

5 August 2019

Eyeopener

Next stage of trade war hits markets

New tariffs weigh on the equities
Zloty stable after depreciation
Polish and foreign bonds gain
Today euro zone services PMIs

Escalation of Sino-US trade war by Donald Trump yielded an effect that the US president was counting on when criticising the cautious Fed approach to cut rates – worries about trade tensions' impact on the global growth supported expectations from more easing in the USA. The return of risk aversion triggered losses on the stock markets and a marked strengthening of bonds. The dollar index fell while EURUSD was fairly stable on Friday. The US labour market data were mixed, and did not set a direction for the market: employment growth proved lower than expected, the unemployment rate did not fell, contrary to market expectations, but growth of hourly wages increased to 3.2% y/y from 3.1% y/y. Euro zone retail sales surprised to the upside, reminding that the domestic demand and labour market in the euro zone are in quite good shape. The same picture should be drawn by PMI services index.

Data from the Social Insurance Institution (ZUS) for 2Q19 showed a further increase of number of insured Ukrainians and non-residents from the other countries. However, the pace of growth is declining – number of Ukrainians advanced by 80k y/y as compared to 133k in 2Q18 and 109k in 1Q19, while the number of non-residents from other countries rose by 23k y/y versus 30k in 2Q18 and 24k in 1Q19. In our view, these numbers are in line with gradual economic slowdown in Poland, and declining increase in employment may carry into higher wage pressure.

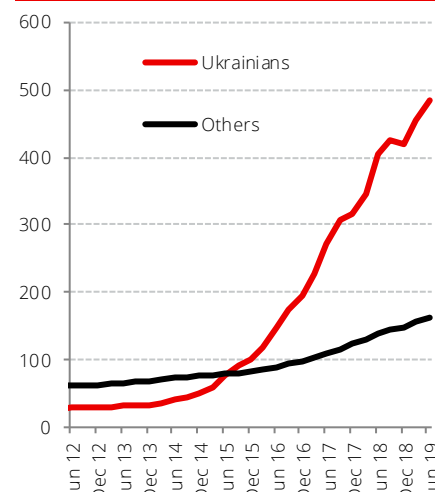
EURUSD reacted to new tariffs on China with a major rise on Thursday night and further upward march on Friday to 1.11. Data on the US labour market triggered only a temporary drop by about 0.02. Usually the dollar was gaining, when trade issue was back in the spotlight after a period of calmer trading. This time investors focused on global growth outlook and judged that escalation of the trade wars could encourage the Fed and Jerome Powell to ease their stance, after the recent disappointment with "hawkish cut". In our view, EURUSD may stabilise today, supported by the possibly good PMI in services but in the following days the euro zone data may put some downward pressure on the exchange rate. In our view, in a more distant perspective, expectations for Fed interest rate cuts will be strengthening and this could be favouring a higher EURUSD.

The zloty weakening recorded after the disappointment with Fed and Trump's tweets pushed it to the levels, which were considered a buying opportunity by the markets. However, the PLN strengthening stopped at 4.30 per euro as compared to 4.309 at the start of the day, and then the rate rebounded, offsetting the earlier move. In case of USDPLN, the downward momentum proved more persistent and the zloty ended the day 0.02 PLN stronger versus the dollar. In our view, this week the market may be returning to pricing-in rate cuts in the USA and this could be PLN-positive. Even though the seasonal pattern suggests weaker zloty in August, the last week's depreciation should limit chances for repeating it this time, especially as the upcoming data could be positive.

Other CEE currencies did not trim their gains versus euro until the end of the day. The ruble was an exception, as after two-dollar drop of oil price on Thursday evening amid announced US tariffs, it lost on Friday versus both dollar and euro, even though the oil price rebounded by nearly 3% at the end of the week. USDRUB approached its highest level since early June. Even the news about cleaning the Drushba pipeline did not help.

On the interest rate market since Friday morning the yield spread versus core markets started narrowing quickly, as core yields fell sharply after information about new US tariffs. Already in the morning the Polish 10Y yield decreased from 2.20% to 2.09%. Core markets, CEE markets and euro zone peripheral debt markets were also stronger, although the move took place only at the start of the day. As regards US Treasuries, yields were rising before the data release, and then the correction started. The FI market is currently really fragile as regards monetary policy outlook. This week may start with more risk aversion and investors rebuilding policy easing expectations by main central banks, which should keep bond yields depressed for now.

Number of foreigners paying contributions to Polish Social Security (k)



Source: ZUS, Santander

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FX market

Today's opening

EURPLN	4.3124	CZKPLN	0.1674
USDPLN	3.8768	HUFPLN*	1.3162
EURUSD	1.1124	RUBPLN	0.0593
CHFPLN	3.9608	NOKPLN	0.4340
GBPPLN	4.6975	DKKPLN	0.5775
USDCNY	7.0293	SEKPLN	0.4019

*for 100HUF

Last session in the FX market 02/08/2019

	min	max	open	close	fixing
EURPLN	4.298	4.314	4.303	4.307	4.3085
USDPLN	3.870	3.893	3.888	3.877	3.8829
EURUSD	1.107	1.112	1.107	1.111	-

Interest rate market 02/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.52	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.81	-6	21 mar 19	PS0424	2.209
DS1029 (10L)	2.09	-9	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	1.96	-12	-0.43	-1
2L	1.74	-4	1.74	-12	-0.46	-1
3L	1.73	-4	1.66	-12	-0.45	-1
4L	1.74	-6	1.63	-12	-0.42	-2
5L	1.77	-6	1.63	-11	-0.38	-2
8L	1.88	-8	1.70	-11	-0.20	-4
10L	1.94	-9	1.77	-11	-0.07	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.58	3
T/N	1.58	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	1.70	-1
9x12	1.67	-3
3x9	1.78	-1
6x12	1.77	-2

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.63	-5
France	21	0	0.26	1
Hungary			2.58	-13
Spain	41	2	0.74	0
Italy	169	4	2.02	-1
Portugal	42	2	0.79	1
Ireland	31	3	0.53	0
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

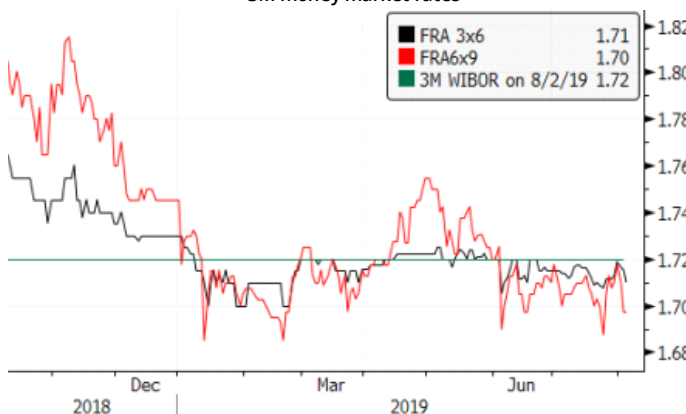
Zloty exchange rate



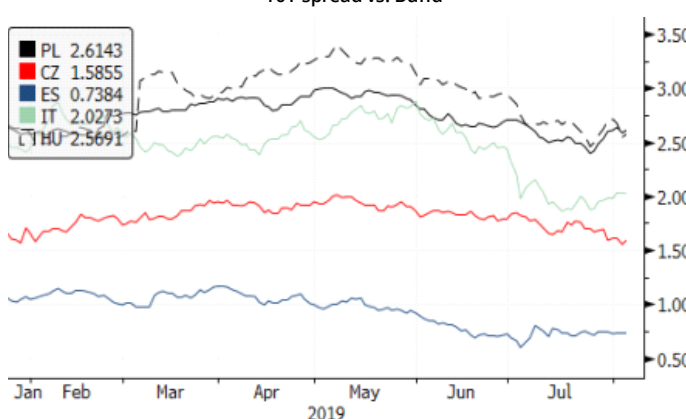
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (2 August)								
11:00	EZ	Retail Sales	Jun	% m/m	0.3	-	1.1	-0.6
14:30	US	Change in Nonfarm Payrolls	Jul	k	165	-	164	193
14:30	US	Unemployment Rate	Jul	%	3.6	-	3.7	3.7
16:00	US	Michigan index	Jul	pts	98.5	-	98.4	98.4
16:00	US	Durable Goods Orders	Jun	% m/m	-	-	1.9	2.0
16:00	US	Factory Orders	Jun	% m/m	0.7	-	0.6	-1.3
MONDAY (5 August)								
03:45	CN	Caixin China PMI Services	Jul	pts	52.0	-		52.0
09:55	DE	Markit Germany Services PMI	Jul	pts	55.4	-		55.8
10:00	EZ	Eurozone Services PMI	Jul	pts	53.3	-		53.6
16:00	US	ISM services	Jul	pts	55.5	-		55.1
TUESDAY (6 August)								
08:00	DE	Factory Orders	Jun	% m/m	0.2	-		-2.2
09:00	CZ	Industrial Production	Jun	% y/y	-3.05	-		3.2
WEDNESDAY (7 August)								
08:00	DE	Industrial Production SA	Jun	% m/m	-0.9	-		0.3
09:00	HU	Industrial Production SA	Jun	% y/y	6.7	-		6.1
THURSDAY (8 August)								
09:00	HU	CPI	Jul	% y/y	3.45	-		3.4
14:30	US	Initial Jobless Claims	week	k	214	-		215
FRIDAY (9 August)								
08:00	DE	Exports SA	Jun	% m/m	0.5	-		1.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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