

2 August 2019

Eyeopener

More tariffs on China

Risk aversion after Trump's threat about new tariffs

Zloty weaker, USDPLN the highest in 2 years

News on tariffs caused a massive decline of core bond yields

Today important US data

On Thursday the financial markets were under the spell of "the hawkish cut" in the USA. The dollar grew stronger and EM currencies, including the zloty, were depreciating. Core bonds gained, among others thank to earlier end of Quantitative Tightening in the USA, but yields of other securities were going up. Data on euro zone and German PMI were close to flash readings. PMI indices suggested a major deceleration in manufacturing, especially in Germany. The Bank of England kept interest rates on hold. Forecasts for the UK economy in 2019 went down to 1.3% from 1.5%, but Governor Mark Carney stated that monetary easing makes no sense right now. The pound is still searching for a bottom: GBPUSD declined to 1.2080.

In the evening Donald Trump announced that due to failed talks with China he is imposing 10% **tariffs** on yet untaxed Chinese exports worth USD300bn (mainly cell phones, IT equipment, toys). This piece of news undermined the stock markets, supported core market bonds and safe haven currencies. EURUSD rebounded, as expectations for rate cuts in the US were revived. Today the US president is also scheduled to speak about trade with the EU. We will also get to see important US data, including non-farm payrolls, which will be important for assessment of further decisions in the US monetary policy.

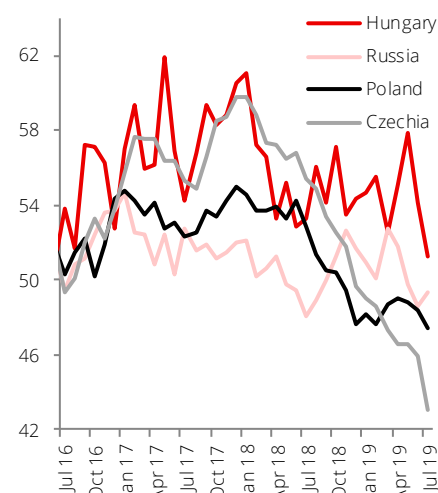
Yesterday **EURUSD** was oscillating in 1.103-1.105 range for the better part of the session. At the end of the day the weaker-than-expected ISM in manufacturing hit the dollar, pushing the rate towards 1.106. Information on new tariffs on China fuelled a further rise of EURUSD, as the market is expecting that rising trade tension could encourage the Fed to ease its policy further. The market is currently really fragile as regards monetary policy outlook, so also today's non-farm payrolls may be important. Ahead of the FOMC meeting the interest rate market was pricing-in 2-3 cuts, after the meeting 1-2, so the decision did not really affect the expectations much and there is still room for further revisions of expectations.

Yesterday **the zloty** was weakening due to the Fed decision. EURPLN jumped to almost 4.305 from below 4.29 and was at the highest level since May. As the dollar appreciated, the move of USDPLN was even more pronounced and the pair reached 3.90, the highest level since May 2017. In our view current levels (above 4.31 after the Trump decision) could trigger some demand for the zloty. If non-farm payrolls surprise to the upside (forecasts are rather low), the market could postpone its pricing of cuts in the US and this could weigh on the zloty again. Also, information about tariffs against China are generally negative for the EM currencies.

Other CEE currencies were also hit by the Fed decision. The ruble underperformed, as falling oil prices were an additional blow for the Russian currency: USDRUB jumped to 64.0 from 63.6. EURHUF increased to 327.0 from 326.2 and EURCZK to 25.75 from 25.70. The Czech National Bank (CNB) did not change rates yesterday, in line with expectations. New central bank staff forecasts showed an upward revision of GDP and CPI. Interestingly, the CNB is also forecasting the interbank rate (the NBP does not do that). This forecast suggest that CNB rates will go up once this year and will be cut twice in 2020. Meanwhile, Governor Jiří Rusnok said that chances for a hike or a cut are 50:50.

Trade on the **domestic interest rate market** began with a major positive yield gap as compared to Wednesday close. Higher yields were supported by disappointment about the FOMC decision. During the day Polish bonds managed to trim their losses so at the end of the day the curve was only by 1-2bps higher than at the Wednesday close. The IRS market developments were similar – at the end of the day the curve was by 2-3bps higher than on Wednesday. Information on tariffs triggered a massive strengthening of core market bonds with 10Y Treasuries falling by almost 20bps suggesting a higher demand for Polish debt today.

Manufacturing PMIs



Source: Markit, Santander

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FX market

Today's opening

EURPLN	4.3102	CZKPLN	0.1671
USDPLN	3.8877	HUFPLN*	1.3161
EURUSD	1.1087	RUBPLN	0.0603
CHFPLN	3.9354	NOKPLN	0.4368
GBPPLN	4.7105	DKKPLN	0.5773
USDCNY	6.9332	SEKPLN	0.4023

*for 100HUF

Last session in the FX market 01/08/2019

	min	max	open	close	fixing
EURPLN	4.284	4.307	4.286	4.303	4.2931
USDPLN	3.847	3.901	3.851	3.888	3.886
EURUSD	1.103	1.114	1.113	1.107	-

Interest rate market 01/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.87	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.18	1	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	1.73	1	2.07	2	-0.42	0
2L	1.78	1	1.86	0	-0.45	0
3L	1.77	1	1.78	-2	-0.44	-1
4L	1.80	1	1.74	-3	-0.40	-1
5L	1.84	2	1.74	-4	-0.35	-1
8L	1.96	1	1.81	-6	-0.16	-2
10L	2.03	1	1.88	-7	-0.02	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	3
T/N	1.56	1
SW	1.59	2
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	-1
9x12	1.70	-1
3x9	1.79	1
6x12	1.79	1

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	4
France	21	0	0.27	0
Hungary			2.69	2
Spain	41	-1	0.75	1
Italy	165	4	2.08	5
Portugal	42	0	0.81	2
Ireland	31	1	0.54	0
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

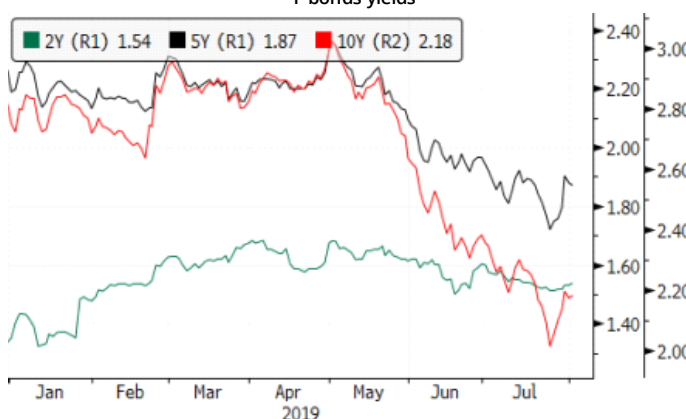
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

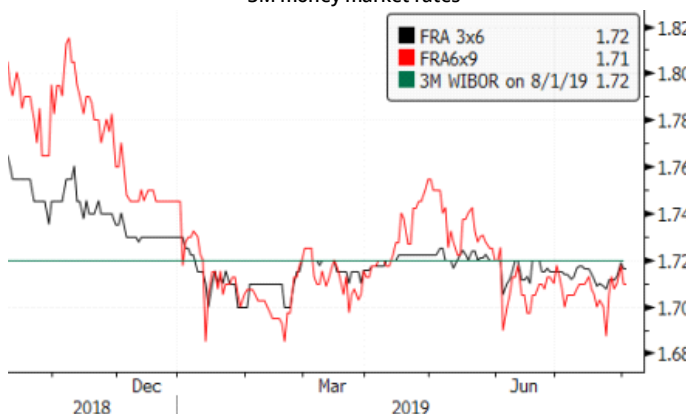
Zloty exchange rate



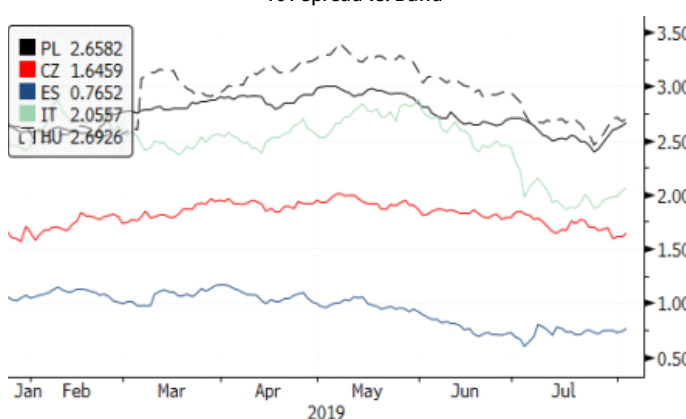
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	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	2.9	2.6
11:00	EZ	Flash HICP	Jul	% y/y	1.15	-	1.1	1.2
11:00	EZ	GDP SA	2Q	% y/y	1.0	-	1.1	1.2
11:00	EZ	Unemployment Rate	Jun	%	7.5	-	7.5	7.5
14:15	US	ADP report	Jul	k	150	-	156	102
20:00	US	FOMC decision		%	2.00-2.25	-	2.00-2.25	2.50
THURSDAY (1 August)								
09:00	PL	Poland Manufacturing PMI	Jul	pts	48.0	48.8	47.4	48.4
09:55	DE	Germany Manufacturing PMI	Jul	pts	43.1	-	43.2	45.0
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	46.4	-	46.5	47.6
13:00	CZ	Central Bank Rate Decision		%	2.0	-	2.0	2.0
14:30	US	Initial Jobless Claims	week	k	218	-	215	206
16:00	US	ISM manufacturing	Jul	pts	52.0	-	51.2	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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