

26 June 2019

Eyeopener

Fears about geopolitics, hope for cuts

Fed speakers did not meet expectations of rate cuts
 Domestic and core market debt strengthened
 Decline of EURUSD, demand for JPY and gold on worries about USA-Iran tensions
 Today Polish unemployment, US durable goods orders

On Tuesday the markets were still under the spell of escalating USA-Iran conflict after Donald Trump mentioned a potential military action. Additionally, the US administration suggested that the Saturday Trump-Xi meeting can only yield a postponement in new tranche of US tariffs on China and a broader agreement is not probable. Data on US consumer sentiment deteriorated somewhat, but this did not affect EURUSD, even though bond yields went down. Worries about conflict in the Persian Gulf supported crude oil, gold and the Japanese yen. In Poland, bonds took cue from the core markets, while the zloty weakened somewhat. Changes of domestic asset prices were not connected to the dovish comment of MPC's Eryk Łon or M3 money supply data. Yesterday comments of Fed representatives undermined the stock market moods. Even though Jerome Powell warned about growing downward risk for the US economy, he did not announce imminent Fed actions. Powell only reiterated that FOMC members see strong arguments to cut rates and the Committee should not succumb to one-off data or temporary swings in moods. On the other hand, James Bullard, who supported a rate cut at the last meeting, stated that a cut by 50bps in July would be too much, while the markets have been partly pricing-in such a scenario.

In May the **M3 money supply** slowed down to 9.9% y/y from 10.4% y/y in April, more or less in line with expectations. M3 was slowed mostly by a lower growth of deposits of non-monetary financial institutions, while deposits of households and firms slowed down only slightly and this development could be fully explained by the FX effects. Loans behaved in a similar manner: after FX adjustment changes versus April were minute.

MPC's Eryk Łon said that in a dozen or several dozen of months he could propose an interest rate cut. He justified it by the growing risks for global economy related to world conflicts, stagnation in Germany and quasi-recessionary trends he observes in many euro zone countries. At the same time, Łon absolutely rejected the idea of interest rate hikes in Poland. The recent MPC documents did not suggest, however, that the number of MPC members considering a rate cut in this term of office has been rising.

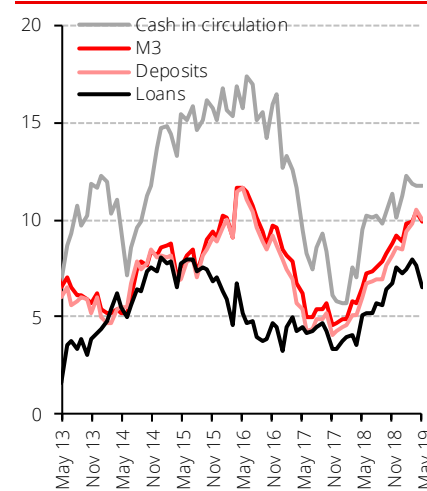
EURUSD was hovering on Tuesday between 1.1380 and 1.1410, at the end of the day sliding towards the Monday's close 1.1390. Data about US consumer confidence (slightly below expectations) did not influence the EURUSD. Today we expect the dollar to appreciate against euro in reaction to declining equity markets in Asia and potential correction of Fed's monetary easing priced-in by the markets.

EURPLN climbed from 4.2530 to 4.2550, pushed by slight correction in the stock markets, new threats of US President against Iran and risk aversion reflected by strengthening of Japanese yen and gold. Dovish comments of MPC's Eryk Łon and slightly worse than expected money supply data did not affect the currency. Today we expect a continuation of slight zloty weakening after morning declines in world equities.

Among **CEE region's currencies**, EURHUF was growing during the day before the conference of the Hungarian central bank (MNB), which confirmed its dovish attitude in the monetary policy. At the same time, the Bank emphasized that they will be eyeing inflation developments. As a result, in the second part of the day EURHUF declined to 323.00. EURCZK fell rapidly from 22.56 to 25.48 ahead of today's press conference of the Czech central bank, where investors are expecting signals about further monetary tightening. USDRUB climbed from 62.50 to 62.80, despite the slight increase of oil prices and the rise of the global geopolitical tensions.

Yields of Polish bonds and IRS rates kept declining on Tuesday, following core markets and due to higher global risk aversion. As a result the bond and IRS yield curves decreased by 1-3bp, stronger in the long end. Today we expect to see further slight reduction of yields.

Money supply and monetary aggregates, %y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2554	CZKPLN	0.1670
USDPLN	3.7449	HUFPLN*	1.3156
EURUSD	1.1363	RUBPLN	0.0597
CHFPLN	3.8399	NOKPLN	0.4393
GBPPLN	4.7437	DKKPLN	0.5700
USDCNY	6.8840	SEKPLN	0.4031

*for 100HUF

Last session in the FX market 25/06/2019

	min	max	open	close	fixing
EURPLN	4.250	4.258	4.253	4.256	4.2554
USDPLN	3.726	3.746	3.734	3.746	3.7376
EURUSD	1.136	1.141	1.139	1.136	-

Interest rate market 25/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.52	-2	21 mar 19	OK0521	1.633
PS0424 (5L)	1.92	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.31	-4	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	1.72	0	1.96	-1	-0.36	0
2L	1.74	-1	1.73	-1	-0.37	-1
3L	1.74	-1	1.67	-2	-0.35	-1
4L	1.78	-2	1.68	-2	-0.29	-1
5L	1.83	-2	1.71	-2	-0.22	-1
8L	1.97	-2	1.84	-3	0.02	-2
10L	2.07	-2	1.92	-3	0.18	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.56	1
T/N	1.56	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	1.72	0
6x9	1.71	0
9x12	1.68	0
3x9	1.79	0
6x12	1.77	0

Measures of fiscal risk

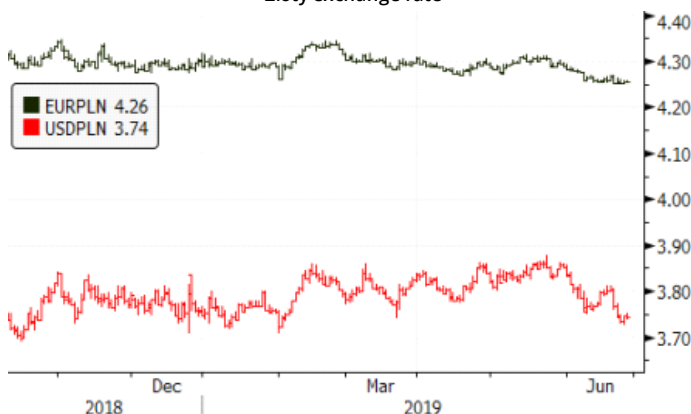
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.63 -4
France	25 -1	0.33 0
Hungary		2.92 -1
Spain	39 1	0.71 0
Italy	200 1	2.49 0
Portugal	44 0	0.81 0
Ireland	29 -2	0.50 0
Germany	12 -1	- -

* 10Y treasury bonds over 10Y Bunds

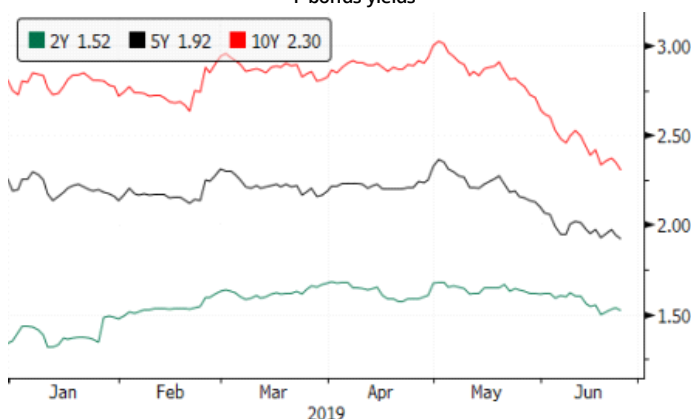
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

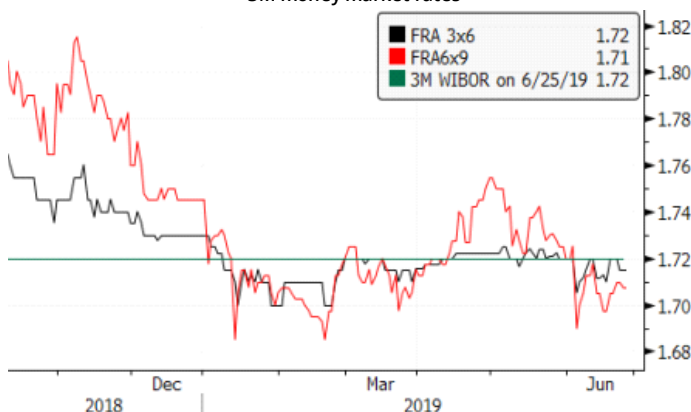
Zloty exchange rate



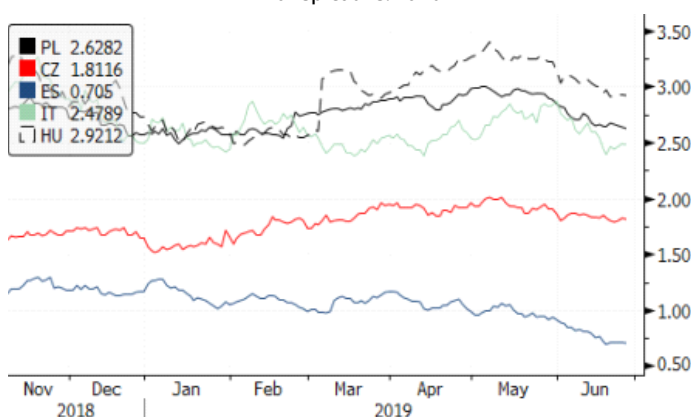
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (21 June)								
09:30	DE	Germany Manufacturing PMI	Jun	pts	44.6		45.4	44.3
09:30	DE	Markit Germany Services PMI	Jun	pts	55.2		55.6	55.4
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	48.0		47.8	47.7
10:00	EZ	Eurozone Services PMI	Jun	pts	52.95		53.4	52.9
10:00	PL	Sold Industrial Output	May	% y/y	7.5	8.7	7.7	9.2
10:00	PL	PPI	May	% y/y	1.6	1.5	1.4	2.6
16:00	US	Existing Home Sales	May	% m/m	2.12		2.5	-0.4
MONDAY (24 June)								
10:00	DE	IFO Business Climate	Jun	pts	97.45		97.4	97.9
10:00	PL	Construction Output	May	% y/y	14.0	16.6	9.6	17.4
10:00	PL	Retail Sales Real	May	% y/y	6.9	6.5	5.6	11.9
TUESDAY (25 June)								
14:00	HU	Central Bank Rate Decision	Jun.19	%	0.9		0.9	0.9
14:00	PL	Money Supply M3	May	% y/y	10.1	9.7	9.9	10.4
16:00	US	Consumer Conference Board	Jun	pts	131.0		121.5	134.1
16:00	US	New Home Sales	May	% m/m	1.8		-7.8	-6.9
WEDNESDAY (26 June)								
10:00	PL	Unemployment Rate	May	%	5.4	5.4	-	5.6
13:00	CZ	Central Bank Rate Decision	Jun.19		2.0		-	2.0
14:30	US	Durable Goods Orders	May	% m/m	-0.1		-	-2.1
THURSDAY (27 June)								
11:00	EZ	ESI	Jun	pct.	104.7		-	105.1
11:30	PL	Bond Switch Auction			-			
14:00	DE	HICP	Jun	% m/m	0.1		-	0.3
14:30	US	GDP Annualized	1Q	% Q/Q	3.2		-	3.1
14:30	US	Initial Jobless Claims	Jun.19	k	219.0		-	216.0
16:00	US	Pending Home Sales	May	% m/m	1.0		-	-1.5
FRIDAY (28 June)								
09:00	CZ	GDP SA	1Q	% y/y	2.6		-	2.6
10:00	PL	CPI	Jun	% y/y	2.4	2.5	-	2.4
11:00	EZ	Flash HICP	Jun	% y/y	1.2		-	1.2
14:30	US	Personal Spending	May	% m/m	0.5		-	0.3
14:30	US	Personal Income	May	% m/m	0.3		-	0.5
14:30	US	PCE Deflator SA	May	% m/m	0.2		-	0.3
16:00	US	Michigan index	Jun	pts	97.9		-	97.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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