

19 August 2019

# Eyeopener

## Relief felt on markets

Recession worries eased on markets  
Polish core inflation the highest in seven years  
Zloty and EM fx strengthened, bonds stable  
Today euro zone inflation

On Friday markets recovered from stress from the last few days related to US-China trade war intensification and recession signals coming from the US yield curve. European shares rose, yields on core markets began to rise, emerging currencies strengthened, including zloty and Mexican peso (despite a cut in interest rates from 8.25% to 8.00% by Banxico on Thursday evening). Numerous weekend claims from the US administration that trade talks with China continue and there is no recession risk made the market rebound also cover today's Asian session.

Poland's July **core inflation** managed to surprise to the upside, rising to 2.2% y/y from 1.9%. A broadly accepted estimate after GUS detailed release on July CPI was 2.1%. At 2.2%, CPI ex food and energy is the highest since mid-2012. The other three underlying inflation measures also rose in July and are also the highest in more than six years. We assume that in August-September core CPI may stabilise or even retrace slightly, before pushing above 2.5% y/y in 4Q. We believe the majority of MPC will be unaffected by the rise of inflation, citing growing uncertainty about global growth outlook and the shift of main central banks towards monetary easing. However the MPC hawks may feel pressured by the current readings of CPI and core inflation to file motions for rate hikes still this year.

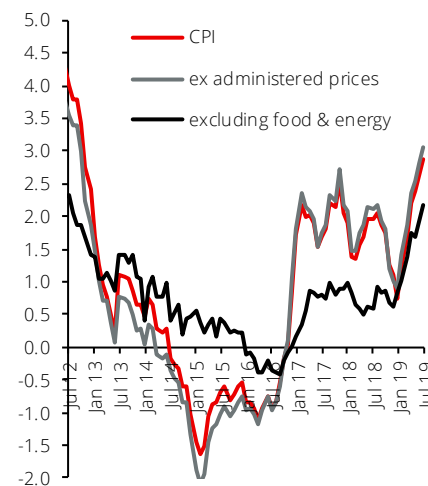
On Thursday **EURUSD** fell to 1.11 after ECB's Olli Rehn words that the monetary stimulus should be applied as soon as in September. On Friday the dollar strengthened to 1.107 despite weaker US data (consumer confidence, new house starts). Short-term (1 month) currency options are showing a higher probability of a downward movement from here, yet the US remarks that trade talks will continue would rather suggest an upward move. Apart from this, some downward pressure on the pair may be generated by risk of government change in Italy.

On Thursday **the zloty** was testing 4.40 twice on illiquid market. On Friday the zloty returned to Wednesday levels – towards 4.34, which became a new support level (before it served as a resistance). Tests of this level can theoretically lead to a decline of EURPLN even to 4.29 provided that sentiments remain positive throughout the week. USDPLN ended the week at 3.925 and CHFPLN at 4.004. The zloty was clearly outperforming EM currencies on Friday. EURHUF declined to 324.6 and EURCZK to 25.75 (the lowest level in more than a week). It seems that investors hope for some dovish words from Jerome Powell during the Jackson Hole conference at the end of the week and this can currently support the EM currencies.

On the Polish **fixed income market** – the 10-year bonds closed at 1.70% (+1 bp) and 10-year swaps at 1.43% (-9 bp). Polish government 10-year bonds spread versus Bund narrowed to 239 bp (-2 bp). Polish FRA 21x24 prices in already two full 25 bp cuts, which we deem excessive given our understanding of MPC preferences. On the core markets we saw stabilisation of the US yield curve: 2-year bonds at 1.50% and 10-year bonds at 1.55% with a slight tendency for higher yields from Friday afternoon.

**This week**, on Wednesday July FOMC minutes will be released and on Thursday flash PMIs for Europe and US together with the ECB minutes will be published. On August 22-24, the symposium in Jackson Hole is held and the Fed's Powell speech is expected to start at 16:00CET on Friday. On Tuesday, the Italian government may face a confidence vote. In Poland, we will see first data about the economic activity in 3Q – wages and employment, industrial and construction output as well as retail sales. Our forecasts suggest a clear improvement in most of those indicators versus June, which may have slight positive impact on the currency.

Core inflation in Poland, %y/y



Source: GUS, NBP, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
website: [santander.pl/en/economic-analysis](http://santander.pl/en/economic-analysis)  
Piotr Bielski +48 22 534 18 87  
Marcin Łuziński +48 22 534 18 85  
Wojciech Mazurkiewicz +48 22 534 18 86  
Grzegorz Ogonek +48 22 534 19 23  
Marcin Sulewski, CFA +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.3415	CZKPLN	0.1687
USDPLN	3.9137	HUFPLN*	1.3375
EURUSD	1.1093	RUBPLN	0.0590
CHFPLN	3.9983	NOKPLN	0.4349
GBPPLN	4.7490	DKKPLN	0.5821
USDCNY	7.0462	SEKPLN	0.4048

\*for 100HUF

### Last session in the FX market 16/08/2019

	min	max	open	close	fixing
EURPLN	4.324	4.379	4.375	4.341	4.3543
USDPLN	3.901	3.942	3.941	3.915	3.9281
EURUSD	1.107	1.112	1.110	1.109	-

## Interest rate market 16/08/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.47	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.52	-10	21 mar 19	PS0424	2.209
DS1029 (10L)	1.72	-3	21 mar 19	DS1029	2.877

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.64	-1	1.75	0	-0.51	-1
2L	1.56	0	1.50	0	-0.57	0
3L	1.48	-2	1.41	0	-0.57	0
4L	1.46	-2	1.38	0	-0.57	0
5L	1.44	-3	1.37	1	-0.55	0
8L	1.45	-5	1.40	3	-0.43	0
10L	1.48	-4	1.45	4	-0.33	0

### WIBOR rates

Term	%	Change (bps)
O/N	1.67	-1
T/N	1.67	-1
SW	1.60	-1
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.85	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.71	0
3x6	1.65	-2
6x9	1.59	-2
9x12	1.51	-2
3x9	1.71	-2
6x12	1.62	-3

### Measures of fiscal risk

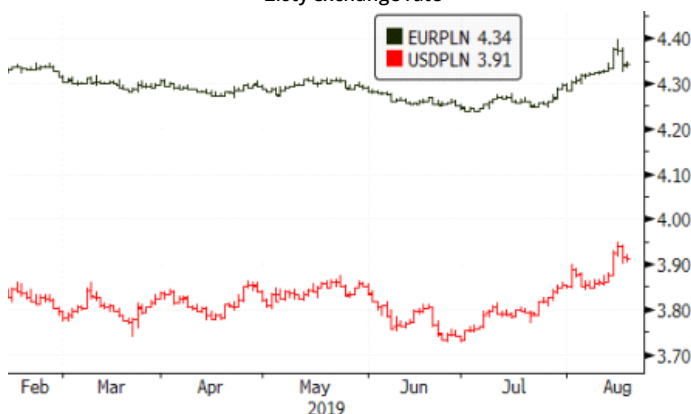
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.41	-3
France	23	0	0.27	0
Hungary			2.31	5
Spain	45	-1	0.76	0
Italy	218	-6	2.06	-1
Portugal	47	-1	0.78	-1
Ireland	34	1	0.56	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

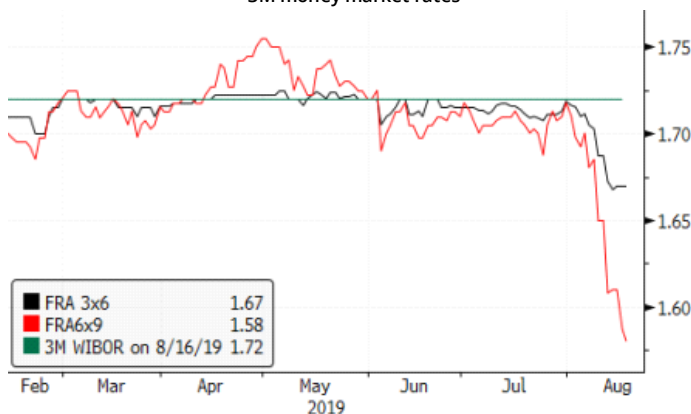
## Zloty exchange rate



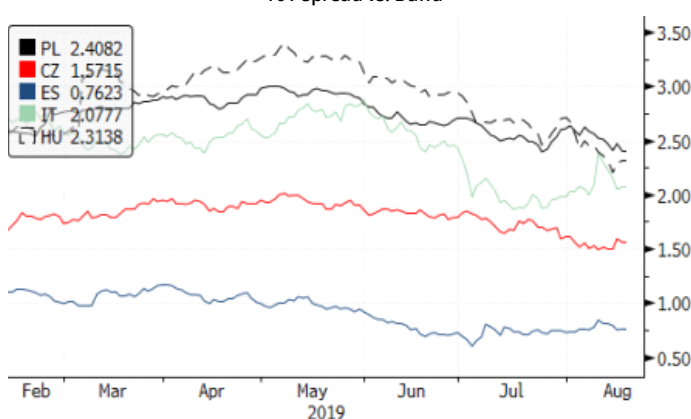
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (16 August)								
14:00	PL	CPI Core	% y/y	2.1	2,1	2,2	1.9	
14:30	US	Housing Starts	% m/m	0.2	-	-4.0	-1.8	
16:00	US	Michigan index	pts	97.0	-	92,1	98.4	
MONDAY (19 August)								
11:00	EZ	HICP	Jul % y/y	1.1	-		1.3	
TUESDAY (20 August)								
10:00	PL	Employment in corporate sector	Jul % y/y	2.7	2.7		2.8	
10:00	PL	Average Gross Wages	Jul % y/y	7.0	7.2		5.3	
WEDNESDAY (21 August)								
10:00	PL	Sold Industrial Output	Jul % y/y	6.5	8.0		-2.7	
10:00	PL	Construction Output	Jul % y/y	5.3	5.3		-0.7	
10:00	PL	PPI	Jul % y/y	0.5	0.4		0.6	
16:00	US	Existing Home Sales	Jul % m/m	2.3	-		-1.7	
20:00	US	FOMC Meeting Minutes						
THURSDAY (22 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug pts	43.0	-		43.2	
09:30	DE	Flash Markit Germany Services PMI	Aug pts	54.0	-		54.5	
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug pts	46.2	-		46.5	
10:00	EZ	Flash Eurozone Services PMI	Aug pts	53.0	-		53.2	
10:00	PL	Retail Sales Real	Jul % y/y	5.8	5.6		3.7	
14:30	US	Initial Jobless Claims	week k	216	-		220	
FRIDAY (23 August)								
14:00	PL	Money Supply M3	Jul % y/y	9.5	9.9	-	9.3	
16:00	US	New Home Sales	Jul % m/m	-0.2	-	-	7.0	

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.