

15 July 2019

# Eyeopener

## Hawkish voice from the MPC

MPC's Hardt: rate hike motion possible before year-end

FX market stable

Bond yields higher in Poland and abroad

Today, final June inflation and May balance of payments

Friday's session was similar to the Thursday's one. The FX market was rather calm, while the bond yields and stock indexes were on the rise which might have been thanks to the next better-than-expected European data. In May, industrial output rose more forecast in m/m terms while the y/y contraction was smaller than anticipated. This was yet another positive surprise from the European economy in the last week. Today's morning China data releases also should have a positive impact on the market mood – the pace of GDP growth slowed to 6.2% y/y, in line with consensus, but the monthly industrial output and retail sales beat expectations.

**MPC member Łukasz Hardt** said in the interview for the Polish Press Agency that a motion for a rate hike could be filled before the end of 2019 should inflation really follow the path presented in the recent *Inflation report*. Monetary tightening in Poland could be unnecessary if the ECB starts easing monetary conditions, in his view. At the same time, Hardt sees no arguments for considering a rate cut in Poland.

**EURUSD** declined from 1.127 to 1.124 on Friday, but in the evening returned to the initial level. Slightly stronger dollar was an effect of a bit better than expected PPI reading from USA. Today we will not see key global data releases, but in the next days many US publications are planned. We assume that EURUSD will stay at 1.12-1.13 waiting for those readings.

**EURPLN** rose slightly at the end of the week, but the fluctuations range did not pass Thursday minimum (4.263) nor maximum (4.27). USDPLN has rebounded to almost 3.79 from 3.785. In the last few days zloty did not benefit from the improved global demand for risky assets, which in our view signals that EURPLN will not resume its downward trend anytime soon and will not go below this year's low 4.235 established at the start of July.

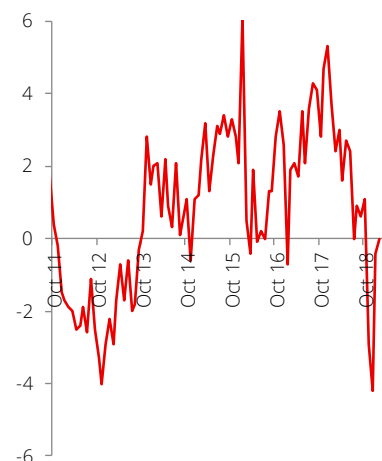
When it comes to **other CEE currencies**, forint and koruna stayed stable, while ruble lost versus dollar. Despite oil price growth, Russian currency has trimmed its Thursday gains which might have been caused by the information about US Congress acceptance of the amendment of the next year budget enabling imposing further sanctions for Russia.

On the **domestic interest rate market** yields and IRS has raised at 1-4 bp, the most in the middle and at the long end of curves. The Polish debt did a little worse than German (10Y Bund yield grew less than 2bp) and similarly to euro zone peripheral bonds. We think that correction of yields abroad may last in the next few day causing steepening of the domestic curve. Today in the morning higher yields are supported by Chinese data and MPC member's comment.

**Today** we will see final June CPI (10:00CET) and May balance of payments (14:00). We think that the pace of price growth in the past month was close to the flash estimate (2.6%). As regards the balance of payments, on Friday the **stat office released the foreign trade data** that suggest an upside risk to our May exports, imports and trade balance forecasts. According to the stat office, in January-May, exports rose 6.8% y/y and imports 4.9% y/y (in EUR terms) which implies (assuming no revisions of previous months) that in May alone exports and imports accelerated to 14.7% y/y and 12.8% y/y, respectively and the trade surplus reached €367mn (its highest since October 2017). However, the assumption of no revisions could be inappropriate – the stat office data about trade volumes in March-April were lower than NBP's statistics and so we should not draw too far-reaching conclusions from the stat office data.

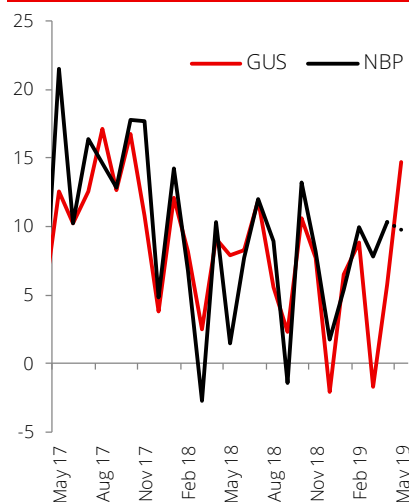
**This week**, we will see a number of US data releases that are rather unlikely to change market expectations and should trigger only limited investor's reaction, in our view. After the Fed's Powell speech in the US Congress and publication of the FOMC minutes, the market is pretty convinced that a 25bp Fed rate cut will be delivered as soon as in late July. The US data releases will be accompanied by some more speeches of the FOMC members. In Poland, we will see important June economic activity data that could help to assess the scale of the slowdown that we believe Polish economy recorded in 2Q. We think EURPLN could stay around its fresh July peak at c4.275 in the coming days. We are of the opinion that the upside correction of yields that has started on the core market might last in the days to come generating an upside pressure on the Polish yields.

Euro zone industrial output (% y/y)



Source: Bloomberg, Santander

Export growth according to GUS & NBP (% y/y)



Source: NBP, GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2687	CZKPLN	0.1668
USDPLN	3.7859	HUFPLN*	1.3102
EURUSD	1.1275	RUBPLN	0.0600
CHFPLN	3.8481	NOKPLN	0.4437
GBPPLN	4.7576	DKKPLN	0.5717
USDCNY	6.8719	SEKPLN	0.4044

\*for 100HUF

### Last session in the FX market 12/07/2019

	min	max	open	close	fixing
EURPLN	4.266	4.271	4.267	4.270	4.2669
USDPLN	3.784	3.799	3.791	3.788	3.7889
EURUSD	1.124	1.128	1.125	1.127	-

## Interest rate market 12/07/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.55	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.92	3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.30	3	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	2.06	0	-0.39	0
2L	1.75	1	1.88	-1	-0.39	0
3L	1.76	1	1.84	0	-0.35	0
4L	1.80	1	1.84	0	-0.28	0
5L	1.86	1	1.86	0	-0.20	0
8L	2.00	2	1.98	1	0.07	1
10L	2.08	3	2.07	1	0.24	1

### WIBOR rates

Term	%	Change (bps)
O/N	1.55	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	1.72	0
6x9	1.71	0
9x12	1.70	0
3x9	1.79	0
6x12	1.78	0

### Measures of fiscal risk

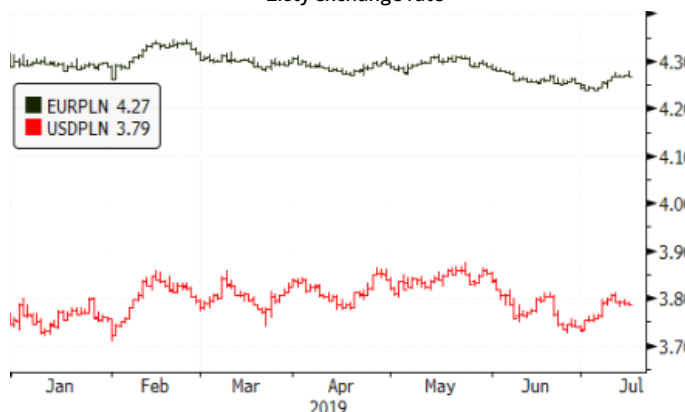
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.51	3
France	22	0	0.27	0
Hungary			2.70	1
Spain	40	-2	0.77	0
Italy	164	-1	1.94	-1
Portugal	39	-1	0.85	-1
Ireland	28	-1	0.47	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

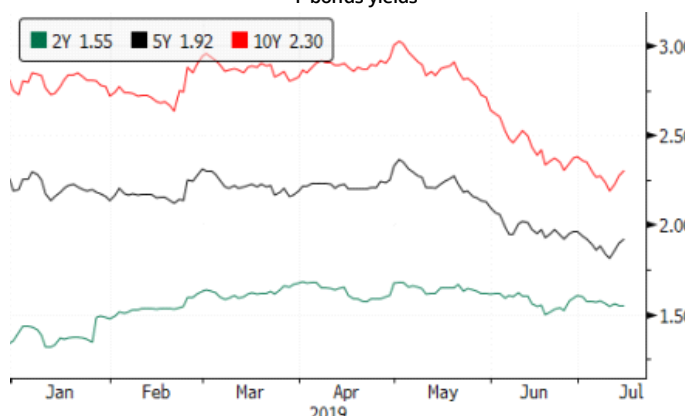
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

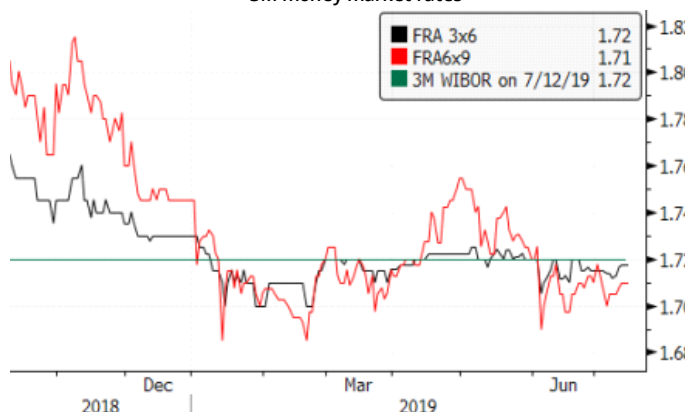
## Zloty exchange rate



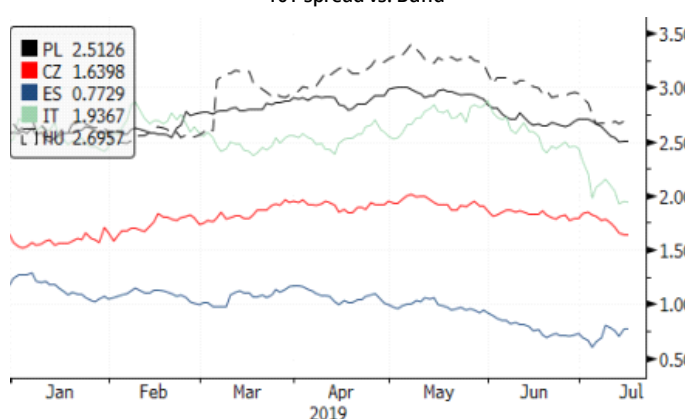
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME  CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (12 July)								
11:00	EZ	Industrial Production SA	May	% m/m	0.2	-	0.9	-0.4
MONDAY (15 July)								
10:00	PL	CPI	Jun	% y/y	2.6	2.6		2.6
14:00	PL	Current Account Balance	May	€mn	390	548		718
14:00	PL	Trade Balance	May	€mn	167	-238		279
14:00	PL	Exports	May	€mn	19 167	19 082		19 440
14:00	PL	Imports	May	€mn	19 300	19 320		19 161
TUESDAY (16 July)								
11:00	DE	ZEW Survey Current Situation	Jul	pts	0.0	-		7.8
14:00	PL	CPI Core	Jun	% y/y	1.9	1.8		1.7
14:30	US	Retail Sales Advance	Jun	% m/m	0.2	-		0.5
15:15	US	Industrial Production	Jun	% m/m	0.15	-		0.37
WEDNESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.7	2.6		2.7
10:00	PL	Average gross wages	Jun	% y/y	7.1	7.0		7.7
11:00	EZ	HICP	Jun	% y/y	0.0	-		1.2
14:30	US	Housing Starts	Jun	% m/m	-0.7	-		-0.9
14:30	US	Building permits	Jun	% m/m	0.1	-		0.7
20:00	US	Fed's Beige Book						
THURSDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	4.2	0.2		7.7
10:00	PL	PPI	Jun	% y/y	0.8	0.7		1.4
14:30	US	Initial Jobless Claims	week	k	-	-		209
14:30	US	Index Philly Fed	Jul	pts	5.0	-		0.3
FRIDAY (19 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	3.9	3.6		5.6
16:00	US	Michigan index	Jul	pts	98.3	-		98.2

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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