

14 August 2019

Eyeopener

De-escalation of US-China tension?

Turnaround in market moods after US signals de-escalation of trade tensions

Zloty rebounded in the afternoon after earlier weakening

Yields even lower, curve even flatter

Major slowdown in foreign trade turnover in June

Today, Polish 2Q GDP and June inflation

The sentiment on the emerging markets was rather negative for the most of the day on Tuesday. Only at the end of the day after signal of possible renewing US-China trade talks and possible delay of the deadline for increasing US tariffs on some Chinese goods until 15th December 2019 (temporary de-escalation of trade wars) the markets recovered some of the losses. Particularly strong rebound was seen in the case of precious metals (the price of silver fell temporarily by approx. 6%, although later it retraced less than half of this move). US inflation data for July were slightly above market expectations. In Germany, the ZEW indicator surprised negatively both in the assessment of the current situation (-13.5 points versus expectations -6.5 and this was the lowest rating since 2010) and in expectations (-43.6 versus forecasts -20.3, the lowest value since 2011). Today the Chinese data about production and retail sales were lower than expected. German GDP in Q1 fell -0.1% q/q, in line with forecast, confirming economic slowdown under way. European stock markets are opening with small gains.

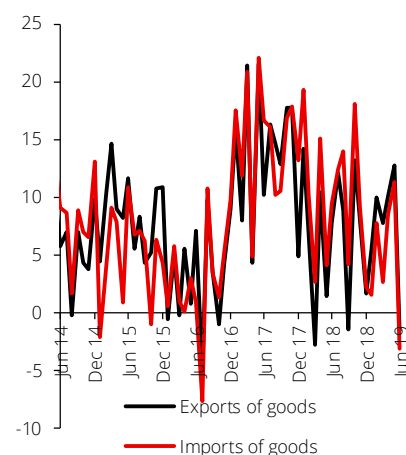
Poland's June current account showed a small surplus of EUR21mn, close to our and market expectations. Both exports and imports decelerated markedly, to -1.6% y/y and -3.2% y/y respectively from 12.7% y/y and 11.3% y/y in May. These numbers were in line with other weak readings from June, such as industry or construction, which were undermined by the negative working days effect. Additionally imports were temporarily lower due to disruptions in oil pipelines. In our view, the foreign trade will revert to expansion in the months to come. Still, the persistently weak situation in Germany and euro zone is likely to weigh on Polish exports. 12m current account deficit hit -0.1% of GDP in June. In our view it is likely to widen somewhat towards the end of the year, as import growth is likely to be stimulated by Poland's robust domestic demand.

The zloty was weakening vs the dollar again (EURPLN rose to max 4.3350, CHFPLN exceeded 4.00), but at the end of the day it rebounded after the signal about the de-escalation of trade wars. 4.35 is an important technical level and in the coming days there may be short-term consolidation at current levels. The **EURUSD** fluctuated around 1.1200 for most of the day despite slightly higher US inflation. At the end of the session the dollar strengthened to ca. 1.1170. **Other CEE currencies** did not weaken in the first part of the day similarly to the zloty, and in the afternoon they mostly gained as a result to information about improvement in US-China relations, despite the dollar strengthening.

On the Polish fixed income market Tuesday saw IRS and bond yields still falling – 10yr bond benchmark closed at 1.84% (down 8 bp) and spread vs Bund at 244 bp (down 7bp). Polish 2yr vs 5yr IRS curve spread remains inverted (1.615% vs 1.560%), whereas 2yr vs 10yr IRS curve spread remains close to zero (10yr at 1.625%). The FRA market traded even more dovish than the day before and currently prices one full 25bp rate cut in the 12 month horizon (vs 15-18 months a day before). We stick to our base case scenario of unchanged NBP rates for the next 2 years (till August 2021). On **core fixed income markets** it is worth noting that 10yr US real rates (as implied from UST and breakevens) came down to zero, a level last seen in 2016 during CNY devaluation summer period. US yield curve further bull flattened and the 10yr bonds (1.65%) currently trade just 3 bp above the 2yr bonds (1.62%).

Today at 10:00 CET the GUS is releasing data on CPI and GDP. Data about inflation should confirm strong CPI rise to 2.9% y/y in July, which only partly resulted from surge in food prices. As regards GDP growth, we expect to see slight deceleration in Q2 to 4.5% y/y, which is in line with market consensus.

Polish exports and imports, % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.3381	CZKPLN	0.1679
USDPLN	3.8805	HUFPLN*	1.3411
EURUSD	1.1177	RUBPLN	0.0597
CHFPLN	3.9800	NOKPLN	0.4361
GBPPLN	4.6810	DKKPLN	0.5812
USDCNY	7.0118	SEKPLN	0.4062

*for 100HUF

Last session in the FX market 13/08/2019

	min	max	open	close	fixing
EURPLN	4.327	4.347	4.328	4.333	4.3327
USDPLN	3.857	3.881	3.860	3.876	3.8714
EURUSD	1.117	1.123	1.121	1.118	-

Interest rate market 13/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.51	-3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.71	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	1.86	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.65	-4	1.87	5	-0.47	0
2L	1.63	-4	1.65	7	-0.51	0
3L	1.59	-5	1.56	8	-0.51	0
4L	1.58	-5	1.51	8	-0.48	0
5L	1.57	-6	1.50	7	-0.44	-1
8L	1.61	-5	1.53	5	-0.28	-2
10L	1.64	-5	1.57	4	-0.16	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.73	-7
T/N	1.73	-7
SW	1.64	-1
2W	1.61	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	0
3x6	1.66	-2
6x9	1.61	-4
9x12	1.56	-5
3x9	1.73	-2
6x12	1.65	-6

Measures of fiscal risk

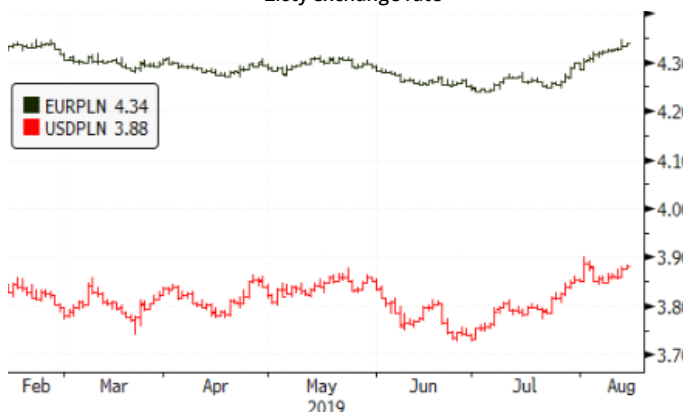
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.48	-4
France	23	1	0.29	0
Hungary			2.33	1
Spain	43	0	0.81	-1
Italy	215	-2	2.20	-3
Portugal	46	-1	0.84	0
Ireland	33	1	0.57	0
Germany	11	1	-	-

* 10Y treasury bonds over 10Y Bunds

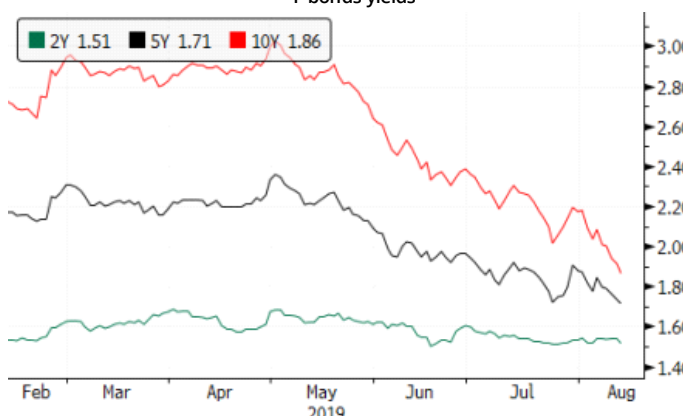
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

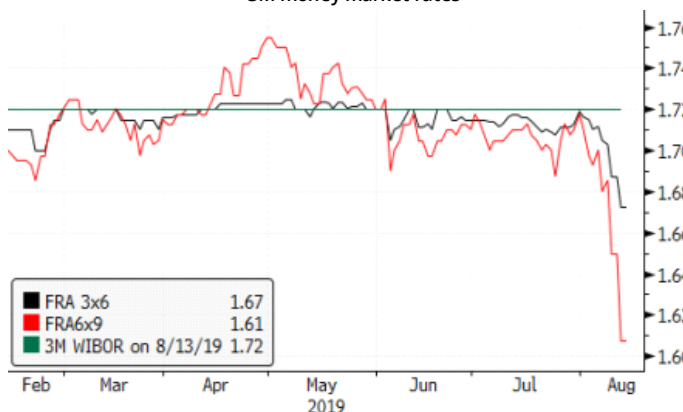
Zloty exchange rate



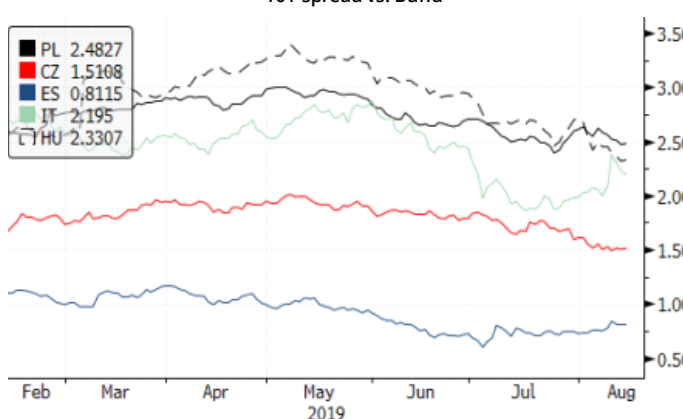
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET	MARKET				SANTANDER	VALUE	VALUE*	
FRIDAY (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	-	2.9	2.7
TUESDAY (13 August)								
08:00	DE	HICP	Jul	% m/m	0.4	-	0.4	0.4
11:00	DE	ZEW Survey Current Situation	Aug	pts	-3.7	-	-13.5	-1.1
14:00	PL	Current Account Balance	Jun	€mn	-75	-62	21	1 006
14:00	PL	Trade Balance	Jun	€mn	-225	-214	-77	96
14:00	PL	Exports	Jun	€mn	18 470	18 050	18068	19 703
14:00	PL	Imports	Jun	€mn	18 620	18 264	18145	19 607
14:30	US	CPI	Jul	% m/m	0.3	-	0.3	0.1
WEDNESDAY (14 August)								
08:00	DE	GDP WDA	2Q	% q/q	-0.1	-	-0.1	0.4
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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