

12 August 2019

Eyeopener

NBP President's dovish tone

Poor sentiment at the end of the week
 NBP President Glapiński points to conditions for rate cuts
 EURPLN still close to 4.32
 Polish 10Y bond yield lowest on record
 Today, inflation data from Czechia

Friday saw a correction of positive moods in equity markets seen in the previous days, which in turn had positive impact on bonds. The reason for higher investors' concerns was, among other things, another signal that the US-China trade talks could collapse, as Donald Trump threatened to cancel the bilateral meeting in September. There was no breakthrough on the FX market – euro was stable against dollar, pound kept depreciating, and Japanese yen gained from the renewed risk aversion.

NBP President Adam Glapiński wrote in an article for Bank monthly that he was expecting the output gap and the core inflation to go down in 2021, which would favour keeping interest rates on hold. However, if the scenario of negative developments in the euro zone materialises, which would have negative impact on Polish economy as well, then the NBP may mull policy easing. According to Glapiński, the risk for economic growth is skewed downwards. With his comment, the NBP governor got closer to the MPC's doves, who were quite active in the last two weeks. Interestingly, it seems that the MPC doves are amplifying their message at the same point of time, when hawks have gained new arguments of higher than expected inflation. The division within the MPC is becoming increasingly more visible. In our view, the base case scenario is still rates stability for at least the next two years.

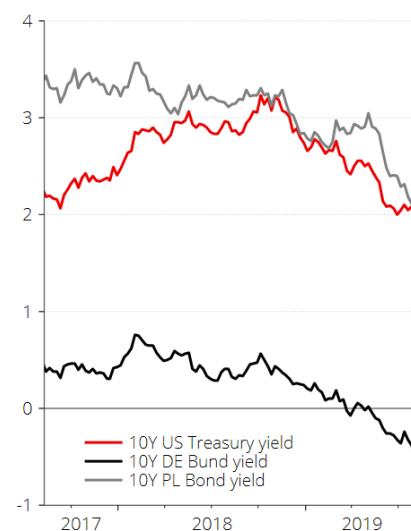
On Friday **EURUSD** did not move much and was hovering around 1.12. Taking into account the spread between daily peak and low, the last session of the previous week was the calmest in August. There are no important data releases at the start of the new week, so the market should see no major swings today, in our view.

EURPLN remained at elevated levels reached last week and was close to 4.32 at the end of Friday's session. Last week was the third in a row with the zloty losing versus the euro and in our view this streak is coming to an end. Other CEE currencies depreciated but let us remind that in the previous days the zloty was clearly underperforming the region.

On the **domestic interest rate market**, bond yields and IRS rates declined markedly. During the day the move extended even to 7bps on the longer end, but the market failed to keep these gains until the end of the day. Still, 10Y Polish bond yield managed to reach the lowest level in history (1.94%). On Friday the Polish debt was outperforming core (core yields fell by 2pbs in 10Y tenor) and euro zone peripheries (no changes or a slight weakening).

This week in Poland just before the long weekend we will see data about June's balance of payments, July's full inflation figures and flash Q2 GDP growth. We will also get to see important data from abroad, such as German ZEW, euro zone GDP and US statistics. Zloty has been underperforming other CEE currencies recently, possibly influenced by uncertainty regarding the looming ECJ ruling regarding the Swiss franc loans. We see bigger chance for slight rebound in the near future than for further zloty weakening, assuming a rebuild of the global risk appetite and slightly positive impact of local macro data about activity in July (plus signals from the technical analysis). Domestic debt market will remain under influence of core markets, where it is still not obvious that we are nearing the end of downward trend in yields. The reversal of trend could be potentially triggered by strong positive surprises from US/European data or confirmation of rumours about German plans to ease fiscal policy. Domestic news will remain rather unimportant for Polish yields.

10Y bond yields, %



Source: Datastream, Santander

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FX market

Today's opening

EURPLN	4.3267	CZKPLN	0.1675
USDPLN	3.8605	HUFPLN*	1.3331
EURUSD	1.1207	RUBPLN	0.0591
CHFPLN	3.9710	NOKPLN	0.4348
GBPPLN	4.6509	DKKPLN	0.5797
USDCNY	7.0640	SEKPLN	0.4041

*for 100HUF

Last session in the FX market 09/08/2019

	min	max	open	close	fixing
EURPLN	4.317	4.326	4.323	4.324	4.3225
USDPLN	3.852	3.868	3.858	3.861	3.8613
EURUSD	1.118	1.122	1.121	1.120	-

Interest rate market 09/08/2019

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)	1.76	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	1.94	-6	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	1.68	-2	1.86	2	-0.46	0
2L	1.67	-4	1.64	2	-0.50	0
3L	1.65	-6	1.55	1	-0.51	-1
4L	1.64	-6	1.52	0	-0.47	1
5L	1.65	-7	1.51	0	-0.42	1
8L	1.69	-9	1.57	-2	-0.24	3
10L	1.73	-9	1.63	-3	-0.11	4

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
SW	1.59	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	1.70	-1
3x6	1.69	-1
6x9	1.65	-4
9x12	1.62	-4
3x9	1.75	-2
6x12	1.72	-3

Measures of fiscal risk

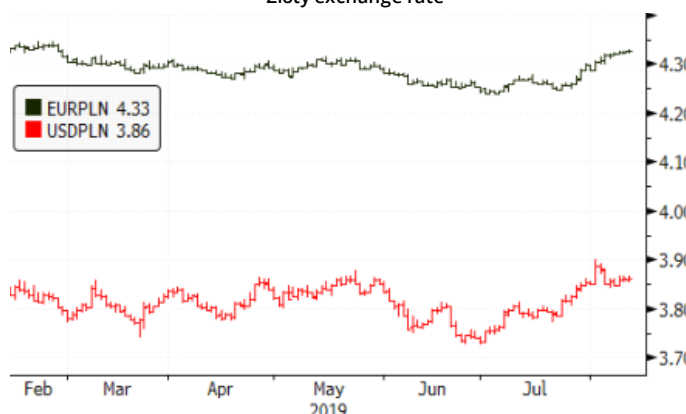
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.52	-6
France	22	0	0.30	-1
Hungary			2.40	-8
Spain	43	3	0.82	-2
Italy	192	22	2.33	-5
Portugal	44	3	0.85	-1
Ireland	33	0	0.59	2
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

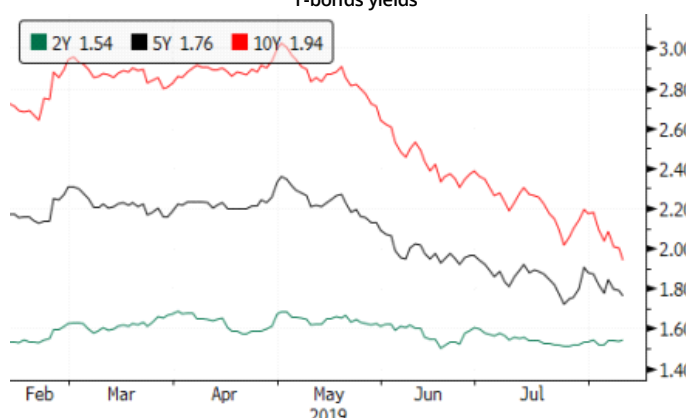
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

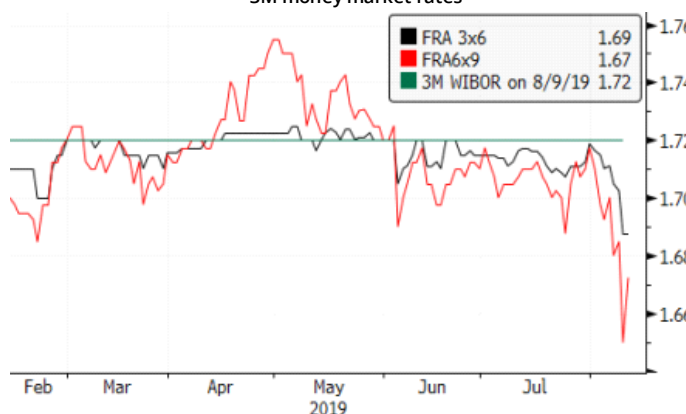
Zloty exchange rate



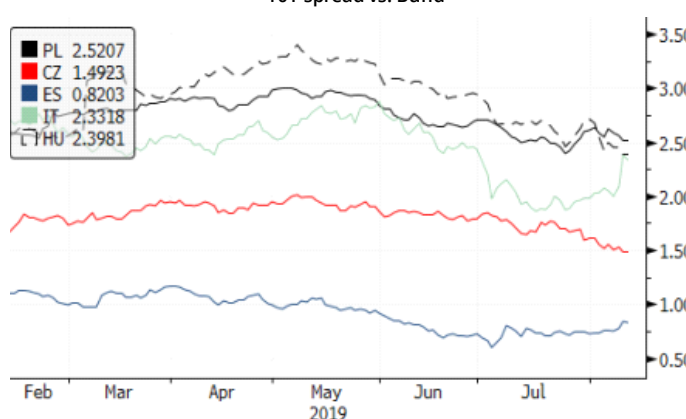
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER		
CET						VALUE	VALUE*
FRIDAY (9 August)							
08:00	DE	Exports SA	Jun % m/m	0.0	-	-0.1	1.1
MONDAY (12 August)							
09:00	CZ	CPI	Jul % y/y	2.7	-		2.7
TUESDAY (13 August)							
08:00	DE	HICP	Jul % m/m	0.4	-		0.4
11:00	DE	ZEW Survey Current Situation	Aug pts	-3.7	-		-1.1
14:00	PL	Current Account Balance	Jun €mn	-75	-62		1 006
14:00	PL	Trade Balance	Jun €mn	-225	-214		96
14:00	PL	Exports	Jun €mn	18 470	18 050		19 703
14:00	PL	Imports	Jun €mn	18 620	18 264		19 607
14:30	US	CPI	Jul % m/m	0.3	-		0.1
WEDNESDAY (14 August)							
08:00	DE	GDP WDA	2Q % y/y	0.2	-		0.7
09:00	CZ	GDP SA	2Q % y/y	2.6	-		2.8
09:00	HU	GDP	2Q % y/y	4.5	-		5.3
10:00	PL	CPI	Jul % y/y	2.9	2.9		2.6
10:00	PL	GDP	2Q % y/y	4.5	4.5		4.7
11:00	EZ	GDP SA	2Q % y/y	1.1	-		1.1
11:00	EZ	Industrial Production SA	Jun % m/m	-1.0	-		0.9
THURSDAY (15 August)							
14:30	US	Initial Jobless Claims	week k	215	-		209
14:30	US	Retail Sales Advance	Jul % m/m	0.2	-		0.4
14:30	US	Index Philly Fed	Aug pts	10.0	-		21.8
15:15	US	Industrial Production	Jul % m/m	0.25	-		-0.04
FRIDAY (16 August)							
14:00	PL	CPI Core	Jul % y/y	2.1	2.1		1.9
14:30	US	Housing Starts	Jul % m/m	0.56	-		-0.9
16:00	US	Flash Michigan index	Aug pts	97.1	-		98.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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