

6 June 2019

# Eyeopener

## ECB - hope for the markets

Good European data, poor in the US  
No change of MPC view  
EURPLN close to 4.27, EURUSD up after US data  
Domestic bond yields the lowest since 2015  
Today ECB decision

On Wednesday, we saw better-than-expected euro zone data and disappointing releases from the US. The final May services PMIs were above the flash estimates and monthly contraction of the retail sales proved smaller than expected. These releases suggest – together with the recent manufacturing indexes – that so far the plans to impose tariffs by the US on the European auto sector do not have an adverse impact on the business activity. The European stock indexes were also rising amid expectations that today the ECB will sustain its willingness to support the economy. Furthermore, this morning German factory orders surprised to the upside again. In the meantime, in the US the much worse-than-expected ADP job report was released with the smallest payrolls gain in the nonfarm sector for nine years. In response to this data, the euro gained vs the dollar and core bond yields fell and in the case of the US FI market, investors price nearly 100% probability the Fed will cut rates in September. The above-consensus services ISM did not have much impact on the market. After a promising initial information about US-Mexico trade talks, in the evening Donald Trump said (amid Republicans criticism) that the progress in negotiations is too small to avoid introduction of trade tariffs on Monday.

The **MPC kept interest rates unchanged**, as expected, with main rate at 1.50%. The conference did not bring much to the monetary policy picture: the NBP President Adam Glapiński reiterated that rates are likely to remain unchanged until end of the current MPC term (2022). Glapiński is optimistic about the economic growth and sees above 4.5% this year, but at the same time acknowledges risks stemming from abroad. NBP president is expecting CPI inflation to climb to about 3% at the end of the year and then to decline. In our view, in 2020 CPI will increase and is likely to exceed 3.5%, which is likely to encourage the central bankers to hike rates. It seems that the low forecast of NBP president is not taking into account the likely rise in energy prices. Eugeniusz Gatnar, one of main MPC hawks, attended the conference, but did not sound really hawkish.

Today the Dziennik Gazeta Prawna daily informed that the **government is working to introduce changes in PIT earlier** than outlined in the Convergence Programme Update: zero tax rate for the young is to be introduced in September, not October and lowering of the first PIT rate to 17% from 18% (for the whole bracket, not for the half) – in October 2019 not in January 2020. Moreover, changes in PIT are to be introduced in such a way that they will be felt by taxpayers immediately, so that costs of these alterations will weigh on this year's budget. Earlier introduction means higher costs, but at the same time the government is still mulling by how much to increase the tax-deductible expenses and it is likely that the final proposal will be less generous than planned.

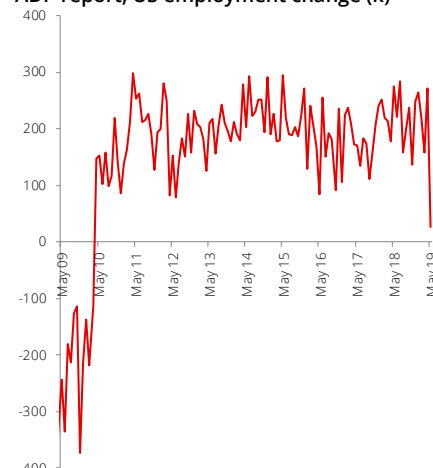
The European Commission supported introducing the **Excessive Deficit Procedure in Italy** due to the high level of public debt. As regards Poland, the Commission was positive about the credibility of the scenario presented in the Convergence Programme Update, but criticised the description of revenue actions as being not precise enough.

**EURUSD** climbed above 1.13 after the euro zone and US data nearing its April peak at c1.133. During the night, the exchange rate pulled back to 1.123 as information about US-Mexico trade talks emerged. We think the euro appreciation trend could pause as we expect dovish ECB rhetoric.

**EURPLN** fell to nearly 4.27 and USDPLN to 3.785 from 3.80 in reaction to further rise of EURUSD. The zloty has neutralised virtually all losses suffered in the first half of May amid global risk aversion. The forint gained for a third day in a row and has also nearly recovered after the mid-April/late-May depreciation. EURCZK fell as well and it approached its local low from April/May turn. We think the euro could depreciate vs the dollar after the ECB meeting and this could trigger some profit taking from the recent zloty appreciation.

On the **domestic interest rate market** IRS and bond yields were falling since the beginning of the session and the trend accelerated after the US data. As a result, both curves shifted 3-8bp down vs the Tuesday's closing and the 5Y and 10Y yields fell to their lowest since April 2015. The outcome of the ECB meeting could help Polish rates to stay low.

ADP report, US employment change (k)



Source: Bloomberg, Santander

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## FX market

### Today's opening

EURPLN	4.2781	CZKPLN	0.1666
USDPLN	3.8110	HUFPLN*	1.3302
EURUSD	1.1226	RUBPLN	0.0583
CHFPLN	3.8316	NOKPLN	0.4367
GBPPLN	4.8283	DKKPLN	0.5729
USDCNY	6.9144	SEKPLN	0.4039

\*for 100HUF

### Last session in the FX market 05/06/2019

	min	max	open	close	fixing
EURPLN	4.273	4.281	4.279	4.278	4.2782
USDPLN	3.783	3.810	3.806	3.807	3.7929
EURUSD	1.123	1.131	1.125	1.124	-

## Interest rate market 05/06/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.59	-3	21 mar 19	OK0521	1.633
PS0424 (5L)	1.99	-8	21 mar 19	PS0424	2.209
DS1029 (10L)	2.53	-8	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	1.71	-2	2.13	-6	-0.29	-1
2L	1.73	-4	1.89	-6	-0.30	-2
3L	1.76	-5	1.84	-5	-0.27	-3
4L	1.81	-5	1.85	-4	-0.21	-3
5L	1.86	-6	1.88	-3	-0.15	-4
8L	2.04	-6	2.02	-1	0.11	-3
10L	2.16	-6	2.11	0	0.28	-3

### WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.59	0
SW	1.59	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	1.71	-1
6x9	1.69	-4
9x12	1.68	-4
3x9	1.78	-2
6x12	1.76	-4

### Measures of fiscal risk

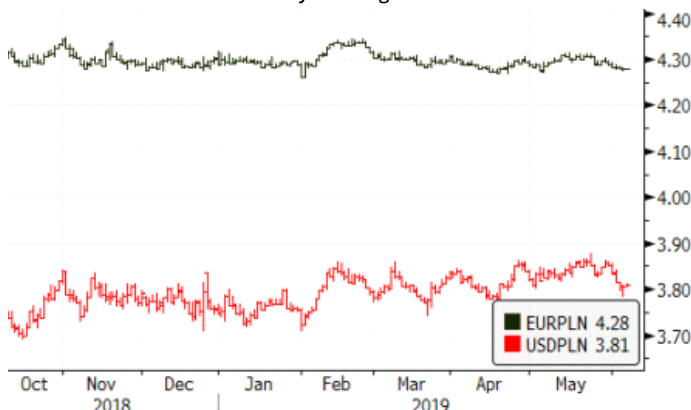
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.76 -8
France	29 -1	0.37 -1
Hungary		3.10 0
Spain	53 -2	0.85 -1
Italy	234 -8	2.69 -1
Portugal	58 -3	0.89 -1
Ireland	31 -2	0.57 -1
Germany	12 0	- -

\* 10Y treasury bonds over 10Y Bunds

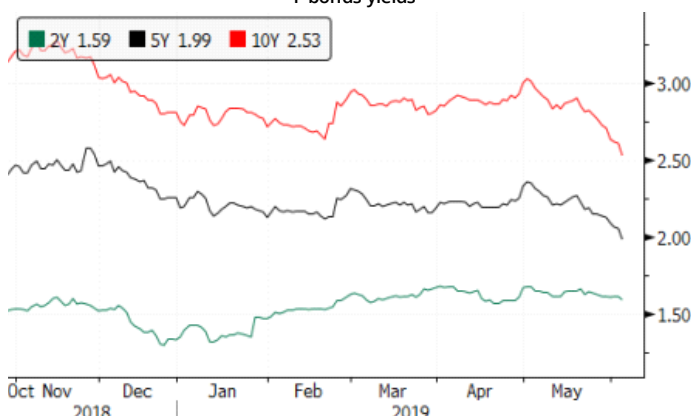
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



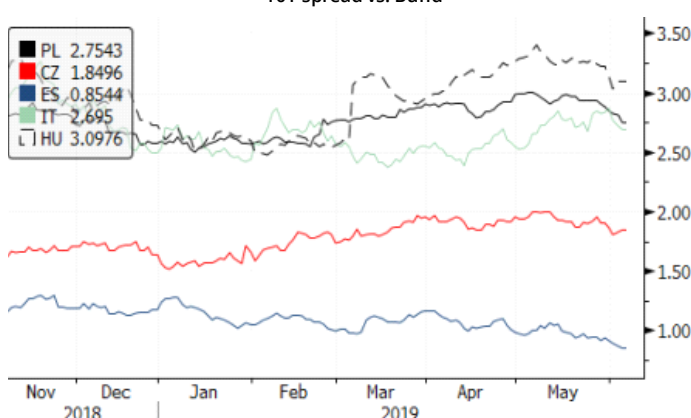
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (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	2.3	2.2
11:00	EZ	Flash HICP	May	% y/y	1.3	-	1,2	1.7
11:00	EZ	Unemployment Rate	Apr	%	7.7	-	7,6	7.7
16:00	US	Durable Goods Orders	Apr	% m/m	0.0	-	-2,1	-2.1
16:00	US	Factory Orders	Apr	% m/m	-1.0	-	-0,8	1.3
WEDNESDAY (5 June)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
03:45	CN	Caixin China PMI Services	May	pts	54.0	-	52,7	54.5
09:55	DE	Markit Germany Services PMI	May	pts	55.0	-	55,4	55.0
10:00	EZ	Eurozone Services PMI	May	pts	52.5	-	52,9	52.5
11:00	EZ	Retail Sales	Apr	% m/m	-0.5	-	-0,4	0.0
14:15	US	ADP report	May	k	185	-	27	271
16:00	US	ISM services	May	pts	55.4	-	56,9	55.5
THURSDAY (6 June)								
08:00	DE	Factory Orders	Apr	% m/m	0.0	-	0.3	0.8
09:00	CZ	Industrial Production	Apr	% y/y	2.7	-		0.1
09:00	HU	Industrial Production SA	Apr	% y/y	6.8	-		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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