

11 July 2019

Eyeopener

Dovish signals from Fed

Dovish Powell speech boosts rate cuts expectations
 EURUSD up, but still below NFP level
 Zloty and its CEE peers with only minor gains
 Polish yields up despite dovish Fed signals
 Today, Czech, German and US inflation data

The first part of Wednesday's session was similar to two previous days – in expectation for Fed president's speech the market was gradually losing faith in the pace of Fed's monetary easing. Meanwhile, better than expected data about industrial production in Italy and France fuelled hopes that the European economy may be turning the corner. Nevertheless, Jerome Powell's speech in the afternoon fuelled rate cut expectations, which triggered a wave of optimism on financial markets. Powell said that uncertainties related to trade tensions and worries about global growth were negatively affecting US economic outlook, that there is a risk that low inflation may be more persistent than it was expected, and that many FOMC members saw that the case for a somewhat more accommodative monetary policy had strengthened since the last meeting. The FOMC minutes released in the evening remained in similar tone – it said that many Committee's participants believed that interest rate cut is needed in the short run. As a result, the dollar weakened significantly against euro, core market bond yields started trimming their earlier increases, and stock markets soared (S&P500 index breached 3000 level for the first time). Today at the opening market optimism persists.

The European Commission maintained GDP growth forecasts for the euro zone at 1.2% in 2019, and reduced it to 1.4% from 1.5% in 2020. The main risk for growth outlook is the escalation of trade tensions and higher uncertainty in foreign policy. Eurozone's inflation forecasts were trimmed to 1.3% from 1.4% for both 2019 and 2020. GDP growth forecast for Poland has been revised up for this year to 4.4% from 4.2%, and maintained at 3.6% for 2020.

EURUSD rose on Wednesday, initially moderately in reaction to solid data from French and Italian manufacturing, and then strongly after the Powell's speech publication. The scale of reaction was not strong enough, however, to offset completely the impact of Friday's stronger than expected employment data. The day ended with EURUSD slightly above 1.125, but today in the morning it increased even more, to 1.128 (just below Friday's opening level). The revival of market expectations for Fed's rate cuts should reduce potential for EURUSD decline in the near future.

In the first part of the day, **EURPLN** continued climbing up, reaching 4.275, but in the afternoon the zloty started trimming loses, similarly as the other EM currencies, amid reinforced hopes for Fed's monetary stimulation. The scale of currency appreciation was not big, though, and EURPLN ended the day at c.4.27. The drop in USDPLN was more significant – to 3.795 at the end of the session (and 3.78 today at the opening). **Other CEE currencies** were following a similar path. USDRUB fell to 62.28, its lowest in a week, which was additionally fuelled by climbing oil price. EURHUF after rising to 326.1 retraced to 325.6. Only EURCZK ignored global moods improvement and rose to 25.6 in the afternoon.

In the first part of the day, **yields of Polish bonds** rose quite clearly, even by 6bp in 10Y segment, finally following a similar move in the core debt markets. The latter reacted to the stronger data from French and Italian industry. The change of sentiment after Fed governor's testimony triggered a correction of this move. While US Treasuries erased all earlier weakening, the reaction of Germany Bunds and Polish bonds was much more muted – at the end of the day yields were still 4-5bp above Tuesday's close. IRS curve moved up between 1bp at the short end and 6bp at the long end. Today data about inflation may be important and if they show lower than expected prints, debt may strengthen again.

EURUSD, 5 minute data



Source: Bloomberg, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2674	CZKPLN	0.1667
USDPLN	3.7867	HUFPLN*	1.3095
EURUSD	1.1269	RUBPLN	0.0600
CHFPLN	3.8365	NOKPLN	0.4423
GBPPLN	4.7433	DKKPLN	0.5717
USDCNY	6.8660	SEKPLN	0.4027

*for 100HUF

Last session in the FX market 10/07/2019

	min	max	open	close	fixing
EURPLN	4.265	4.276	4.267	4.268	4.2729
USDPLN	3.789	3.813	3.806	3.791	3.8066
EURUSD	1.120	1.126	1.121	1.126	-

Interest rate market 10/07/2019

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	5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.23	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	1	2.06	-5	-0.38	0
2L	1.72	1	1.87	-5	-0.39	0
3L	1.73	3	1.81	-4	-0.35	1
4L	1.77	4	1.79	-4	-0.30	1
5L	1.82	4	1.81	-3	-0.22	2
8L	1.94	5	1.92	-1	0.01	3
10L	2.02	5	1.99	0	0.17	4

WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
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	1.72	1
6x9	1.71	0
9x12	1.68	1
3x9	1.79	1
6x12	1.78	1

Measures of fiscal risk

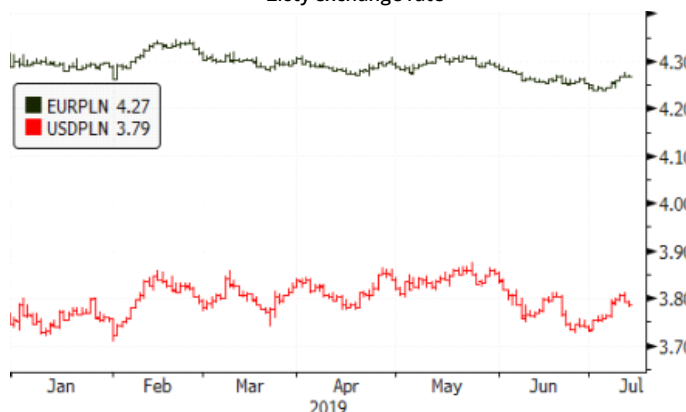
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.50	0
France	23	1	0.24	-5
Hungary			2.66	-4
Spain	39	-1	0.70	-5
Italy	167	-1	1.98	-6
Portugal	37	1	0.76	-4
Ireland	28	1	0.42	-5
Germany	11	0	-	-

* 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



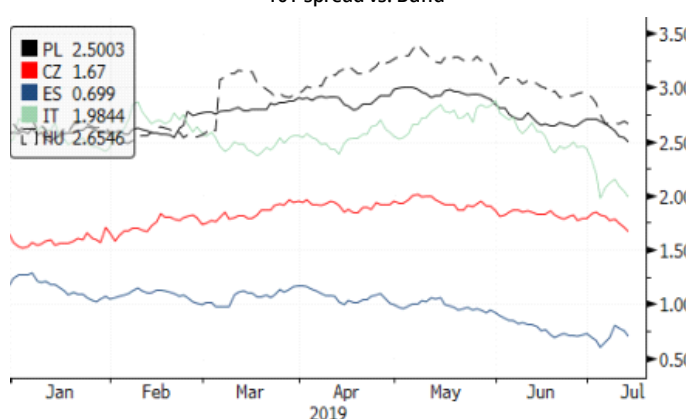
T-bonds yields



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	-	0.3	0.1
09:00	CZ	CPI	Jun	% y/y	2.7	-	2.7	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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.