

# Eyeopener

## Stabilization ahead of signals from Fed

New central bank CPI projection below 3.5% y/y  
 EURUSD slightly down in calm trading  
 Zloty and its CEE peers marginally weaker  
 Polish bonds outperform core debt  
 Hungarian CPI below forecasts

Financial markets have pretty fast stabilized after the Friday's much stronger than expected US job report. On Monday, European stock exchanges fell slightly, the dollar was stable vs the euro and core bond yields eased slightly. The latter might have been due to the ECB's Benoite Coeure who said that this time the euro zone economy more than ever needs accommodative monetary policy because the inflation is not in the target and the restart of the asset purchase program cannot be excluded.

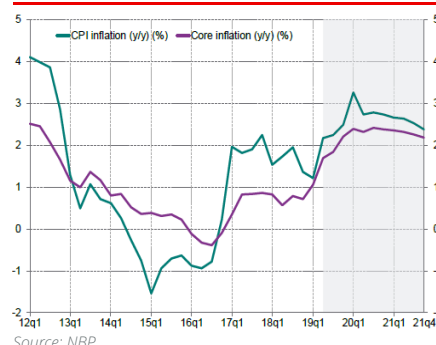
The NBP released the **Inflation report** ([link](#)), including the details of the new CPI and GDP projection. As was signalled in the last MPC statement, the projection update showed an increase of both inflation and GDP path in 2019-20 and almost unchanged forecast for 2021. According to the NBP the CPI growth will reach its local peak in 1Q20, at slightly below 3.5%, and then will gradually slow towards below 2.5% at the end of 2021. Core inflation is expected to stabilise near 2.5% in 2020 and to slow very slightly in 2021. The factors that would limit price growth include: quite high pace of potential GDP growth (revised up to 3.7%), low inflation abroad, appreciation of the zloty. Our forecast shows a similar trajectory of CPI inflation, although c.50bp higher, which probably results from the assumption of higher food prices growth in the nearest months and bigger second-round effects in the medium run (also higher growth of wages and unit labour costs). Nevertheless, even in our scenario when inflation is approaching 4% at the start of 2020 it seems very unlikely that the MPC will decide to tighten monetary policy before the end of 2020, which results from very uncertain outlook for global economy and a strong tilt towards more dovish policies by main central banks.

**EURUSD** was relatively stable on Monday. From the afternoon, it started to decline slightly which might have been caused by a dovish EBC member comment but at the end of the day the exchange rate was at the same level as on Friday, around 1.121. As the strong US employment data trimmed market pricing of the Fed July interest rates cut, investors are now waiting for further Fed monetary policy hints. They can be delivered in the middle of the week together with minutes from last FOMC meeting and Jerome Powell's speech in Senate and Congress. Until then, we expect EURUSD to stabilize around 1.122.

**EURPLN** was also not so volatile as it was moving gradually up as a reaction to dollar strengthening. It ended the day at c4.255. **Other CEE currencies** followed suit – lower chances for the Fed July interest rate cut and stronger dollar generate an upside pressure on EURHUF (to 324.85) and EURCZK (25.52). USDRUB after a morning rise, turned back to 63.52 as a reaction to oil prices growth, but at the same time ignoring the inflation fall, which boosted expectations for an interest rate cut this month. Today, we do not expect any major EURPLN moves ahead of the Wednesday signals from Fed.

**Domestic interest rate market** responded to the Friday's US data with lower yield rise than core market, and on Monday it was gaining much more than US or German debt. The bond and IRS curves shifted by 3-6bp lower (more on the long end), while on the core markets changes did not exceed 1bp. A limited Polish debt supply at the auctions could be the reason behind domestic debt positive performance.

NBP inflation projection – central path



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## FX market

### Today's opening

EURPLN	4.2550	CZKPLN	0.1668
USDPLN	3.7968	HUFPLN*	1.3100
EURUSD	1.1207	RUBPLN	0.0596
CHFPLN	3.8173	NOKPLN	0.4393
GBPPLN	4.7416	DKKPLN	0.5703
USDCNY	6.8828	SEKPLN	0.4010

\*for 100HUF

### Last session in the FX market 08/07/2019

	min	max	open	close	fixing
EURPLN	4.242	4.259	4.253	4.259	4.2519
USDPLN	3.782	3.800	3.793	3.797	3.7857
EURUSD	1.121	1.123	1.122	1.122	-

## Interest rate market 08/07/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.56	-2	21 mar 19	OK0521	1.633
PS0424 (5L)	1.83	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.23	-5	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	1.71	0	2.11	1	-0.39	0
2L	1.71	-2	1.91	1	-0.40	0
3L	1.71	-2	1.84	1	-0.38	0
4L	1.74	-4	1.81	1	-0.33	0
5L	1.78	-4	1.82	0	-0.27	0
8L	1.89	-6	1.91	0	-0.05	0
10L	1.98	-5	1.98	-1	0.11	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.55	-1
T/N	1.55	-1
SW	1.58	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	1.71	0
6x9	1.71	0
9x12	1.67	-2
3x9	1.78	0
6x12	1.76	0

### Measures of fiscal risk

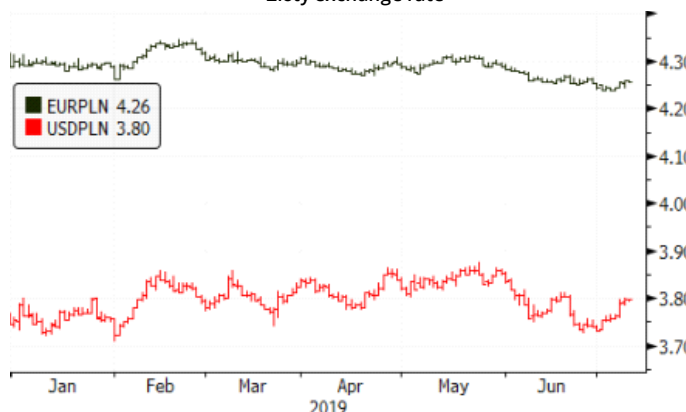
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	-4
France	23	-1	0.29	-1
Hungary			2.68	1
Spain	37	2	0.80	0
Italy	174	-1	2.13	-2
Portugal	38	1	0.85	-1
Ireland	27	0	0.49	4
Germany	11	1	-	-

\* 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



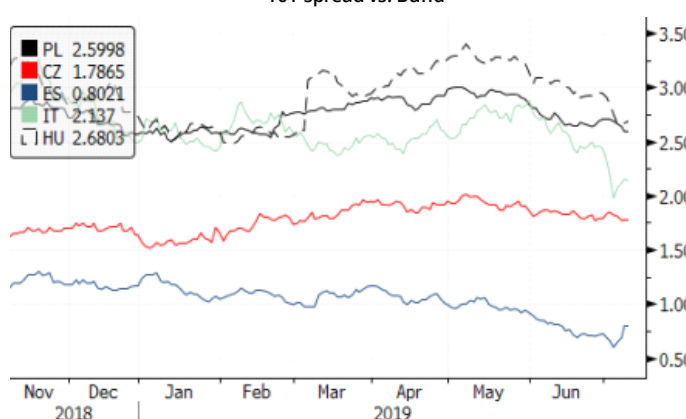
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
Economic Calendar								
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	-	6.1	6.0
14:30	US	Change in Nonfarm Payrolls	Jun	k	160	-	224	75.0
14:30	US	Unemployment Rate	Jun	%	3.6	-	3.7	3.6
MONDAY (8 July)								
08:00	DE	Exports SA	May	% m/m	1.6	-	1.1	-3.7
08:00	DE	Industrial Production SA	May	% m/m	0.5	-	0.3	-2.0
09:00	CZ	Industrial Production	May	% y/y	1.0		3.2	3.3
09:00	PL	Inflation Report						
TUESDAY (9 July)								
09:00	HU	CPI	Jun	% y/y	3.6	-	3.4	3.9
WEDNESDAY (10 July)								
20:00	US	FOMC Meeting Minutes						
THURSDAY (11 July)								
08:00	DE	HICP	Jun	% m/m	0.1	-		0.1
09:00	CZ	CPI	Jun	% y/y	2.6	-		2.9
14:30	US	CPI	Jun	% m/m	0.0	-		0.1
14:30	US	Initial Jobless Claims	week	k	222	-		221
FRIDAY (12 July)								
11:00	EZ	Industrial Production	May	% m/m	-0.1	-		-0.5

Source: Santander Bank Polska, Bloomberg, Parkiet  
\* in the case of a revision the data is updated

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