

19 June 2019

Eyeopener

ECB head and US president shake the markets

Comments of Draghi and Trump support the zloty and the debt

HICP inflation in Poland stable at 2.3% y/y

Weak ZEW in Germany and low euro zone inflation

Today wages and employment from Poland

On Tuesday the zloty and the dollar strengthened vs the euro, reacting this way to the speech by Mario Draghi, where he suggested the possibility of further easing of monetary policy by lowering rates or asset purchases, if inflation will not head for the goal. In the afternoon interest rate cut expectations were strengthened by Donald Trump, who criticised Mario Draghi for his statement. The exchange of remarks by the two leaders caused a massive decline of yields on core markets and the domestic market. The data released yesterday - poor German ZEW, lower-than-expected HICP for Poland and Europe - did not have much influence on asset prices.

MPC's Kamil Zubelewicz said that while the outlook for rate hikes is distant, the faster inflation brings them closer. He considers the current freeze of energy prices as artificial lowering of inflation, and when the energy prices are let loose next year it may send CPI growth above 3% y/y. The current upward tendency in inflation may in his view mean that at the end of the MPC term (ending in early 2022) CPI will be permanently moving by the upper bound of tolerance of the Council, 3.5%. He thinks that a lasting breach of the level will be the trigger for rate hikes.

HICP inflation remained at 2.3% y/y after a series of upward moves started at 0.6% y/y in January. The upward momentum was mostly generated by non-tradable part of the inflation basket, showing the highest growth since mid-2012. Prices of tradable goods have been more or less stable for the last year, which is quite a change after years of negative growth.

On Tuesday **EURUSD** fell from 1.1240 to 1.1190 after words of Mario Draghi. The following response by Donald Trump and his words on the possible progress in talks with China did not manage to offset the morning dollar strengthening. Today we will get to the see FOMC conference and its new set of economic forecasts. In our view, ahead of the conference, which is expected to be dovish, EURUSD will correct slightly higher.

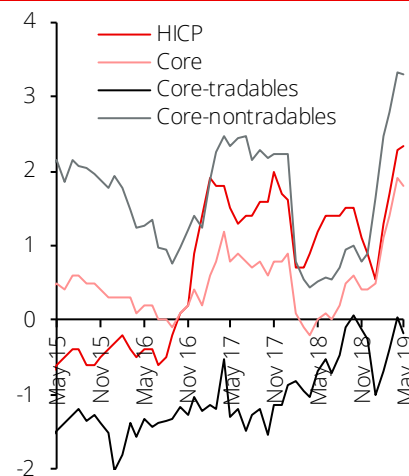
Yesterday **EURPLN** declined from 4.2650 to 4.2540, with the help of Mario Draghi and Donald Trump, suggesting an intensification of a currency war between the euro zone and the USA. Remarks by the MPC member and the data releases (ZEW and Polish HICP) did not have an effect on the zloty. Today the exchange rate is again above 4.26 but we expect some strengthening of the zloty vs the euro ahead of the Fed press conference.

In the case of other CEE currencies, EURHUF rose from 322.30 to 323.40 among other factors because of a declaration of Hungarian government on closer collaboration with China. EURCZK rose from 25.57 to 25.60, discounting the Monday words of CNB's Oldřich Džedek that there is no point in raising rates at the June meeting amid the deterioration of internal and global situation. USDRUB dropped from 64.60 to 64.00 on the back of global factors and news about strong budget position, while weak output growth was ignored.

Yesterday **Polish bond yields** decreased close to the level last seen in March 2015, by 10bp to 2.30% for 10Y, by 10bp to 1.89% for 5Y and by 5bp to 1.52% for 2Y. The strong downward moves of yields were a reaction to the slide of yields of core markets bonds, after Mario Draghi's and Donald Trump's comments. In the afternoon yields rebounded and partly erased morning bonds' gains. Today we expect the yields to decrease in the marginal scale ahead of the FOMC conference. Piotr Nowak, deputy finance minister, said that Ministry wants to prefinance at least 30% of gross borrowing needs of 2020 with use of switch auctions. The Ministry of Finance is to consider a reduction of regular auction bond supply, owing to the solid liquidity position, and an issuance of USD denominated bonds.

Today at 10:00 CET Polish data on the labour market are due for release. We are expecting wages and employment to remain similar to previous readings.

HICP inflation in Poland, % y/y



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FX market

Today's opening

EURPLN	4.2629	CZKPLN	0.1664
USDPLN	3.8074	HUFPLN*	1.3188
EURUSD	1.1194	RUBPLN	0.0594
CHFPLN	3.8082	NOKPLN	0.4353
GBPPLN	4.7816	DKKPLN	0.5708
USDCNY	6.9036	SEKPLN	0.3990

*for 100HUF

Last session in the FX market 18/06/2019

	min	max	open	close	fixing
EURPLN	4.253	4.266	4.262	4.259	4.2631
USDPLN	3.791	3.813	3.796	3.802	3.8097
EURUSD	1.118	1.124	1.123	1.120	-

Interest rate market 18/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.50	-5	21 mar 19	OK0521	1.633
PS0424 (5L)	1.92	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.33	-9	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	1.71	0	2.11	0	-0.34	-4
2L	1.72	-1	1.89	0	-0.38	-5
3L	1.73	-2	1.82	0	-0.35	-6
4L	1.76	-4	1.80	-1	-0.30	-7
5L	1.80	-5	1.82	-1	-0.23	-7
8L	1.94	-6	1.92	-2	0.02	-7
10L	2.04	-6	1.99	-2	0.19	-6

WIBOR rates

Term	%	Change (bps)
O/N	1.53	0
T/N	1.54	0
SW	1.56	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	0
6x9	1.70	0
9x12	1.67	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.64 -10
France	27 0	0.34 1
Hungary		2.93 -15
Spain	42 -2	0.72 0
Italy	213 -13	2.44 1
Portugal	47 -1	0.85 0
Ireland	29 2	0.53 -11
Germany	12 0	- -

* 10Y treasury bonds over 10Y Bunds

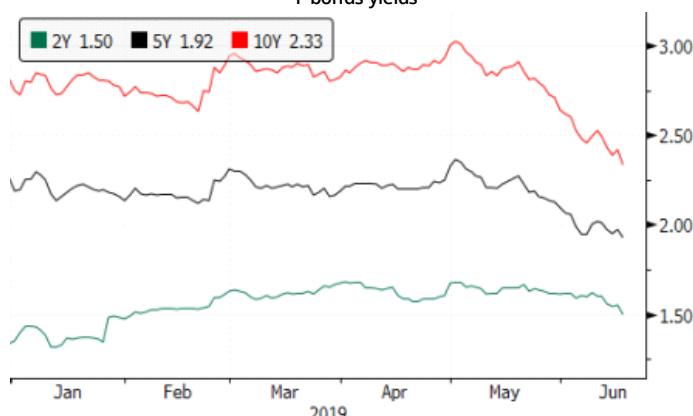
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

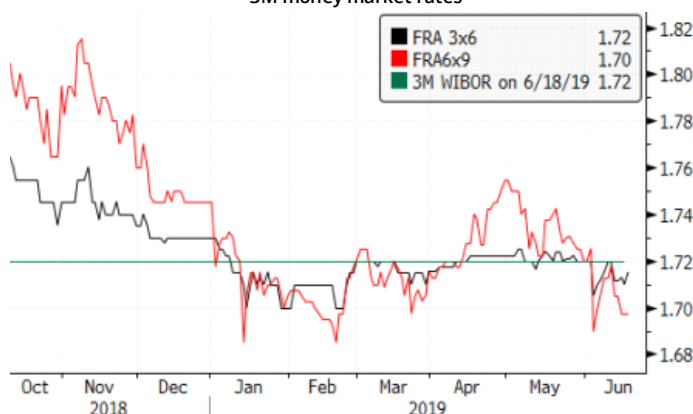
Zloty exchange rate



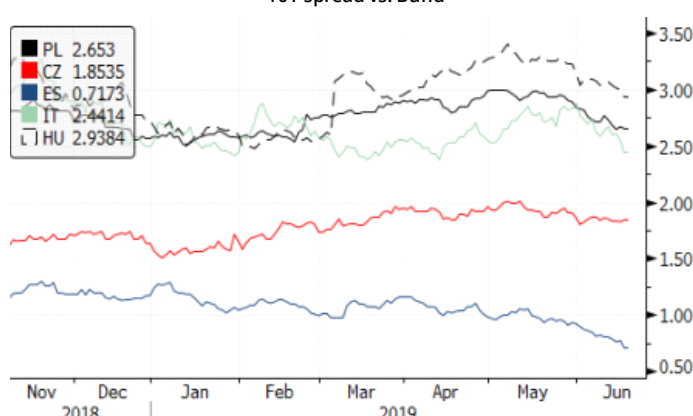
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (14 June)								
10:00	PL	CPI	May	% y/y	2.3	2.3	2.4	2.3
14:30	US	Retail Sales Advance	May	% m/m	0.6	-	0.5	-0.3
15:15	US	Industrial Production	May	% m/m	0.2	-	0.4	-0.4
16:00	US	Michigan index	Jun	pts	98.0	-	97.9	100.0
MONDAY (17 June)								
14:00	PL	CPI Core	May	% y/y	1.7	1.7	1.7	1.7
TUESDAY (18 June)								
11:00	EZ	HICP	May	% y/y	1.2	-	1.2	1.2
11:00	DE	ZEW Survey Expectations	Jun	pts	-5.6	-	-21.1	-2.1
14:30	US	Housing Starts	May	% m/m	0.3	-	-0.9	6.8
WEDNESDAY (19 June)								
10:00	PL	Employment in corporate sector	May	% y/y	3.0	3.0	-	2.9
10:00	PL	Average Gross Wages	May	% y/y	7.2	7.0	-	7.1
20:00	US	FOMC decision		%	2.5	-	-	2.5
THURSDAY (20 June)								
14:30	US	Initial Jobless Claims	week	k	220	-		222
14:30	US	Index Philly Fed	Jun	pts	10.5	-		16.6
FRIDAY (21 June)								
09:30	DE	Flash Germany Manufacturing PMI	Jun	pts	44.6	-		44.3
09:30	DE	Flash Markit Germany Services PMI	Jun	pts	55.2	-		55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Jun	pts	48.0	-		47.7
10:00	EZ	Flash Eurozone Services PMI	Jun	pts	53.0	-		52.9
10:00	PL	Sold Industrial Output	May	% y/y	7.8	8.7		9.2
10:00	PL	PPI	May	% y/y	1.6	1.5		2.6
16:00	US	Existing Home Sales	May	% m/m	2.12	-		-0.38

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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