

9 August 2019

Eyeopener

Zloty still stable after depreciation

MPC's Żyżyński does not exclude rate cut

EURPLN and EURUSD still stable

Yields up

German exports slightly below consensus

Sentiment on the financial markets stabilised on Thursday, while risk appetite increased, supported by data from China suggesting a rebound in exports, which mitigated worries about the incoming economic slowdown. Stock markets were mostly in black and debt market witnessed a correction after an earlier major strengthening. Higher yields in the euro zone were supported by the articles in Bild and Reuters, stating that Germany is considering whether to abandon the balanced budget policy and increase the debt supply in order to support the climate policy. However, these news were soon denied by the German Ministry of Finance spokesperson.

Today in the morning we got to see German June exports data – in monthly terms a decline was recorded, but May's data were revised upward. In general, this week's data from the euro zone's biggest economy were mixed and – as shown on the chart – do not deliver any suggestions that the economic activity in the euro zone has bottomed out. In our view, more positive data from Europe are to come in the months to come.

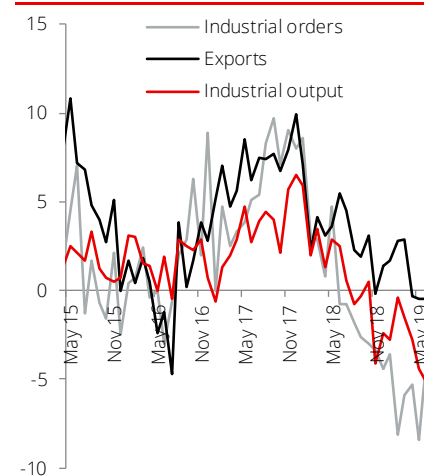
The MPC's Jerzy Żyżyński ruled out rate hikes in an interview for PAP and suggested that maybe cuts should be mulled in response to weaker global growth. However, according to Żyżyński the space for cuts is limited due to the banking sector situation. Thus, according to Żyżyński, a mitigation of capital adequacy criteria for banks should be considered. The MPC member saw no risk of inflation running above 3.5%, but if this happens, then the Council "would be forced to act only if demand stays strong but there is no response from the supply side", and Żyżyński saw no risk of that happening. The MPC member assessed the zloty has 20-30 percent appreciation potential, which would not be negative for the economy or exporters, as long as it is gradual. Jerzy Żyżyński, apart from Eryk Łon, is one of the most dovish MPC members. In our view most central bankers will not take cuts into consideration, yet hikes are also unlikely despite elevated inflation, given the global economic slowdown and a tide of monetary easing globally.

EURUSD has stabilised near 1.12, in line with our expectations, amid lack of new major impulses. Next tweets from Donald Trump mocking the Federal Reserve and accusing too slow monetary policy easing did not have significant impact on the FX market this time. Today's data about German foreign trade did not surprise too much and we assume the end of the week should bring no major turnaround, with the EURUSD staying near the current level.

Zloty remained relatively stable as well, and **EURPLN** hovered slightly above 4.32. **Other CEE currencies** were not following in the one direction. The Hungarian forint appreciated against euro (EURHUF fell to 324.5), Czech koruna weakened (EURCZK up to 25.8) and Russian ruble remained roughly stable (USDRUB at 55.43 at the end of the session). Lack of new important news before the weekend should favour stabilisation of exchange rates during Friday's session.

On the debt market yields were rising this time around, mainly due to a rebound in the core markets. Yield of 10Y US Treasuries rose by 6bp, 10Y Bunds by 3bp (temporarily stronger after information about Germany's plans to abandon balanced budget policy, which was later denied). Polish debt opened weaker, but later in the day yields were declining amid investors' demand for domestic bonds and eventually the day ended near Wednesday's close.

German economic activity, % y/y



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3227	CZKPLN	0.1676
USDPLN	3.8636	HUFPLN*	1.3333
EURUSD	1.1188	RUBPLN	0.0594
CHFPLN	3.9661	NOKPLN	0.4337
GBPPLN	4.6904	DKKPLN	0.5792
USDCNY	7.0499	SEKPLN	0.4031

*for 100HUF

Last session in the FX market 08/08/2019

	min	max	open	close	fixing
EURPLN	4.317	4.326	4.320	4.323	4.322
USDPLN	3.847	3.867	3.848	3.858	3.8538
EURUSD	1.118	1.123	1.123	1.121	-

Interest rate market 08/08/2019

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	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	-1	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	1.70	-1	1.85	6	-0.46	0
2L	1.71	0	1.62	8	-0.50	0
3L	1.70	1	1.54	9	-0.50	0
4L	1.71	1	1.51	10	-0.47	1
5L	1.72	1	1.52	11	-0.42	1
8L	1.78	2	1.59	12	-0.24	3
10L	1.81	1	1.66	12	-0.11	4

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
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	0
6x9	1.69	0
9x12	1.66	1
3x9	1.76	0
6x12	1.75	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.59	2
France	22	1	0.29	1
Hungary			2.49	5
Spain	42	1	0.83	5
Italy	187	6	2.33	24
Portugal	43	1	0.85	4
Ireland	33	0	0.58	5
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



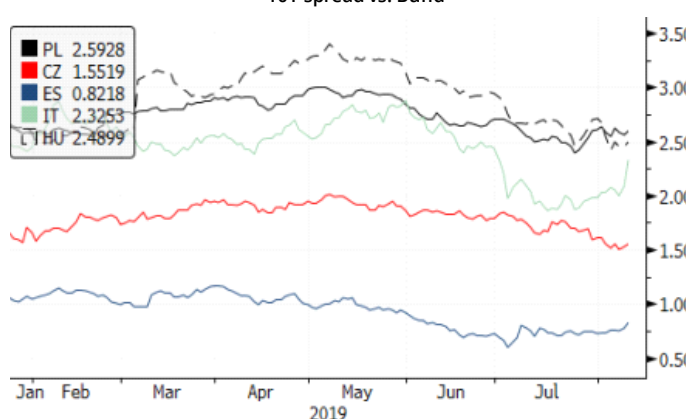
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		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	-	209	215
FRIDAY (9 August)								
08:00	DE	Exports SA	Jun	% m/m	0.5	-	-0.1	1.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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