

26 July 2019

Eyeopener

ECB not as dovish as expected

ECB was not as dovish as the market expected
 EURPLN and EURUSD up after the ECB
 Profit-taking on the bond market
 Today bond auction in Poland, US GDP numbers

The **ECB** did not change the monetary policy parameters yesterday, but suggested that at least until the first half of 2020, interest rates will remain at current or lower level. The central bank stated that it will work, among others, on the possibilities of resuming the asset purchase program and on mitigating the effects of interest rate cuts, e.g. by tiering interest rates. Both the statement read at the press conference and during the Q&A session lacked specific information when and what steps the ECB might take, but President Draghi emphasized that monetary policy easing was needed and economic outlook has become worse. The next September meeting will allow central bankers to see new ECB staff inflation and GDP projections. Then the ECB may announce the actions it intends to introduce, if the forecasts will not show an economic improvement and inflation rebound. Lack of at least change in interest rates and presentation of action plans at a high level of generality resulted in the market's assessment that the outcome of the meeting was not as dovish as expected. As a result, the euro gained vs. the dollar, and bonds on the core markets and peripheries of Europe trimmed gains recorded in the first part of the session before the ECB decision.

Yesterday **The Central Bank of the Republic of Turkey** lowered interest rates by 425 bp, significantly more than expected. That was the first decision of the new president Murat Uysal. His predecessor was deposed as he was not willing to reduce interest rates as Erdogan wanted to. That decision showed that Turkish central bank independence is non-existent, but the lira did not react to this event.

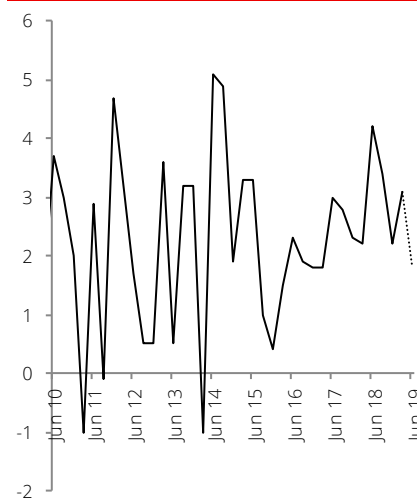
EURUSD was slightly below 1.12 at the end of the session after rising four days in a row. The euro profited thanks to the not really dovish tone of the ECB. Today the exchange rate sits below 1.115. This afternoon we will see initial US GDP estimation for 2Q19. The market awaits a noticeable slowdown to 1.8% from 3.1% recorded in 1Q. We do not think that EURUSD will decline below yesterday's minimum (1.11) at the end of the week and the rate should stabilize before the Wednesday Fed decision.

Yesterday during the day **EURPLN** reached 4.26 as a result of investors' disappointment caused by the ECB meeting. EURUSD rebound effected in USDPLN decline to 3.805. The forint and the koruna lost vs. the euro following the profit taking after the ECB decision. We maintain our view that EURPLN will not be losing again and will fluctuate around 4.27.

On the domestic interest rate market, yields and IRS rates were dropping from the start of the session but the ECB decision was a turning point. As we expected, the meeting result did not satisfy investors and both domestically and globally bond yields rebounded significantly. The yield of 10Y papers rose by 4bp in Poland, 3bp in the US, 2bp in Germany, 6bp in Hungary and 5bp in Italy. Intraday changes were even larger. This afternoon US GDP data are due and the market expects a sharp slowdown, but it seems that only an outcome far below consensus might significantly support bonds.

Today Polish Ministry of Finance will hold a bond auction. In our view, it should be pretty successful at least for two reasons. First, the bond supply in 3Q, as announced by the Ministry of Finance is very low, shall range PLN7-13bn with PLN4-7bn planned for Friday. That day, cPLN10bn from maturing PS0719 and coupon payments are due and this should support the demand.

USA, GDP growth, %q/q ann. and 2Q19 consensus forecast



Source: Bloomberg, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: 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	4.2583	CZKPLN	0.1668
USDPLN	3.8207	HUFPLN*	1.3039
EURUSD	1.1145	RUBPLN	0.0605
CHFPLN	3.8554	NOKPLN	0.4402
GBPPLN	4.7489	DKKPLN	0.5703
USDCNY	6.8748	SEKPLN	0.4042

*for 100HUF

Last session in the FX market 25/07/2019

	min	max	open	close	fixing
EURPLN	4.246	4.262	4.255	4.259	4.2514
USDPLN	3.806	3.828	3.818	3.826	3.8199
EURUSD	1.110	1.119	1.115	1.113	-

Interest rate market 25/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.51	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.75	3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.06	4	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	1	2.07	2	-0.43	0
2L	1.73	2	1.88	3	-0.45	0
3L	1.73	3	1.81	3	-0.44	0
4L	1.75	3	1.80	3	-0.39	-1
5L	1.78	4	1.81	3	-0.32	-1
8L	1.87	4	1.92	2	-0.09	-2
10L	1.95	5	1.99	2	0.06	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.62	-1
T/N	1.62	-1
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	1
6x9	1.71	2
9x12	1.68	3
3x9	1.78	1
6x12	1.77	1

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.43	6
France	20	0	0.25	0
Hungary			2.51	7
Spain	37	1	0.72	1
Italy	155	0	1.87	-1
Portugal	39	0	0.80	2
Ireland	29	-1	0.49	2
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

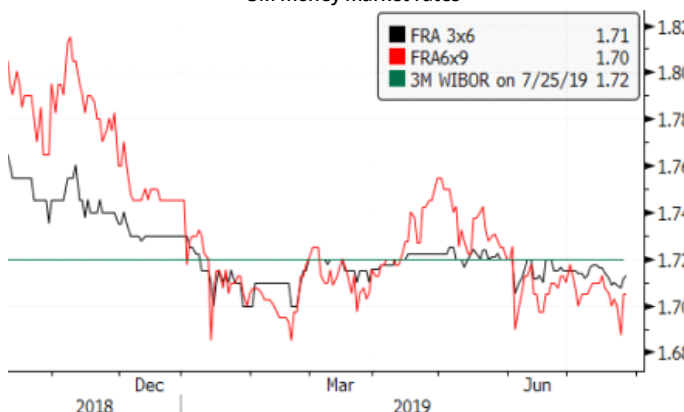
Zloty exchange rate



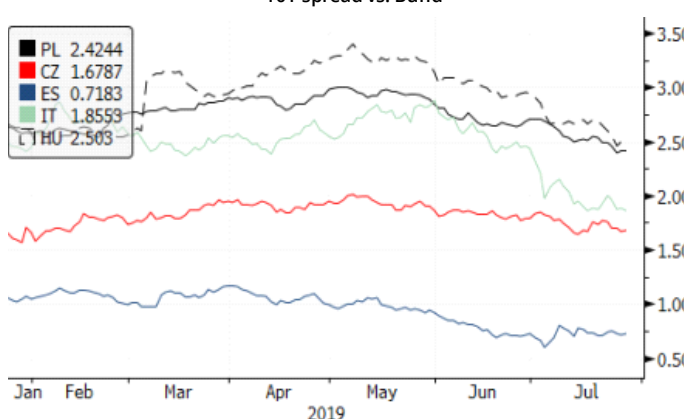
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD	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	9.3	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	-	95.7	97.5
13:45	EZ	ECB Main Refinancing Rate	%	0.0	-	0.0	0.0
14:30	US	Durable Goods Orders	Jun % m/m	0.8	-	2.0	-2.3
14:30	US	Initial Jobless Claims	week k	218	-	206	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.