

28 June 2019

Eyeopener

Changing sentiment ahead of Osaka meeting

Markets waiting for the Saturday Trump-Xi meeting
Zloty slightly stronger on better global sentiment
Dollar and domestic bond yields went up a bit
Today flash CPI in Poland, US data

On Thursday the market moods were quite positive, demand for risky was supported by information cited by the Chinese press that Trump and Xi Jinping, who are meeting tomorrow at the G20 summit in Osaka, have allegedly agreed to a "tentative truce" on trade wars. Given no official confirmation, the markets did not fully get rid of worries about further round of new tariffs so today stock market in Asia went down. Core bond yields were going down during the day. German inflation data surprised to the upside, while revised US data showed GDP and consumption below expectations in 1Q19.

The June set of **ESI economic indicators** showed an improvement of the main index to 103pts from 101.1pts. This was due to a higher consumer optimism given new social transfers (expectations about own financial situation improved markedly). Business sectors showed a continuation of downward trend in industry and construction, and some improvement in services and retail trade, but sentiments in these two sectors remained lower than in 1Q19. Some optimism was shown by the current industrial output trend indicator, which was at the year's top. Still, falling employment indicators are worrying.

Thursday session started with a major dollar strengthening, which was supported by news flow about the trade wars. Later the greenback weakened, hit by higher inflation in Germany and weaker US macro data. On daily chart, **EURUSD** moved to 1.1380 from 1.1355 at the start of the day. Today the pair will remain under impact of expectations about Saturday US-Sino talks. We will also get to see important US numbers: inflation, consumer spending and incomes. Negative surprise will be interpreted as supporting the Fed rate cut case, which may be USD-negative.

The zloty benefited from yesterday's rise in demand for risk and EURPLN slid from 4.26 at the start of the day to slightly below 4.25. Later we have witnessed a correction, which pushed the rate to 4.252. The uncertainty prior to tomorrow's meeting could push EURPLN up, but in our view today's Polish CPI data could help the zloty defend yesterday's gains.

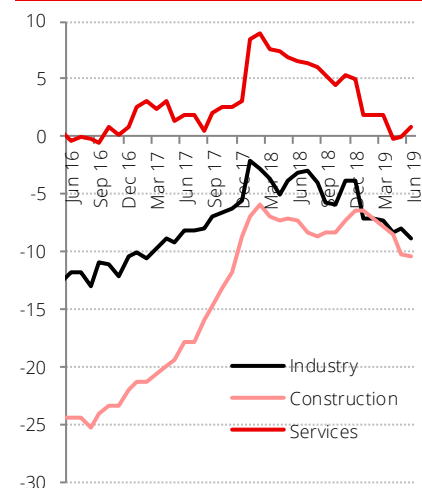
Other CEE currencies were performing worse than the zloty. Czech koruna weakened slightly vs. euro, EURCZK rose from 25.42 to 25.45. Forint started the day on a stronger foot, but then depreciated and EURHUF ended the day slightly above the opening, at 323.7. USDRUB was hovering near 63.0; in the morning it was weakened by lower oil prices, but in the afternoon the situation reversed.

Polish bonds followed the weaker opening in core markets and yields rose by 1-4bp, with the biggest move in the long end of the curve. During the day core yields were gradually sliding, but it did not affect Polish market too much. IRS rates rose a bit less, by c1bp. Uncertainty ahead of the G20 summit should support a decrease of yields today, similarly as the potentially weak US data releases.

At the **switching auction** the Ministry of Finance bought back and sold bonds worth PLN4.6bn. The biggest amount sold was PS1024 (PLN1.4bn) and WZ0525 (PLN1.3bn). The financing of 2019 borrowing needs reached 76% after the auction.

Today flash inflation data will be released. We expect a slight CPI increase to 2.5% y/y, mainly due to higher prices of food and telecommunication services. In the next months we expect to see further inflation pickup, to above 3% in 2020.

ESI business sentiment indicators



Source: European Commission, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Konrad Soszyński +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2528	CZKPLN	0.1672
USDPLN	3.7382	HUFPLN*	1.3132
EURUSD	1.1377	RUBPLN	0.0592
CHFPLN	3.8343	NOKPLN	0.4392
GBPPLN	4.7385	DKKPLN	0.5698
USDCNY	6.8660	SEKPLN	0.4032

*for 100HUF

Last session in the FX market 27/06/2019

	min	max	open	close	fixing
EURPLN	4.251	4.264	4.261	4.252	4.2561
USDPLN	3.738	3.754	3.743	3.741	3.7426
EURUSD	1.135	1.138	1.138	1.137	-

Interest rate market 27/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.59	1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.97	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.37	3	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	2.00	0	-0.36	0
2L	1.76	1	1.78	0	-0.38	-1
3L	1.76	0	1.72	0	-0.35	-1
4L	1.81	1	1.72	0	-0.29	-1
5L	1.87	1	1.75	0	-0.22	-2
8L	2.02	2	1.87	0	0.02	-2
10L	2.12	2	1.96	0	0.18	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.54	-1
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	1.70	1
3x9	1.79	0
6x12	1.78	1

Measures of fiscal risk

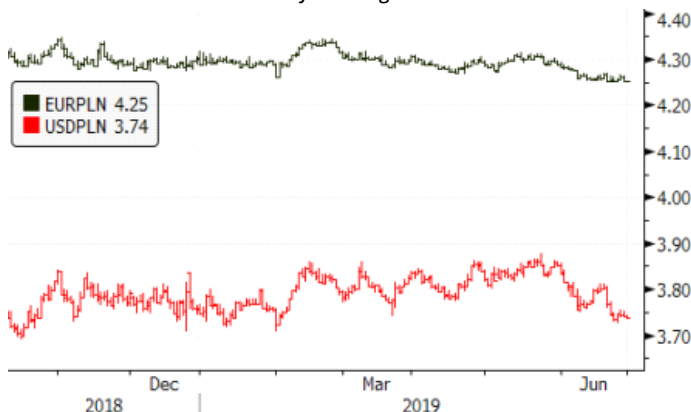
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.69 3
France	25 0	0.32 0
Hungary		2.95 -1
Spain	39 -1	0.71 -1
Italy	200 -2	2.41 -4
Portugal	44 2	0.79 -1
Ireland	28 0	0.50 -2
Germany	12 -1	- -

* 10Y treasury bonds over 10Y Bunds

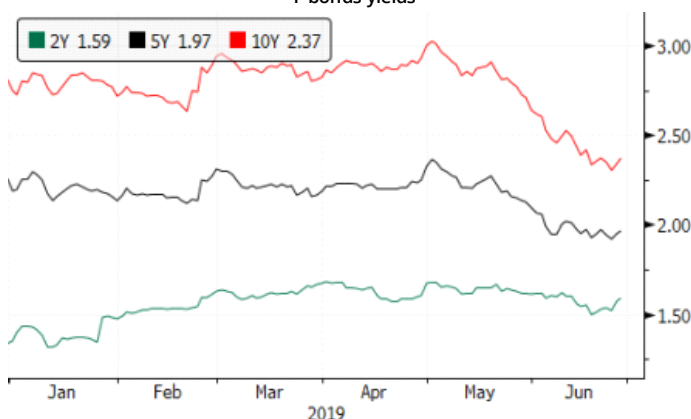
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

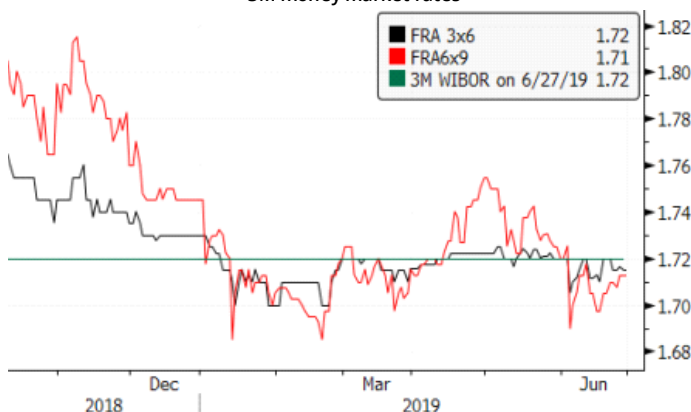
Zloty exchange rate



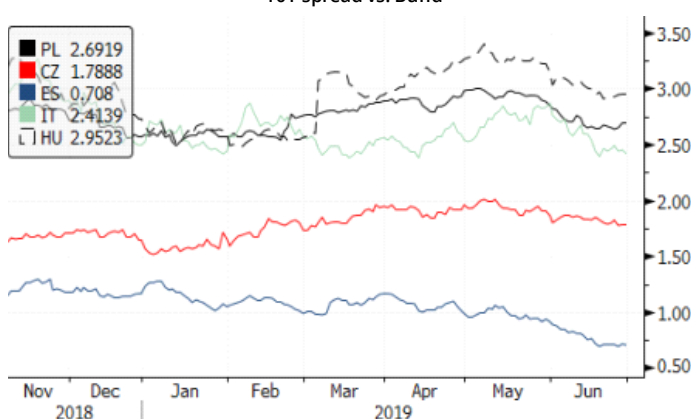
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME CET	COUNTRY	INDICATOR	PERIOD		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	5.4	5.6
13:00	CZ	Central Bank Rate Decision	Jun.19		2.0		2.0	2.0
14:30	US	Durable Goods Orders	May	% m/m	-0.3		-1.3	-2.1
THURSDAY (27 June)								
11:00	EZ	ESI	Jun	pct.	104.7		103.3	105.1
11:30	PL	Bond Switch Auction			-			
14:00	DE	HICP	Jun	% m/m	0.1		0.1	0.3
14:30	US	GDP Annualized	1Q	% Q/Q	3.2		3.1	3.1
14:30	US	Initial Jobless Claims	Jun.19	k	220.0		227.0	216.0
16:00	US	Pending Home Sales	May	% m/m	1.0		1.1	-1.5
FRIDAY (28 June)								
09:00	CZ	GDP SA	1Q	% y/y	2.6		2.8	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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.