1.0
14:30	US	Personal Spending	Apr	% m/m	0.2	-	0.3	0.9
14:30	US	Personal Income	Apr	% m/m	0.3	-	0.5	0.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-	0.3	0.2
16:00	US	Michigan index	May	pts	101.5	-	100.0	102.4
MONDAY (3 June)								
09:00	PL	Poland Manufacturing PMI	May	pts	49.0	49.4	48.8	49.0
09:55	DE	Germany Manufacturing PMI	May	pts	44.3	-	44.3	44.3
10:00	EZ	Eurozone Manufacturing PMI	May	pts	47.7	-	47.7	47.7
16:00	US	ISM manufacturing	May	pts	53.0	-	52.1	52.8
TUESDAY (4 June)								
10:00	PL	CPI	May	% y/y	2.4	2.4		2.2
11:00	EZ	Flash HICP	May	% y/y	1.3	-		1.7
11:00	EZ	Unemployment Rate	Apr	%	7.7	-		7.7
16:00	US	Durable Goods Orders	Apr	% m/m	0.0	-		-2.1
16:00	US	Factory Orders	Apr	% m/m	-1.0	-		1.9
WEDNESDAY (5 June)								
	PL	MPC decision		%	1.50	1.50		1.50
03:45	CN	Caixin China PMI Services	May	pts	54.2	-		54.5
09:55	DE	Markit Germany Services PMI	May	pts	55.0	-		55.0
10:00	EZ	Eurozone Services PMI	May	pts	52.5	-		52.5
11:00	EZ	Retail Sales	Apr	% m/m	-0.45	-		0.0
14:15	US	ADP report	May	k	180	-		275
16:00	US	ISM services	May	pts	55.7	-		55.5
THURSDAY (6 June)								
08:00	DE	Factory Orders	Apr	% m/m	0.0	-		0.6
09:00	CZ	Industrial Production	Apr	% y/y	2.7	-		0.1
09:00	HU	Industrial Production SA	Apr	% y/y	6.7	-		8.0
11:00	EZ	GDP SA	1Q	% y/y	1.2	-		1.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	215	-		215
FRIDAY (7 June)								
08:00	DE	Exports SA	Apr	% m/m	-0.9	-		1.6
08:00	DE	Industrial Production SA	Apr	% m/m	-0.5	-		0.5
09:00	HU	CPI	May	% y/y	3.8	-		3.9
14:30	US	Change in Nonfarm Payrolls	May	k	185	-		263
14:30	US	Unemployment Rate	May	%	3.6	-		3.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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