

3 July 2019

# Eyeopener

## EU top jobs agreed

Christine Lagarde to be the next ECB governor  
 Zloty and EURUSD relatively stable  
 Bond yields lower again  
 Today, MPC meeting, ADP report, services PMIs

On Tuesday the positive impact of G20 summit on the risky assets was waning. This may have been caused by weaker data from Germany (on retail sales), by prolonged talks about top posts in the EU, and by expectations for important US data. Core market bond yields decline in the second part of the day was probably partly related to information of looming staff changes in the ECB (see below) and Fed (Donald Trump nominated two candidates perceived dovish: Judy Shelton and Christopher Waller). Today we will get to see the ADP report, which is to show whether weaker employment in May was only a one-off.

The **EU leaders agreed on jobs** in top institutions yesterday in the evening: Ursula von der Leyen, German defence minister, is to become the European Commission President, while Christine Lagarde, the current IMF head, is to take the post of ECB Governor. The European Council will be headed by Charles Michel from Belgium and Spain's Josep Borrell will become the High Representative for Foreign Affairs and Security Policy. These proposals have yet to be approved by the European Parliament, that will also appoint its Speaker today. According to unofficial information, this post may be shared by Manfred Weber from Germany and a representative of PES party, possibly Sergei Stanishev from Bulgaria. Lagarde as a successor of Mario Draghi would most probably continue the dovish-coloured policy, which the markets seem to have already started pricing-in.

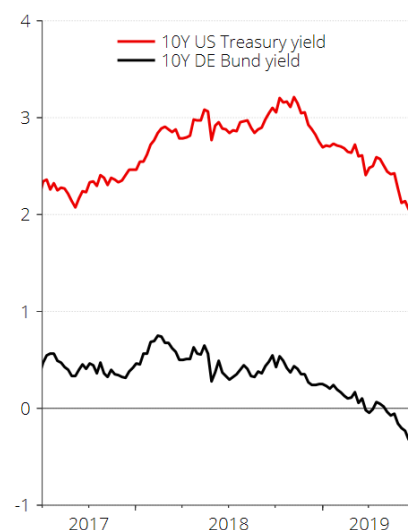
**EURUSD** stabilised near 1.13 after the largest daily decline since the start of March recorded on Monday. Today there will be several factors, which may increase its volatility, in particular the US labour market data. May US employment reading was a big disappointment and today's ADP report may indicate if the official government data due this Friday might show an improvement.

**EURPLN** was testing 4.24, just like on Monday, but again it did not manage to stay below this level for longer. USDPLN was hovering around 3.755. In case of the other CEE currencies, the trading was rather calm with exception of the ruble that gave up more than its Monday's gains as the oil price fell sharply. After closing of the Polish session, the stock indexes added gains but the zloty did not benefit from this which suggests that we are nearing the moment when the profit taking from the recent zloty appreciation would start.

On the **domestic interest rate market**, IRS and bond yields fell by no more than 2bp, this time the biggest changes were recorded on the belly and front end of the curves. Abroad Bunds, Treasuries and euro zone peripheral debt gained more, particularly in late afternoon in reaction to the looming changes in the ECB and Fed staff that are viewed as supportive for continuation of the dovish bias. Today, the data released could have some impact on the market.

Today, the **MPC meeting** will end. The result is quite obvious – interest rates will remain unchanged. The tone of the Council is likely to remain dovish and the NBP Governor Adam Glapiński will probably put even more emphasis than before on the uncertain outlook for global economy, which justifies stable interest rates in Poland. The MPC will get the new economic projection of the central bank, which in our view will show a bit higher GDP growth trajectory again. Inflation path is also likely to be revised up in the nearest quarters (due to higher starting point and incorporation of unfreezing of energy prices) and may even exceed the upper end of band around inflation target at the turn of 2019/2020. However, in the medium and long run the predicted inflation is likely to converge towards the NBP target, similarly as it did in the November's version of the projection.

### Bond yields in core markets



Source: Thomson Reuters Datastream, 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 02/07/2019

	min	max	open	close	fixing
EURPLN	4.239	4.247	4.240	4.244	4.252
USDPLN	3.747	3.763	3.754	3.754	3.7336
EURUSD	1.128	1.132	1.129	1.131	-

## Interest rate market 02/07/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.58	-2	21 mar 19	OK0521	1.633
PS0424 (5L)	1.92	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.35	-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	-4	-0.38	-1
2L	1.74	-1	1.81	-5	-0.41	-1
3L	1.75	0	1.74	-5	-0.38	-1
4L	1.78	0	1.73	-6	-0.33	-1
5L	1.83	0	1.74	-6	-0.26	-1
8L	1.97	-1	1.86	-7	-0.02	-1
10L	2.07	-1	1.94	-7	0.15	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.55	-1
SW	1.57	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	-1
9x12	1.70	0
3x9	1.79	0
6x12	1.78	0

## Measures of fiscal risk

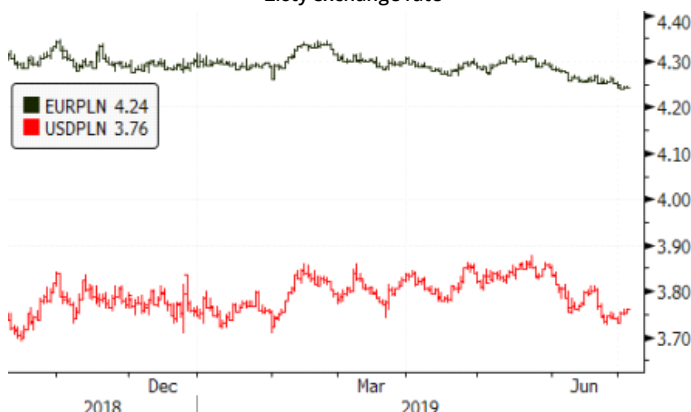
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	1
France	24	0	0.31	-1
Hungary			2.88	-4
Spain	36	0	0.65	-1
Italy	184	-2	2.16	-5
Portugal	40	-2	0.72	-1
Ireland	28	-1	0.49	0
Germany	12	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

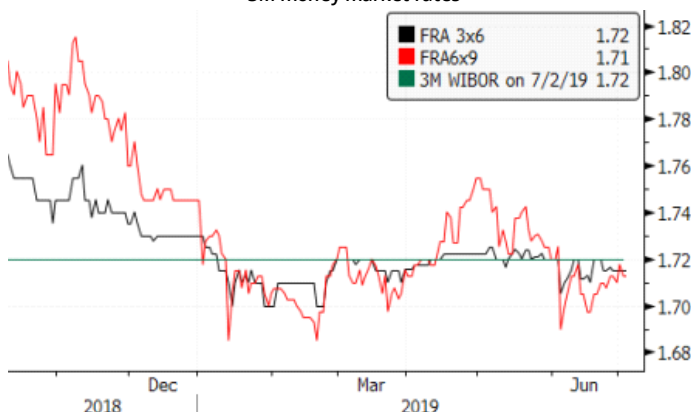
## Zloty exchange rate



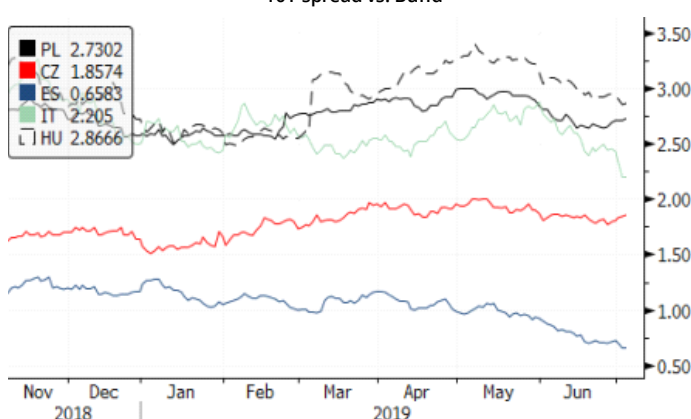
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL 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	2.5	2.6	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	-	49.4	50.2
09:00	PL	Poland Manufacturing PMI	Jun	pts	49.0	49.2	48.4	48.8
09:55	DE	Germany Manufacturing PMI	Jun	pts	45.4	-	45.0	45.4
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	47.8	-	47.6	47.8
11:00	EZ	Unemployment Rate	May	%	7.6	-	7.5	7.6
16:00	US	ISM manufacturing	Jun	pts	51.2	-	51.7	52.1
TUESDAY (2 July)								
08:00	DE	Retail sales	May	% m/m	0.5	-	-0.6	-1.0
WEDNESDAY (3 July)								
	PL	MPC decision		%	1.50	1.50		1.50
03:45	CN	Caixin China PMI Services	Jun	pts	52.6	-	52.0	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	-		27
14:30	US	Initial Jobless Claims	week	k	223	-		227
16:00	US	Durable Goods Orders	May	% m/m	-1.3	-		-1.3
16:00	US	ISM services	Jun	pts	56.0	-		56.9
16:00	US	Factory Orders	May	% m/m	-0.6	-		-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	-		75
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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