

1 July 2019

Eyeopener

Return to trade talks

Cease fire in US-China trade war and UE-Mecosur free trade agreement should support global moods at the start of the week

Polish inflation rose to 2.6% y/y, breaching target for the first time since 2012

Zloty slightly stronger after higher inflation, more appreciation possible

Domestic yields slightly higher on Friday, today further increase likely

Today, Polish manufacturing PMI today, EU top jobs discussion

Friday was dominated by expectations about results of G20 summit. We got to see a series of higher-than-expected CPI data: in France, Italy, Czech Republic and euro zone (core), as well as core PCE in the USA (previous month was revised higher). Polish flash CPI in June also exceeded expectations and surpassed the inflation target. US consumer confidence surprised to the upside, inflation expectations went slightly up. Thus, EURUSD climbed temporarily, Polish bond yields increased, while core bond markets strengthened.

The weekend **G20 summit** produced two pieces of information which should limit worries about the global economy, at least temporarily: first, US and Chinese leaders agreed to return to trade talks, so Donald Trump promised to suspend hiking tariffs on Chinese products and to allow US firms to supply Huawei. At the same time, the EU and South America countries (Brazil, Argentina, Uruguay and Paraguay, the so-called Mercosur) agreed a free trade deal.

At the **EU summit** in Brussels that started on Sunday no agreement has been reached yet about key EU posts. There was unofficial information that Frans Timmermans is the strongest candidate for European Commission head, but he is facing opposition from Visegrad countries. It is not certain if the decision will be reached today.

CPI inflation climbed to 2.6% y/y in June (consensus: 2.4%, our forecast: 2.5%) and was above the NBP target for the first time since 2012. The rise from 2.4% y/y in May was mostly due to higher food prices and, most likely, hikes in communication prices (the GUS did not show this number yet). According to our estimate, core inflation excluding food and energy prices climbed to 1.8-1.9% and was also the highest since 2012. CPI is likely to ease a bit in the months to come, but will resume the upward trend at the year-end and is likely to exceed 3% y/y at the turn of 2019 and 2020, in our view. This inflation print is in our view unlikely to change the balance in the MPC.

Ministry of Finance's **data on bond holders** of PLN-denominated government debt showed that in May foreign investors were still reducing their portfolios in net terms. Their position was cut by PLN650mn m/m with supply coming mostly from omnibus accounts and investment funds, while foreign banks and non-financial institutions increased their holdings. It seems foreign central banks ended the strategic reduction of portfolios (the second month of stability) having sold PLN18.5bn of POLGBs year-to-date, i.e. almost a half of what they had in December 2018. Domestic banks were still net buyers (PLN+2.5bn m/m, PLN38.6bn year-to-date).

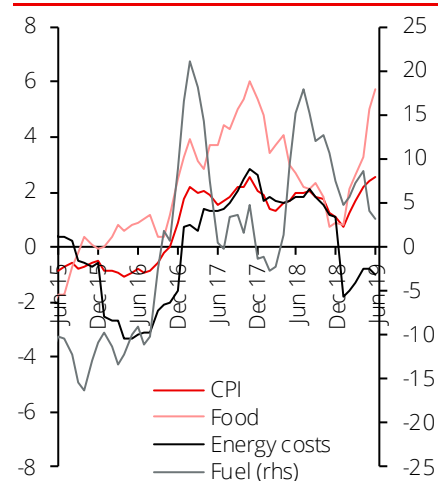
Friday set of data made **EURUSD** climb towards 1.14 but then correct downwards. Weekend information on de-escalation of Sino-US trade conflict supported the dollar (so the rate fell to 1.1326 today in the morning), based on growing concerns whether the Fed will cut rates already in July, which is the current stance of the market. The euro was also undermined by the prolonged conflict about top jobs in the European Union.

On Friday **EURPLN** continued its downward march to 4.245, level recorded last time in the spring 2018. The rising risk appetite could support further PLN strengthening. However, the scale of EURPLN decline will be limited by falling EURUSD. As a result, we are not expecting 4.24 to be broken. As regards **other CEE currencies**, only the forint posted a more considerable movements as it fell to 323.0 from 323.8 per euro, even though wages in the Hungarian economy slowed to 9% y/y from 10.2% y/y as compared to expectations at 10.6%..

Polish bonds did not follow falling core yields due to the higher-than-expected Polish flash June CPI. Even the announcement of low planned debt supply for 3Q did not manage to support bonds. Today we expect yields to move further up amid the global lower risk aversion. The calendar of planned debt auction for 3Q includes only 1-2 standard auctions with planned supply of PLN7-13bn, out of which PLN4-7bn to be issued in July. In 3Q, 3-4 bond switch auctions are planned. In 2Q, bonds for merely PLN6bn were issued vs PLN15-25bn initially planned.

Today we will see Poland PMI that we expect rose slightly (to 49.2pt). On Wednesday, the MPC will decide about the interest rates.

CPI and selected components, % y/y



Source: GUS, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2466 | CZKPLN | 0.1670 |
| USDPLN | 3.7482 | HUFPLN* | 1.3158 |
| EURUSD | 1.1329 | RUBPLN | 0.0595 |
| CHFPLN | 3.8111 | NOKPLN | 0.4393 |
| GBPPLN | 4.7529 | DKKPLN | 0.5689 |
| USDCNY | 6.8460 | SEKPLN | 0.4026 |

*for 100HUF

Last session in the FX market 28/06/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.240 | 4.254 | 4.252 | 4.244 | 4.252 |
| USDPLN | 3.728 | 3.742 | 3.741 | 3.732 | 3.7336 |
| EURUSD | 1.135 | 1.139 | 1.137 | 1.137 | - |

Interest rate market 28/06/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0721 (2L) | 1.60 | 2 | 21 mar 19 | OK0521 | 1.633 |
| PS0424 (5L) | 1.97 | 0 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.38 | 1 | 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 | 1.72 | 0 | 2.02 | 2 | -0.36 | 0 |
| 2L | 1.76 | 1 | 1.81 | 2 | -0.38 | -1 |
| 3L | 1.77 | 1 | 1.74 | 2 | -0.36 | -1 |
| 4L | 1.81 | 0 | 1.74 | 2 | -0.30 | -1 |
| 5L | 1.87 | 0 | 1.77 | 1 | -0.23 | -1 |
| 8L | 2.02 | 0 | 1.88 | 1 | 0.01 | -1 |
| 10L | 2.12 | 0 | 1.96 | 1 | 0.18 | -1 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.54 | 0 |
| T/N | 1.56 | 2 |
| SW | 1.57 | 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 | 1.71 | 0 |
| 9x12 | 1.70 | 0 |
| 3x9 | 1.79 | 0 |
| 6x12 | 1.78 | 0 |

Measures of fiscal risk

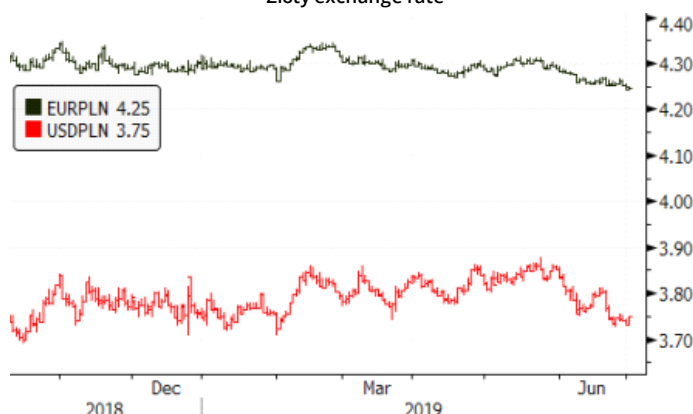
| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------------|--------------------|
| | Level Change (bps) | Level Change (bps) |
| Poland | | 2.70 0 |
| France | 25 0 | 0.32 0 |
| Hungary | | 2.93 -3 |
| Spain | 39 -1 | 0.72 -1 |
| Italy | 198 -2 | 2.40 -3 |
| Portugal | 42 2 | 0.80 0 |
| Ireland | 28 0 | 0.50 0 |
| Germany | 12 0 | - - |

* 10Y treasury bonds over 10Y Bunds

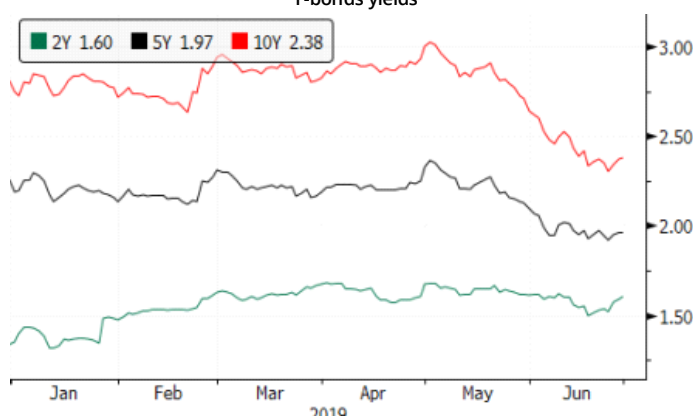
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

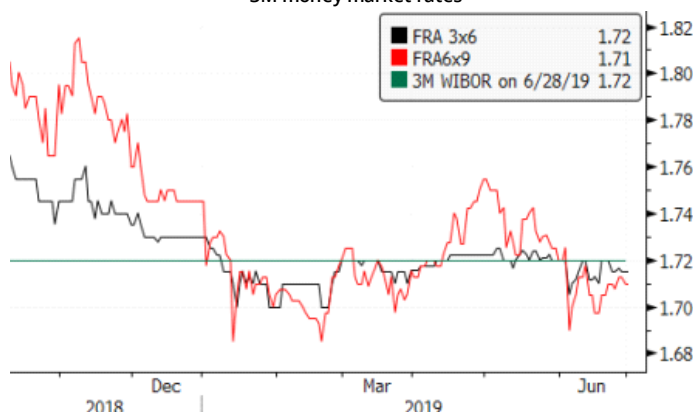
Zloty exchange rate



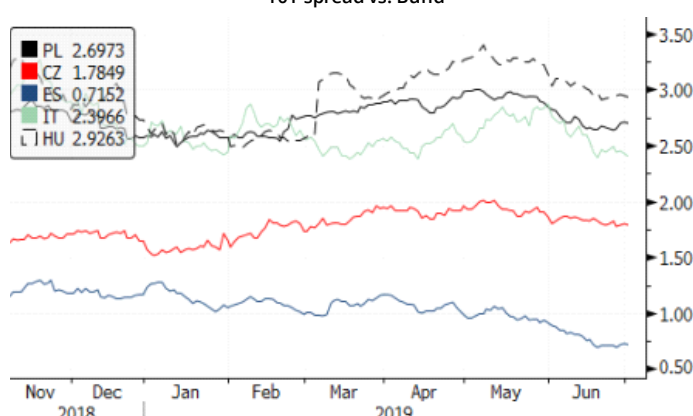
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL VALUE | LAST VALUE* |
|--------------------|---------|-----------------------------|--------|----------|-----------|-----------------|----------------|
| | | | | MARKET | SANTANDER | | |
| 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 | 2.58 | 2.4 |
| 11:00 | EZ | Flash HICP | Jun | % y/y | 1.2 | 1.2 | 1.2 |
| 14:30 | US | Personal Spending | May | % m/m | 0.5 | 0.4 | 0.3 |
| 14:30 | US | Personal Income | May | % m/m | 0.3 | 0.5 | 0.5 |
| 14:30 | US | PCE Deflator SA | May | % m/m | 0.2 | 0.2 | 0.3 |
| 16:00 | US | Michigan index | Jun | pts | 97.9 | 98.2 | 97.9 |
| MONDAY (1 July) | | | | | | | |
| 03:45 | CN | Caixin Manufacturing PMI | Jun | Pts | 50.1 | 50.2 | 03:45 |
| 09:00 | PL | Poland Manufacturing PMI | Jun | pts | 49.0 | 49.2 | 48.8 |
| 09:55 | DE | Germany Manufacturing PMI | Jun | pts | 45.4 | - | 45.4 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Jun | pts | 47.8 | - | 47.8 |
| 11:00 | EZ | Unemployment Rate | May | % | 7.6 | - | 7.6 |
| 16:00 | US | ISM manufacturing | Jun | pts | 51.2 | - | 52.1 |
| TUESDAY (2 July) | | | | | | | |
| | | No important events | | | | | |
| 08:00 | DE | Retail Sales | May | % m/m | 0.5 | - | -1.0 |
| WEDNESDAY (3 July) | | | | | | | |
| | PL | MPC decision | | % | 1.5 | 1.5 | 1.5 |
| 03:45 | CN | Caixin China PMI Services | Jun | pts | 52.6 | - | 52.7 |
| 09:55 | DE | Markit Germany Services PMI | Jun | pts | 55.6 | - | 55.6 |
| 10:00 | EZ | Eurozone Services PMI | Jun | pts | 53.4 | - | 53.4 |
| 14:15 | US | ADP report | Jun | k | 140.0 | - | 27.4 |
| 14:30 | US | Initial Jobless Claims | Jun.19 | k | 220.0 | - | 227.0 |
| 16:00 | US | Durable Goods Orders | May | % m/m | -0.3 | - | -1.3 |
| 16:00 | US | ISM services | Jun | pts | 56.0 | - | 56.9 |
| 16:00 | US | Factory Orders | May | % m/m | -0.4 | - | -0.8 |
| THURSDAY (4 July) | | | | | | | |
| 11:00 | EZ | Retail Sales | May | % m/m | 0.4 | - | -0.4 |
| FRIDAY (5 July) | | | | | | | |
| 08:00 | DE | Factory Orders | May | % m/m | -0.1 | - | 0.3 |
| 09:00 | HU | Industrial Production SA | May | % y/y | 5.0 | - | 6.0 |
| 14:30 | US | Change in Nonfarm Payrolls | Jun | k | 162.5 | - | 75.0 |
| 14:30 | US | Unemployment Rate | Jun | % | 3.6 | - | 3.6 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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