

29 July 2019

# Eyeopener

## This week focus on Fed

US GDP above forecasts  
Zloty and other CEE currencies lost  
Polish bond yields go up  
No important data releases today

On Friday the main exchange rates and core market bonds stabilised after elevated volatility recorded one day before as a reaction for the ECB tone. CEE currencies kept losing, especially the zloty, koruna and ruble. Yields of CEE debt also went up. Initial US GDP estimation appeared surprisingly well and that also undermined CEE assets. Today sentiments are a bit negative following worries about tensions in Hong Kong and their impact on the economic situation in the region.

The Ministry of Finance announced that after June **the budget deficit** amounted to PLN5bn (after -PLN2.2bn in May). According to the Ministry revenue were realised in 49.6% and spending in 47.4% of the annual plan. In June alone, a jump in PIT and CIT revenues was recorded (by 37.7% y/y and 20.3% y/y, respectively) and VAT revenues rose by around 5% y/y. When it comes to expenditures a marked growth of Social Insurance Institution subsidy and EU budget payments were recorded. In our opinion at the end of the year the budget deficit should near the planned level - PLN28.5bn.

Marian Banaś, who was sworn in as **the finance minister** on 4 June, has been proposed to head the Supreme Audit Office. According to Dziennik Gazeta Prawna, he may be replaced by Tadeusz Kościński.

**EURUSD** did not change much on Friday and fluctuated around 1.114. The better-than-predicted US data did not cause a more pronounced market reaction. On Wednesday evening, the FOMC will make a decision on interest rates, and no important data is scheduled for today, hence at the beginning of the week the trade should be quite calm.

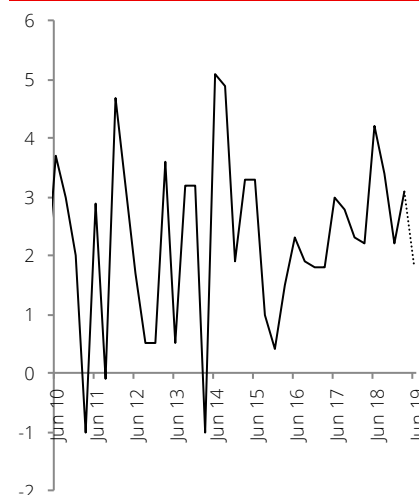
**EURPLN** was rising for the second session in a row and at the end of a day it was close to 4.27. Last week the zloty gave away all the gains it recorded the week before. Generally, EURPLN hovers in a 4.25-4.275 range. We assume that before the Wednesday FOMC decision the rate will remain near 4.27.

**On the domestic interest rate market** IRS and bond yields were going up - on the long end of bond curve by around 4 bp. Polish debt was doing worse than the Bund and similar to euro zone peripheries. The Friday bond auction was successful: at the regular auction, the Ministry of Finance sold PLN7bn debt (at the upper limit of the planned offer) with a demand of PLN10.8bn. At the top-up auction another PLN1bn was sold. As the Ministry stated, after Friday auction this year's gross borrowing needs are covered in 83%.

**This week**, the market attention should turn to the USA where we will see numerous macro data and the Fed will announce their decision about the interest rates. The most recent comments of the US central bankers have clearly suggested that the rate cuts are on the table and the market expects at least a 25bp to be delivered on the last day of July. As far as the data are concerned, the monthly change of the US nonfarm payrolls should be the most awaited one. In June, the data showed a noticeable improvement after a very poor May. This time, the market expects the monthly change pulled back to around its 6-month average. In Poland, the stats office will release the flash July CPI. In our view, the inflation rate either remained unchanged at 2.6% y/y in line with the market consensus or increased to 2.7%. We think that in July Polish manufacturing PMI reversed the previous decline and returned to the levels where it tried to stabilise between March and May.

We expect **the Fed** will cut the interest rates by 25bp at the July meeting but the forward guidance for the coming months could fall short of the market pricing. Should this be the case, we could see EURPLN moving further up, particularly if the dollar gains after the FOMC meeting. However, we do not expect the exchange rate to go much beyond 4.27. We do not expect the FOMC to provide fuel for the global market rate to resume the down move. The yields/IRS could stabilize somewhat before the Wednesday evening decision but the market reaction may be similar to what we have seen after the ECB meeting.

US GDP growth (% y/y, annualised)



Source: Bloomberg, Santander

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## FX market

### Today's opening

EURPLN	4.2726	CZKPLN	0.1670
USDPLN	3.8407	HUFPLN*	1.3067
EURUSD	1.1125	RUBPLN	0.0606
CHFPLN	3.8666	NOKPLN	0.4403
GBPPLN	4.7512	DKKPLN	0.5722
USDCNY	6.8889	SEKPLN	0.4039

\*for 100HUF

### Last session in the FX market 26/07/2019

	min	max	open	close	fixing
EURPLN	4.257	4.277	4.259	4.270	4.2645
USDPLN	3.818	3.847	3.826	3.840	3.8296
EURUSD	1.111	1.115	1.113	1.113	-

## Interest rate market 26/07/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.52	1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.76	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.10	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	1.72	0	2.09	2	-0.43	0
2L	1.74	0	1.90	2	-0.45	0
3L	1.74	0	1.83	2	-0.42	2
4L	1.76	1	1.81	1	-0.38	0
5L	1.79	1	1.82	1	-0.32	0
8L	1.90	2	1.92	1	-0.09	0
10L	1.97	2	2.00	1	0.07	1

### WIBOR rates

Term	%	Change (bps)
O/N	1.60	-2
T/N	1.60	-2
SW	1.58	-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	1.72	0
3x6	1.71	0
6x9	1.71	1
9x12	1.70	2
3x9	1.78	0
6x12	1.78	1

### Measures of fiscal risk

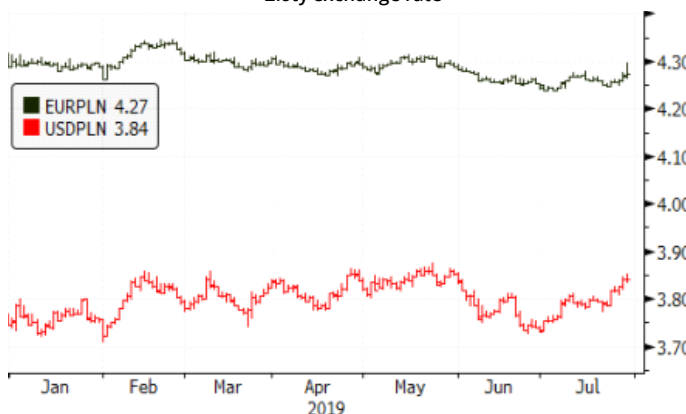
Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.48	5
France	20	0	0.26	0
Hungary			2.57	5
Spain	37	1	0.75	0
Italy	155	5	1.95	1
Portugal	39	1	0.82	1
Ireland	28	0	0.51	1
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

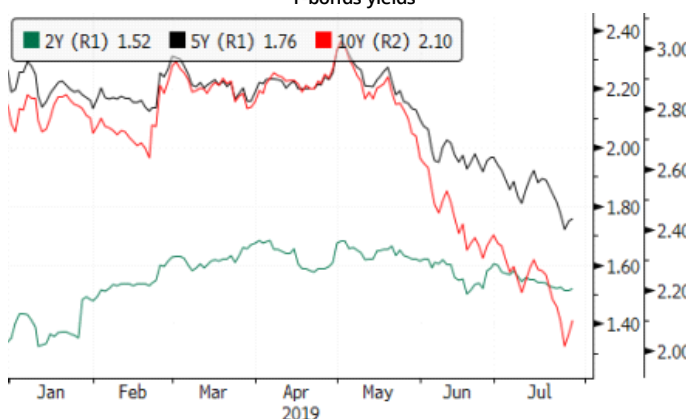
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



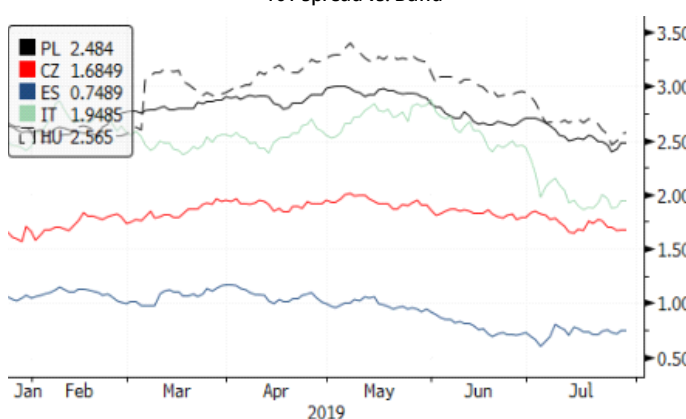
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER		
CET						VALUE	VALUE*
<b>FRIDAY (26 July)</b>							
14:30	US	GDP Annualized	2Q % Q/Q	1.8	-	2.1	3.1
<b>MONDAY (29 July)</b>							
No importnat data relases							
<b>TUESDAY (30 July)</b>							
11:00	EZ	ESI	Jul pct.	103.0	-		103.3
14:00	DE	HICP	Jul % m/m	0.3	-		0.3
14:30	US	Personal Spending	Jun % m/m	0.3	-		0.4
14:30	US	Personal Income	Jun % m/m	0.3	-		0.5
14:30	US	PCE Deflator SA	Jun % m/m	0.1	-		0.2
16:00	US	Consumer Conference Board	Jul pts	125.0	-		121.5
16:00	US	Pending Home Sales	Jun % m/m	0.35	-		1.1
<b>WEDNESDAY (31 July)</b>							
<b>10:00</b>	<b>PL</b>	<b>Flash CPI</b>	<b>Jul % y/y</b>	<b>2.6</b>	<b>2.7</b>		<b>2.6</b>
11:00	EZ	Flash HICP	Jul % y/y	1.15	-		1.2
11:00	EZ	GDP SA	2Q % y/y	1.0	-		1.2
11:00	EZ	Unemployment Rate	Jun %	7.5	-		7.5
14:15	US	ADP report	Jul k	150	-		102
20:00	US	FOMC decision	%	2.25	-		2.50
<b>THURSDAY (1 August)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Jul pts</b>	<b>-</b>	<b>49.0</b>		<b>48.4</b>
09:55	DE	Germany Manufacturing PMI	Jul pts	43.1	-		43.1
10:00	EZ	Eurozone Manufacturing PMI	Jul pts	46.4	-		46.4
13:00	CZ	Central Bank Rate Decision	%	2.0	-		2.0
14:30	US	Initial Jobless Claims	week k	218	-		206
16:00	US	ISM manufacturing	Jul pts	52.0	-		51.7
<b>FRIDAY (2 August)</b>							
11:00	EZ	Retail Sales	Jun % m/m	0.0	-		-0.3
14:30	US	Change in Nonfarm Payrolls	Jul k	160	-		224
14:30	US	Unemployment Rate	Jul %	3.7	-		3.7
16:00	US	Michigan index	Jul pts	98.5	-		98.4
16:00	US	Durable Goods Orders	Jun % m/m	0.7	-		2.0
16:00	US	Factory Orders	Jun % m/m	0.6	-		-0.7

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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