

31 July 2019

Eyeopener

Markets await a Fed rate cut

Trump criticizes China
Zloty and domestic bonds continued to weaken
German inflation beat expectations
Today FOMC meeting, Polish flash CPI, euro zone GDP and inflation

In Shanghai, another round of Sino-US trade talks started yesterday, but the market sentiments deteriorated as Donald Trump criticised actions of the Chinese government and stated they are not buying as much US agricultural goods as they were obliged to do. Today in the morning the talks ended earlier than planned and this fuelled the market anxiety. Yesterday data from the USA were in line with expectations or slightly better. Meanwhile, inflation in Germany surprised to the upside, supporting the single currency. The pound kept on losing given rising risk of a no-deal Brexit and GBPUSD slumped below 1.22, the lowest since 2017. Chinese PMI indicators did not give a clear hint about its economic outlook. Today we will get to see the Fed meeting outcome and this will be crucial for the markets in the upcoming days. We are expecting the Fed to cut rates by 25bps today, in line with a broad market consensus (yet according to Bloomberg, market valuations imply a 18% probability of a 50bps cut). The market players will also eye whether the central bank will suggest openness for further monetary easing (the median market forecast is 50-75 bps rate cut by the end of 2019).

The **ESI indicators** showed a further deterioration of economic climate in Poland in July. Over the month all the business climate indicators went down, while consumer confidence stayed at the second highest level in the 18-year history of the survey. Industry saw a major drop in current output trend assessment and a decline of expected output indicator to the lowest level in six years. New domestic and export orders also deteriorated. Decline of construction indicator was minute. The retail trade sector corrected lower its expectations about future orders despite incoming additional social transfers for the household sector, but at the same time did not revise its price expectations lower, while other sectors did. Consumers are still very positive about their current financial and economic situation and remain open for big purchases. At the same time, consumer inflation expectations went up: assessment of current and future price changes reached the highest levels in 5-6 years. In general, the ESI indicators are pointing that the economy will slow down faster than we are expecting currently.

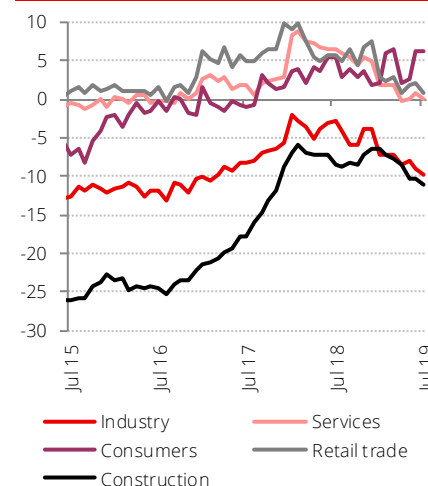
Yesterday **the zloty** lost further and EURPLN climbed to 4.30 despite rising EURUSD. Still, the volatility was markedly lower than previously, as the market was awaiting the Fed meeting. **Other CEE currencies** markets were also rather calm, but outperformed the zloty. EURCZK remained close to 25.64, USDRUB climbed to 63.5 from 63.4 and EURHUF declined to 327.50 from 328.0. In our view, the market could be disappointed with today's Fed meeting, so CEE currencies could take a blow.

The upward surprise in German inflation data paired with neutral reading from the USA supported the euro against the greenback, so **EURUSD** was moving in a very slight upward trend over the day. However, at the end of the European session better data on US consumer optimism and home sales dragged the rate back to 1.114, i.e. its opening level.

On the **domestic interest rate market** the upward move continued – at the longer end yields climbed by 2bps, while the shorter end remained stable. The IRS curve followed the same pattern. Other CEE and euro zone peripheries bonds also weakened, while German and US debt gained. In our view the potential disappointment about the FOMC meeting could trigger a further rise in yields.

Today in Poland we will get to see flash CPI in July. In our view inflation climbed to 2.7%, mainly driven by higher food and communication prices amid falling fuel prices. We are expecting inflation to surpass 3% at the year-end and to approach 4% at the start of 2020.

ESI sentiment indicators



Source: European Commission, 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 Łuziński +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	4.2982	CZKPLN	0.1675
USDPLN	3.8518	HUFPLN*	1.3119
EURUSD	1.1159	RUBPLN	0.0607
CHFPLN	3.8897	NOKPLN	0.4401
GBPPLN	4.6846	DKKPLN	0.5756
USDCNY	6.8870	SEKPLN	0.4029

*for 100HUF

Last session in the FX market 30/07/2019

	min	max	open	close	fixing
EURPLN	4.286	4.300	4.288	4.298	4.2906
USDPLN	3.845	3.861	3.849	3.854	3.8493
EURUSD	1.113	1.116	1.114	1.115	-

Interest rate market 30/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.53	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.90	11	21 mar 19	PS0424	2.209
DS1029 (10L)	2.19	6	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	2.07	1	-0.41	0
2L	1.75	1	1.89	2	-0.43	0
3L	1.75	1	1.82	2	-0.42	0
4L	1.78	2	1.81	2	-0.37	0
5L	1.82	3	1.82	2	-0.31	0
8L	1.95	3	1.91	1	-0.10	0
10L	2.03	4	1.98	1	0.05	0

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-1
T/N	1.55	-1
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	1.71	0
6x9	1.71	0
9x12	1.70	0
3x9	1.78	0
6x12	1.78	0

Measures of fiscal risk

Headlines of interest				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	6
France	21	0	0.26	0
Hungary			2.70	1
Spain	42	-3	0.75	0
Italy	167	-2	1.98	-1
Portugal	43	-2	0.80	0
Ireland	31	1	0.56	0
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

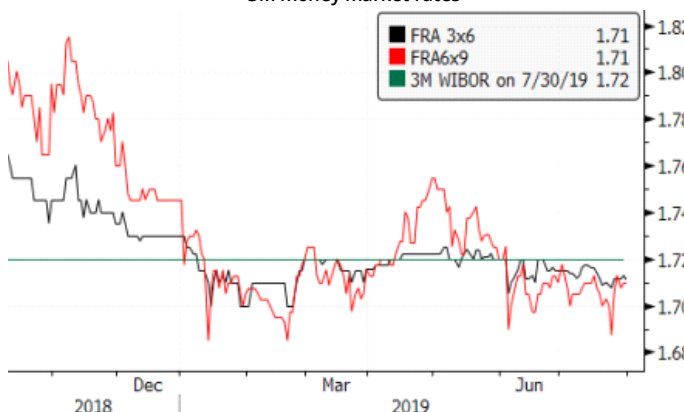
Zloty exchange rate



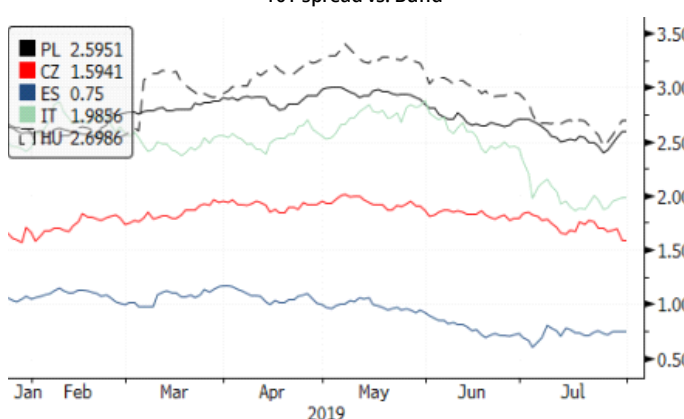
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER		
CET						VALUE	VALUE*
FRIDAY (26 July)							
14:30	US	GDP Annualized	2Q % Q/Q	1.8	-	2.1	3.1
MONDAY (29 July)							
No important data releases							
TUESDAY (30 July)							
11:00	EZ	ESI	Jul pct.	103.0	-	102.7	103.3
14:00	DE	HICP	Jul % m/m	0.3	-	0.5	0.3
14:30	US	Personal Spending	Jun % m/m	0.3	-	0.3	0.5
14:30	US	Personal Income	Jun % m/m	0.3	-	0.4	0.4
14:30	US	PCE Deflator SA	Jun % m/m	0.1	-	0.1	0.1
16:00	US	Consumer Conference Board	Jul pts	125.0	-	235.7	124.3
16:00	US	Pending Home Sales	Jun % m/m	0.4	-	2.8	1.1
WEDNESDAY (31 July)							
10:00	PL	Flash CPI	Jul % y/y	2.6	2.7		2.6
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
THURSDAY (1 August)							
09:00	PL	Poland Manufacturing PMI	Jul pts	-	49.0		48.4
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
FRIDAY (2 August)							
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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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.