

22 July 2019

Eyeopener

Conflict with Iran weighed on sentiments

Polish retail sales slowed down
Zloty stronger at the end of the week, EURUSD down
Polish debt gains on weaker data
Today M3 money supply in Poland

Positive sentiment present during the Friday session underpinned by good companies' results, was gradually abating. Stock indices trimmed their mornings spikes, and the dollar strengthened versus the euro and yen and slightly versus the pound. Initial June Michigan consumers' sentiment was slightly worse than expected. Conflict with Iran escalated during the weekend and this has hit market moods.

Polish real retail sales decelerated to 3.7% y/y in June, in line with our and market expectations and versus 5.6% y/y in May. This is yet another statistic undermined by the negative working day effect (-2 in annual terms), with most categories recording a slowdown. This was especially pronounced in durables, which expanded by 6.8% y/y after three months in a row with growth rates above 15% y/y. Non-durables slowed only slightly, to 2.6% y/y from 3.0% y/y and the deceleration was mild thanks to clothing sales, which advanced by 12.9% y/y, setting this year's high. Behaviour of clothing sales has strongly deviated from the seasonal pattern. This could have been caused by record high temperatures in June. We expect retail sales to rebound in the months to come. The new fiscal package will be a strong support for consumption growth in 2H19.

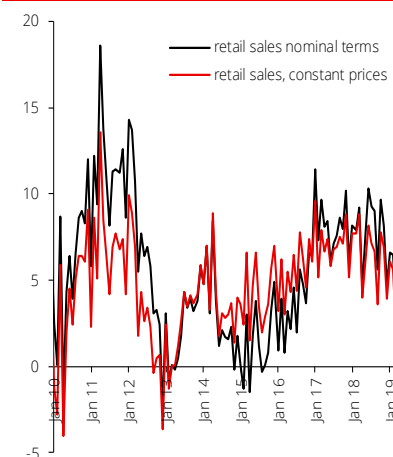
EURUSD fell on Friday to 1.121 from 1.125 due to market's expectations that the ECB is about to cut interest rates this week. For two weeks in a row the pair has been moving in a rather narrow range between 1.12-1.128 waiting for an impulse. In our opinion, Wednesday will deliver the first chance to leaving this zone, when the initial estimations for July PMI for euro zone services and manufacturing will be released.

EURPLN climbed during the day to almost 4.26, but at the end of the session it slid to 4.25, establishing a new weekly minimum. The zloty did not gain any more thanks to maintained expectations for further monetary policy easing by the ECB, but resisted the pressure of the stronger dollar. When it comes to **other CEE currencies**, the forint gained, the koruna remained stable and the ruble lost at the end of the week. Today mood is slightly worse, hence the zloty is likely to depreciate. Domestic data should not influence the exchange rates.

On the domestic interest rate market, bond yields and IRS rates continued to decline despite weaker Treasuries and euro zone periphery bonds. The weaker-than-expected local data supported Polish bonds on Friday and in the previous days.

This week, the ECB meeting on Thursday is the key event. Even if business sentiment indicators in the euro zone come out strong (flash July PMIs for industry and services are due on Wednesday) the central bank will still be likely to change its bias to more dovish, possibly suggesting rate cuts after summer holidays. Such change is broadly expected and should be neutral for the market. The week will end with the first release of the US GDP in 2Q19, which is likely to show a slowdown. This could boost market expectations for rate cuts in the USA. Chances for cuts at the incoming meeting scheduled for 30 July are already perceived high. Meanwhile, investors will eye situation in the United Kingdom, where we will get to know the name of the new PM on Tuesday. Most likely this will be Boris Johnson, so worries about hard Brexit will stay. This week we will also see a few more domestic releases, which will complement the information set for the second quarter. Business climate indicators for July will be released as well, casting some light on economic activity at the start of Q3. We do not expect the appreciation of the zloty to continue. The market is already pricing quite aggressive easing of policy by main central banks. At the same the local data may give more reasons for correction of the excessive optimism about the GDP outlook this year. On the debt market we expect a stabilisation of yields at the current very low levels.

Poland retail sales, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2541	CZKPLN	0.1666
USDPLN	3.7938	HUFPLN*	1.3079
EURUSD	1.1213	RUBPLN	0.0602
CHFPLN	3.8564	NOKPLN	0.4420
GBPPLN	4.7402	DKKPLN	0.5698
USDCNY	6.8801	SEKPLN	0.4037

*for 100HUF

Last session in the FX market 19/07/2019

	min	max	open	close	fixing
EURPLN	4.248	4.260	4.259	4.250	4.2592
USDPLN	3.771	3.796	3.794	3.788	3.7855
EURUSD	1.120	1.128	1.122	1.122	-

Interest rate market 19/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.53	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.84	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.17	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	2.04	-1	-0.42	-1
2L	1.73	0	1.85	0	-0.45	-1
3L	1.73	-1	1.79	-1	-0.43	-2
4L	1.76	-1	1.78	-1	-0.35	-1
5L	1.81	-2	1.80	-1	-0.28	-1
8L	1.93	-3	1.91	-1	-0.05	-2
10L	2.01	-3	1.99	-1	0.13	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.60	0
SW	1.59	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	1.68	-1
3x9	1.78	-1
6x12	1.78	-1

Measures of fiscal risk

Headlines of recent news				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.49	-6
France	22	-1	0.26	0
Hungary			2.64	-1
Spain	39	0	0.70	-1
Italy	155	6	1.92	-1
Portugal	40	0	0.78	0
Ireland	28	0	0.45	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



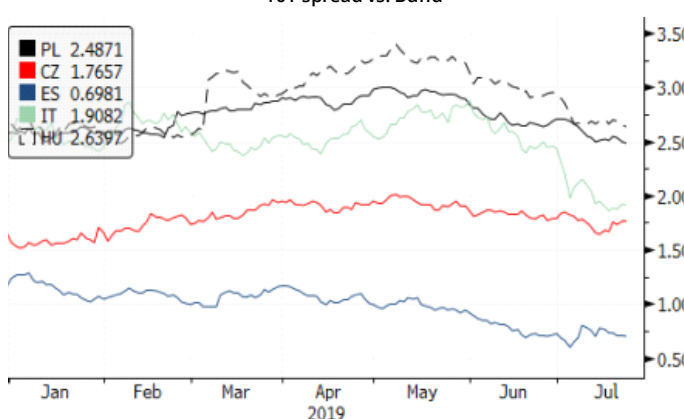
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (19 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	3.8	3.6	3.7	5.6
16:00	US	Michigan index	Jul	pts	98.7	-	98.4	98.2
MONDAY (22 July)								
14:00	PL	Money Supply M3	Jun	% y/y	10.2	10.3		9.9
TUESDAY (23 July)								
10:00	PL	Construction Output	Jun	% y/y	3.1	0.0		9.6
10:00	PL	Unemployment Rate	Jun	%	5.3	5.3		5.4
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
16:00	US	Existing Home Sales	Jun	% m/m	0.1	-		2.5
WEDNESDAY (24 July)								
09:30	DE	Flash Germany Manufacturing PMI	Jul	pts	45.2	-		45.0
09:30	DE	Flash Markit Germany Services PMI	Jul	pts	55.3	-		55.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Jul	pts	47.8	-		47.6
10:00	EZ	Flash Eurozone Services PMI	Jul	pts	53.5	-		53.6
16:00	US	New Home Sales	Jun	% m/m	5.27	-		-7.8
THURSDAY (25 July)								
10:00	DE	IFO Business Climate	Jul	pts	97.2	-		97.4
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Jun	% m/m	0.8	-		-1.3
14:30	US	Initial Jobless Claims	week	k	215	-		216
FRIDAY (26 July)								
11:00	PL	Bond auction						
14:30	US	GDP Annualized	2Q	% Q/Q	1.8	-		3.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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