

5 July 2019

Eyeopener

Markets waiting for US data

Calm day amid US market holiday, ECB's Rehn heralds policy easing
 EURPLN still near 4.24, other CEE currencies slightly weaker
 EURUSD awaiting the impulse
 Polish bonds keep strengthening
 Today, US non-farm payrolls data

The closed US market and absence of US investors caused a lower market volatility on Thursday. Changes on the fx market were smaller than in the previous days, albeit some tendency was seen for weaker PLN and other CEE fx. Bonds kept strengthening, but with less momentum on core markets than in previous days. ECB's Olli Rehn said in an interview for Boersen Zeitung, that the central bank should increase the scale of monetary stimulus of the economy because the euro zone slowdown is no longer seen as temporary. He added that the decisions might be made on one of the next meetings. Today market focus will be on monthly data from the US labour market; in May, non-farm payrolls disappointed and Wednesday ADP report covering June showed a smaller-than-expected improvement. Before the markets react to the US data, there could be a response to another piece of poor data from Germany: industrial orders declined in May by 2.2% m/m, much more than expected.

According to the Labour Ministry, in June the **registered unemployment rate** fell to 5.3%, setting a new post-transformation low. At the same time, despite the positive economic climate, the decline in unemployment (which is typical for June) is weaker than in the previous years (-27.6k as compared to -62.4k average in 2011-2018). Moreover, the Ministry's statement acknowledged a major fall in the number of job offers, way stronger than suggested by the seasonal pattern. This happened amid disappointing macro data, but we do not view this as a harbinger of a more significant GDP growth deceleration, as fiscal stimulus is already on the way.

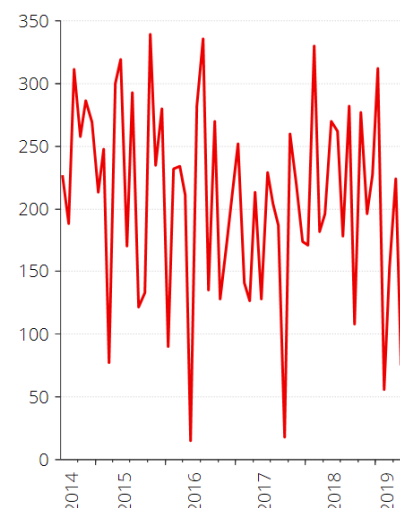
On Thursday the Sejm enacted the **amendment of debtors' support act**, by removing provisions on the FX conversion. Thus, the act does not include regulations proposed earlier by the President, which were the most costly for the banking system.

EURUSD fluctuated around 1,13 third day in a row. Today's volatility can increase, first in reaction to weak data from Germany, and then in response to afternoon data from the USA. This week dollar has been gaining slightly vs. euro. Therefore, and also taking into account the nearing end of the week, currency market reaction can be stronger in case of data below rather than above expectations.

Yesterday **EURPLN** was still close to 4.24 and ended the day slightly above that level, even though it has opened near 4.237. USDPLN stayed at around 3.76. When it comes to the other CEE currencies, they were performing similarly – forint, ruble and koruna were gradually depreciating since the beginning of session. The governor of the Russian Central Bank said yesterday that they are planning to consider the 50bp interest rate cut during the meeting at 26th of July which corresponds with the foregoing rhetoric. Today the zloty behaviour will depend on EURUSD's reaction to the US data. Lack of positive surprise in the non-farm payrolls would support Fed's rate cut expectations and thus EM currencies.

On the **domestic interest rate market**, IRS and bond yields fell by 1-4bp, more than changes recorded on the core and euro zone peripheral market (yields actually rose in case of the latter). Today Polish bonds could follow core debt that is likely to gain at the opening after the poor German data. Later in the day, the US releases could play the main role. The market is already pricing the Fed rate cuts so in our view, the Treasuries response to the nonfarm payrolls change should be bigger if the headline figure surprises to the opposite (the other way around than for EURUSD).

US non-farm payrolls



Source: Thomson Reuters Datastream, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2448 | CZKPLN | 0.1666 |
| USDPLN | 3.7654 | HUFPLN* | 1.3140 |
| EURUSD | 1.1273 | RUBPLN | 0.0593 |
| CHFPLN | 3.8190 | NOKPLN | 0.4407 |
| GBPPLN | 4.7360 | DKKPLN | 0.5687 |
| USDCNY | 6.8780 | SEKPLN | 0.4028 |

*for 100HUF

Last session in the FX market 04/07/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.238 | 4.245 | 4.240 | 4.244 | 4.2427 |
| USDPLN | 3.753 | 3.764 | 3.758 | 3.762 | 3.7618 |
| EURUSD | 1.127 | 1.130 | 1.128 | 1.128 | - |

Interest rate market 04/07/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0721 (2L) | 1.56 | -1 | 21 mar 19 | OK0521 | 1.633 |
| PS0424 (5L) | 1.86 | -3 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.26 | -4 | 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 | 0 | -0.39 | 0 |
| 2L | 1.72 | -2 | 1.80 | -1 | -0.41 | 0 |
| 3L | 1.72 | -2 | 1.72 | -1 | -0.39 | 0 |
| 4L | 1.74 | -3 | 1.71 | 0 | -0.35 | -1 |
| 5L | 1.77 | -4 | 1.72 | 0 | -0.29 | -1 |
| 8L | 1.90 | -4 | 1.82 | -1 | -0.08 | -3 |
| 10L | 1.99 | -4 | 1.90 | 0 | 0.08 | -3 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.54 | 0 |
| T/N | 1.55 | 0 |
| 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 | 1.71 | 0 |
| 6x9 | 1.70 | -1 |
| 9x12 | 1.69 | -1 |
| 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 | | 2.66 -4 |
| France | 24 -1 | 0.27 0 |
| Hungary | | 2.66 -10 |
| Spain | 36 -1 | 0.64 -1 |
| Italy | 168 -1 | 2.02 -5 |
| Portugal | 37 2 | 0.73 0 |
| Ireland | 27 1 | 0.44 1 |
| Germany | 11 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



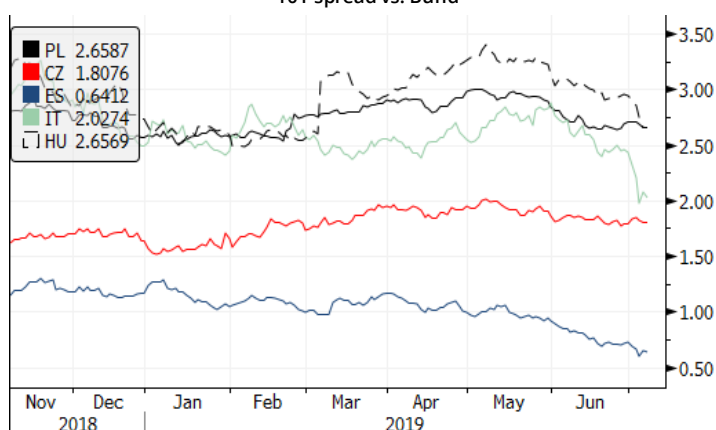
T-bonds yields



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 | 2.5 | 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 | 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 | - | 55.8 | 55.6 |
| 10:00 | EZ | Eurozone Services PMI | Jun | pts | 53.4 | - | 53.6 | 53.4 |
| 14:15 | US | ADP report | Jun | k | 140 | - | 102 | 41 |
| 14:30 | US | Initial Jobless Claims | week | k | 223 | - | 221 | 229 |
| 16:00 | US | Durable Goods Orders | May | % m/m | -1.3 | - | -1.3 | -2.8 |
| 16:00 | US | ISM services | Jun | pts | 56.0 | - | 55.1 | 56.9 |
| 16:00 | US | Factory Orders | May | % m/m | -0.6 | - | -0.7 | -1.2 |
| THURSDAY (4 July) | | | | | | | | |
| 11:00 | EZ | Retail Sales | May | % m/m | 0.3 | - | -0.3 | -0.1 |
| FRIDAY (5 July) | | | | | | | | |
| 08:00 | DE | Factory Orders | May | % m/m | -0.2 | - | -2.2 | 0.3 |
| 09:00 | HU | Industrial Production SA | May | % y/y | 4.9 | - | | 6.0 |
| 14:30 | US | Change in Nonfarm Payrolls | Jun | k | 160 | - | | 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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