

25 July 2019

# Eyeopener

## Will the ECB ease its tone?

Euro zone still showing no signs of recovery  
 EURPLN and EURUSD stable ahead of ECB  
 Euro zone data push yields down  
 Today ECB decision

Hopes of investors for a continuation of gentle rise of industrial PMIs in the euro zone and Germany faced a tough test yesterday morning. Flash indexes for July showed big declines, going below the lowest point since April. Services indexes were also worse than in June, but at least have not gone below market expectations. Disappointing results had negative (albeit temporary) influence on the euro and forcefully sent bond yields in Poland and abroad down. Yesterday Boris Johnson won a nomination for the British PM. He stressed that the UK will exit the EU without 'no ifs or buts' and made a thorough reconstruction of the cabinet, removing 18 ministers and placing euro-sceptics in key areas.

After the yesterday data from Europe investor expectations that the **ECB** could start further action to support the euro zone economy have grown. We think that a rate cut today is highly unlikely and expected change of rhetoric that will open the door for monetary policy easing after summer holidays.

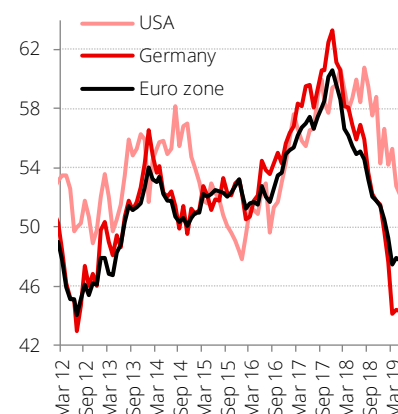
**EURUSD** declined yesterday to 1.112 from 1.115 in reaction to the morning data from Europe, but the move was not extended in the following hours. It seems that the market view is that the euro has lost enough in the recent weeks awaiting a dovish message from the ECB. We think that today the ECB will not act to support the euro zone economy, which may be a disappointment for the market. No durable reaction to yesterday PMIs suggests that the central bank would significantly surprise with its dovishness to send EURUSD even lower.

**EURPLN** was hovering around 4.255 and USDPLN stayed close to 3.815, both exchange rates ended the day near the opening level. Today the outcome of the ECB meeting could affect the zloty. The Polish currency gained in the previous week and managed to keep most of the gains awaiting the dovish outcome of the central bank meeting. In our view, the market could be somewhat disappointed if no action is taken already today but the room for the zloty depreciation could be limited by the likely rise of EURUSD in such scenario.

**In case of the other CEE currencies**, the forint and koruna gained vs the euro. USDRUB fell slightly thanks to the rising oil price.

**On the domestic interest rate market** Wednesday was a yet another day with a sharp plunge of the IRS and bond yields. Polish 10Y bond yield neared 2% and is close to its all-time-low at c1.94% reached in early 2015. The domestic debt was supported by the strengthening on the core and euro zone peripheral markets driven by the European data. In our view, the outcome of the ECB meeting will rather not provide fuel for the further yield's drop since the market expectations for the central bank action seem to be exaggerated.

Manufacturing activity indexes (pts)



Source: HSBC Markit, ISM, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](http://santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 22 534 18 87  
**Marcin Luziński** +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	4.2534	CZKPLN	0.1667
USDPLN	3.8201	HUFPLN*	1.3071
EURUSD	1.1134	RUBPLN	0.0604
CHFPLN	3.8763	NOKPLN	0.4417
GBPPLN	4.7650	DKKPLN	0.5697
USDCNY	6.8751	SEKPLN	0.4051

\*for 100HUF

### Last session in the FX market 24/07/2019

	min	max	open	close	fixing
EURPLN	4.252	4.261	4.256	4.255	4.2581
USDPLN	3.812	3.827	3.817	3.818	3.8229
EURUSD	1.113	1.116	1.115	1.115	-

## Interest rate market 24/07/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.51	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.72	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	-8	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	2.05	-1	-0.43	0
2L	1.71	-2	1.85	-1	-0.45	0
3L	1.70	-3	1.78	-1	-0.43	-1
4L	1.72	-3	1.77	-1	-0.39	-1
5L	1.74	-3	1.79	-1	-0.32	-1
8L	1.83	-5	1.90	-2	-0.09	-2
10L	1.90	-5	1.97	-2	0.06	-3

### WIBOR rates

Term	%	Change (bps)
O/N	1.63	-3
T/N	1.63	-2
SW	1.59	-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	1.71	0
3x6	1.71	0
6x9	1.69	-1
9x12	1.65	-3
3x9	1.77	-1
6x12	1.76	-2

### Measures of fiscal risk

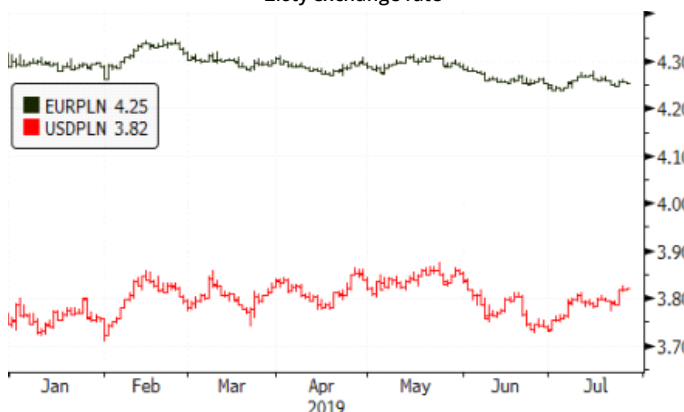
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.39 -8
France	22 -2	0.26 0
Hungary		2.46 0
Spain	39 -2	0.73 1
Italy	161 -6	1.87 0
Portugal	40 -2	0.80 1
Ireland	28 1	0.49 0
Germany	12 -1	- -

\* 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



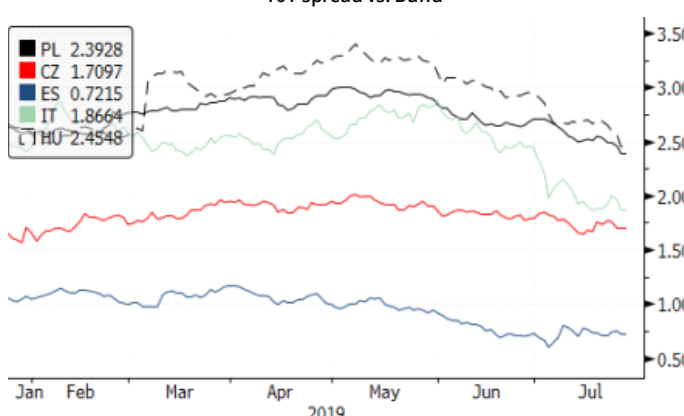
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD				
CET				MARKET	SANTANDER	VALUE	VALUE*
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	9.3	9.9
TUESDAY (23 July)							
10:00	PL	Construction Output	Jun % y/y	3.5	0.0	-0,7	9.6
10:00	PL	Unemployment Rate	Jun %	5.3	5.3	5,3	5.4
14:00	HU	Central Bank Rate Decision	%	0.9	-	0.9	0.9
16:00	US	Existing Home Sales	Jun % m/m	-0.2	-	-1.7	2.9
WEDNESDAY (24 July)							
09:30	DE	Flash Germany Manufacturing PMI	Jul pts	45.2	-	43.1	45.0
09:30	DE	Flash Markit Germany Services PMI	Jul pts	55.3	-	55.4	55.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Jul pts	47.7	-	46.4	47.6
10:00	EZ	Flash Eurozone Services PMI	Jul pts	53.3	-	53.3	53.6
16:00	US	New Home Sales	Jun % m/m	5.3	-	7.0	-8.2
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	218	-		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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.