

10 July 2019

Eyeopener

Strong USD weighs on the CEE currencies

Markets await signals from Fed
 EURUSD still near 1.12
 Zloty and its CEE peers under pressure
 Polish bonds gain despite weaker Bund
 Today, FOMC minutes, Powell speech and EC new forecasts

Lack of new important data and awaiting for new signals about US monetary policy outlook have determined the Tuesday's session. Main stock market indices were declining slightly, dollar continued to strengthen and core market bond yields increased a bit. Markets were not supported by news from companies, including cut of financial forecasts by German chemical giant BASF due to the ongoing trade tensions. British pound weakened amid rising worries about no-deal Brexit scenario and worsening economic outlook, but possibly also affected somehow by the diplomatic USA-UK tension after the leak of British ambassador's mails.

Today the European Commission will release the summer edition of economic forecasts. Market attention will focus on the US Fed, however. In the evening the minutes from the last FOMC meeting will be released, and Jerome Powell will testify in the Congress. Many investors are hoping to see some hints regarding the pace of looming monetary easing. We think that the Fed president will not deliver a clear hint that the interest rate cut in July is a deal done, which may cause further dollar appreciation, weakening of EM currencies and rise in core bond yields.

PM Mateusz Morawiecki said yesterday that next week the government will discuss the draft bill reducing the personal income tax from 18% to 17% and raising the tax-free income. Both measures are the elements of the big fiscal package presented in February (PiS Five). Interestingly, according to PAP, the changes are planned to be introduced in January 2020, while recently some government officials suggested it could be already 2H19. It implies lower potential pressure on this year's budget.

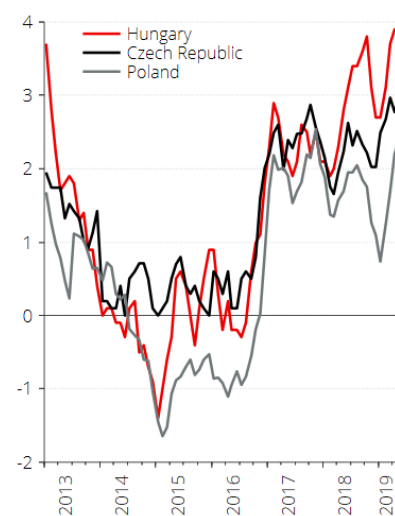
MPC member Eryk Łon wrote in the article that we should be prepared for interest rate cuts in Poland due to threat of deflation abroad. This opinion matches the tone of his earlier comments, and it should be remembered that Łon is the most extreme dove in the rate-setting panel. We think that interest rate reductions in Poland are very unlikely in the foreseeable future, due to still healthy economic growth and predicted inflation increase (according to our forecast, CPI will remain above the official target at least until the end of next year).

EURUSD was trending slightly lower for the second day running but in general the market was quite stable. The session ended near 1.12, its lowest level in three weeks. Today until the evening we do not expect to see any significant change of the situation, and only the new signals from Fed may introduce more volatility. We think that expectations for Fed rate cut in July will not be reinforced, which may push EURUSD further down in the coming days.

CEE currencies also continued the trend seen in the previous day as they depreciated vs the euro and dollar. Next to the stronger US currency and concerns related to the Fed policy, the currencies might have been pressured by the below-consensus Hungarian CPI that hit the forint. **EURPLN** rose above 4.27 after closing of the domestic session, **EURHUF** broke 325.8, and **EURCZK** was at 25.55. **USDRUB** moved up to c63.8. We assume the CEE currencies could stay stable today and might resume the depreciation trend tomorrow if the market expectations for the July Fed rate cut are not confirmed by Powell.

Polish bond yields fell again, deviating from the tendencies observed on the core market (where yields rose by 1-2bp), which might have been thanks to the still low supply and high demand from, among others, Polish banks. The bond curve shifted 4-5bp down while the IRS rates held fairly stable.

Inflation in the CEE region, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2700 | CZKPLN | 0.1671 |
| USDPLN | 3.8097 | HUFPLN* | 1.3102 |
| EURUSD | 1.1208 | RUBPLN | 0.0597 |
| CHFPLN | 3.8380 | NOKPLN | 0.4399 |
| GBPPLN | 4.7417 | DKKPLN | 0.5721 |
| USDCNY | 6.8845 | SEKPLN | 0.4019 |

*for 100HUF

Last session in the FX market 09/07/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.255 | 4.268 | 4.259 | 4.267 | 4.2637 |
| USDPLN | 3.793 | 3.809 | 3.797 | 3.806 | 3.8074 |
| EURUSD | 1.119 | 1.122 | 1.122 | 1.121 | - |

Interest rate market 09/07/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0721 (2L) | 1.54 | -2 | 21 mar 19 | OK0521 | 1.633 |
| PS0424 (5L) | 1.81 | -2 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.19 | -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 | 1.71 | 0 | 2.11 | 0 | -0.38 | 1 |
| 2L | 1.71 | 0 | 1.92 | 1 | -0.39 | 1 |
| 3L | 1.70 | 0 | 1.85 | 1 | -0.36 | 1 |
| 4L | 1.74 | 0 | 1.83 | 1 | -0.31 | 2 |
| 5L | 1.77 | 0 | 1.84 | 2 | -0.24 | 2 |
| 8L | 1.88 | -1 | 1.93 | 2 | -0.02 | 3 |
| 10L | 1.96 | -1 | 2.00 | 2 | 0.14 | 3 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.54 | -1 |
| T/N | 1.55 | 0 |
| SW | 1.58 | 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 | 1.71 | 0 |
| 9x12 | 1.67 | 0 |
| 3x9 | 1.78 | 0 |
| 6x12 | 1.76 | 0 |

Measures of fiscal risk

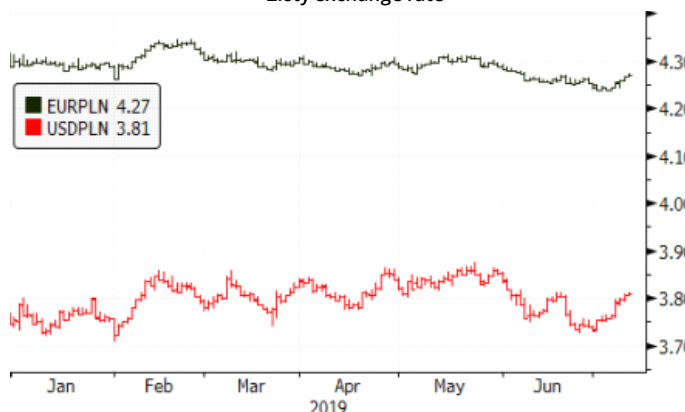
| Measures of financial risk | | | | |
|----------------------------|------------|--------------|-------------|--------------|
| Country | CDS 5Y USD | | 10Y spread* | |
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.52 | -6 |
| France | 23 | 0 | 0.30 | 0 |
| Hungary | | | 2.63 | -3 |
| Spain | 39 | 0 | 0.76 | -1 |
| Italy | 172 | 0 | 2.08 | -1 |
| Portugal | 38 | 0 | 0.82 | -1 |
| Ireland | 27 | 0 | 0.46 | -2 |
| 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

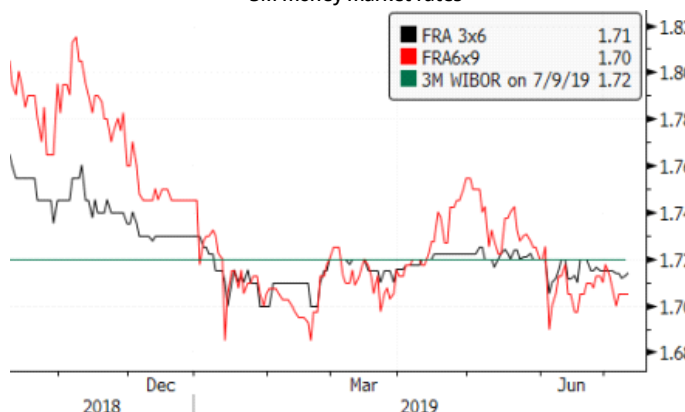
Zloty exchange rate



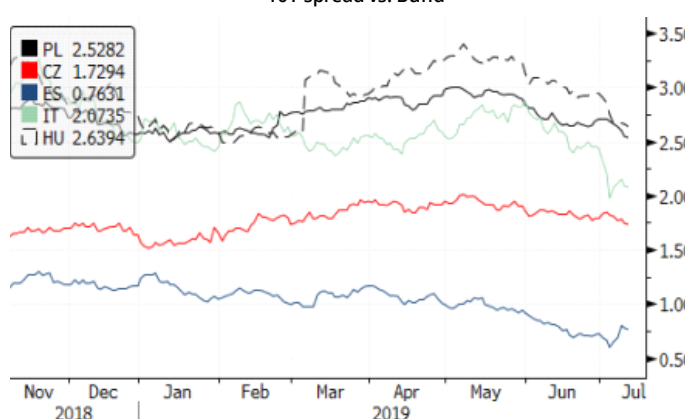
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| Economic Calendar | | | | | | | | |
|---------------------|---------|----------------------------|--------|-------|--------------------|-----------|-----------------|----------------|
| TIME CET | COUNTRY | INDICATOR | PERIOD | | FORECAST MARKET | SANTANDER | ACTUAL VALUE | LAST VALUE* |
| 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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