

8 August 2019

Eyeopener

Markets driven by growth concerns

Yields head lower amid risk of a recession
 Risk aversion hits CEE currencies, EURUSD stable
 Poland unemployment rate slightly down to 5.2%
 Today in Poland bond switch auction

Wednesday was a yet another day of strong decline of bond yields on global markets. The impulse for further debt appreciation came from the stronger than expected interest rate cuts of Asian central banks (India, New Zealand, Thailand), which were perceived on one hand as a sign of rising worries about recession, on the other hand, as the element of the trade and currency war. Surprisingly weak data about German industrial output also fuelled pessimism regarding economic outlook. The increase of risk aversion and higher demand for safe assets triggered decline of equity prices, weakening of emerging markets currencies and strengthening of Japanese yen and Swiss franc. In the afternoon Donald Trump joined the game, blaming the US Fed for its incompetence and calling for faster and stronger interest rate cuts, which negatively affected the dollar. Strengthening worries about global recession pulled crude oil prices much lower, to the level from the start of the year.

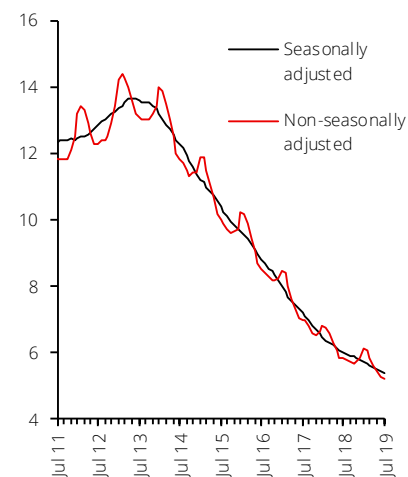
Weak data from Germany manufacturing weighed on the euro and in the first part of the day **EURUSD** was declining lightly. In the afternoon it was driven by growing expectations for interest rate cuts in the USA, boosted by not only recessionary fears but also Trump's attack on the Fed. EURUSD climbed to c1.122 at the end of the session and today it may remain close to this level amid lack of important data releases.

The rise in global risk aversion translated into sell-off of the EM currencies, hitting the zloty as well. **EURPLN** jumped above 4.32, USDPLN to 3.85, CHFPLN to 3.953. **Other CEE currencies** followed a similar path: EURHUF increased to 325.55, EURCZK to 25.74 and USDRUB to 65.28 (the ruble was also undermined by falling oil prices). As long as the global risk aversion stays, it may be difficult for the zloty to gain more visibly but we are not expecting EURPLN to go above 4.34-4.35.

The debt market has seen a downward move of yields globally: in 10Y segment German Bund yields fell by 6bp to -0.6%, USTs and Polish bonds recorded a drop by 8bp (to 1.6% and 2.0%, respectively). Declines on the shorter end of the curve were less significant, so we have observed a bullish flattener. The domestic IRS market headed in the same direction and at a similar scale. On the today's opening, Bund yields are soaring, which could be a reaction to yesterday's unsuccessful bond auction in the USA. Today, the **bond switch auction** is held Poland, the Ministry plans to sell OK0521, PS1024, WZ0525, DS1029, WZ1129 and WS0447, and to rebuy DS1019, WZ0120, PS0420 and OK0720. The auction, apart from the Bund weakening, can be a trigger for a yield rebound on the Polish market.

The Labour Ministry informed that the **registered unemployment rate** fell in July to 5.2% from 5.3% in June, in line with our expectations. In our view, the final data due for release by the GUS will be in line with the Ministry's estimate. We are expecting the unemployment rate to go further down in the months to come but its downward momentum is decelerating.

Registered unemployment rate, %



Source: GUS, Labour Ministry, Santander

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FX market

Today's opening

EURPLN	4.3178	CZKPLN	0.1676
USDPLN	3.8532	HUFPLN*	1.3258
EURUSD	1.1206	RUBPLN	0.0591
CHFPLN	3.9515	NOKPLN	0.4314
GBPPLN	4.6855	DKKPLN	0.5786
USDCNY	7.0445	SEKPLN	0.4003

*for 100HUF

Last session in the FX market 07/08/2019

	min	max	open	close	fixing
EURPLN	4.314	4.325	4.317	4.320	4.3194
USDPLN	3.844	3.863	3.856	3.848	3.8597
EURUSD	1.118	1.124	1.120	1.123	-

Interest rate market 07/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.79	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	-8	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	1.71	-1	1.79	-6	-0.46	-1
2L	1.71	-3	1.54	-7	-0.50	-3
3L	1.69	-4	1.45	-7	-0.50	-3
4L	1.69	-5	1.41	-8	-0.48	-3
5L	1.71	-6	1.41	-8	-0.44	-4
8L	1.76	-9	1.48	-9	-0.27	-4
10L	1.80	-10	1.54	-10	-0.14	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-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	1.71	0
3x6	1.70	-1
6x9	1.68	-2
9x12	1.65	-3
3x9	1.77	-1
6x12	1.75	-3

Measures of fiscal risk

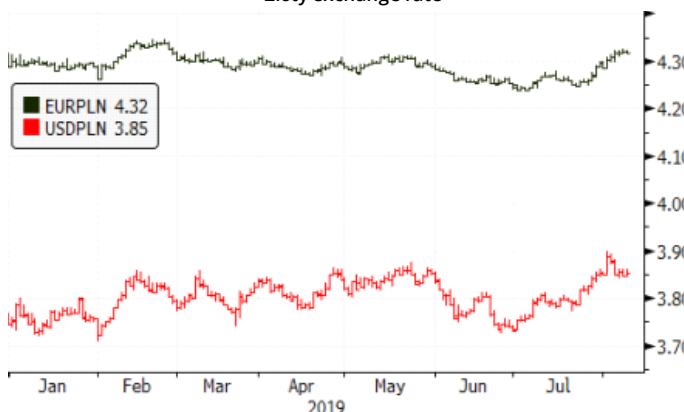
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.57 -9
France	21 1	0.28 1
Hungary		2.44 -10
Spain	42 1	0.77 1
Italy	176 11	2.07 7
Portugal	42 1	0.78 2
Ireland	33 1	0.53 -6
Germany	11 -1	- -

* 10Y treasury bonds over 10Y Bunds

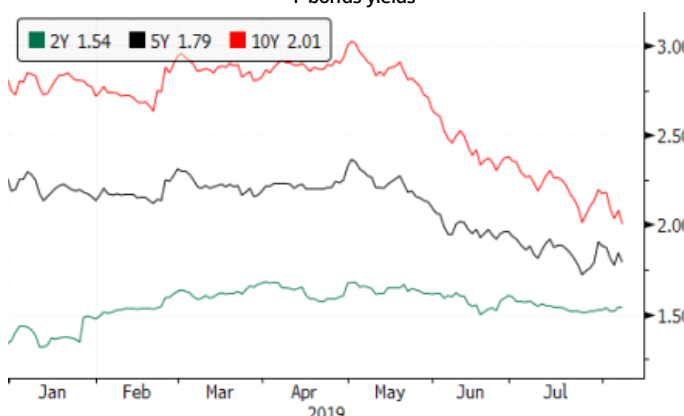
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



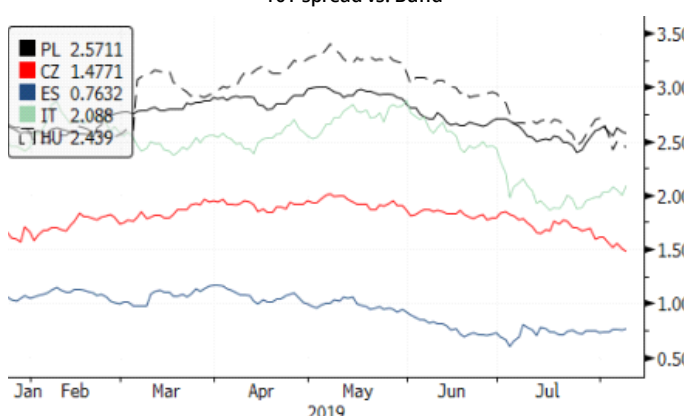
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (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	-	51.6	52.0
09:55	DE	Markit Germany Services PMI	Jul	pts	55.4	-	54.5	55.8
10:00	EZ	Eurozone Services PMI	Jul	pts	53.3	-	53.2	53.6
16:00	US	ISM services	Jul	pts	55.5	-	53.7	55.1
TUESDAY (6 August)								
08:00	DE	Factory Orders	Jun	% m/m	0.2	-	2.5	-2.0
09:00	CZ	Industrial Production	Jun	% y/y	-2.6	-	-3.8	3.2
WEDNESDAY (7 August)								
08:00	DE	Industrial Production SA	Jun	% m/m	-0.9	-	-1.5	0.1
09:00	HU	Industrial Production SA	Jun	% y/y	6.7	-	4.1	6.3
THURSDAY (8 August)								
09:00	HU	CPI	Jul	% y/y	3.4	-	3.3	3.4
11:00	PL	Bond switch auction						
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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