

26 August 2019

Eyeopener

Politicians drive the market

Volatility jumps at the end of the week
Zloty and its CEE peers weaker
EURUSD sharply up
Polish bond yields stable
Today German and US data

For the better part of Friday's session the trading was quite stable ahead of the Fed head speech. Jerome Powell did not change his mind and did not say that the July cut is a beginning of easing cycle, but in contrast to his recent comments he has left a door for easing open, stating that the central bank will "act as appropriate". Shortly before Powell's speech, China imposed tariffs of 5-10% on US goods worth USD75bn (in two tranches: starting on 1 September and 15 December, reflecting the starting dates of US tariffs on China). US cars were treated with 25% tariff and car parts with 5% levy (starting on 15 December). These are the tariffs that were suspended by China in April. As Donald Trump was not satisfied with the Fed reaction and with the Chinese decision, he wrote a tweet announcing a hike of US tariffs on China to 30% from 25%. This undermined stock markets (S&P500 -1.3%) and supported the dollar to the Chinese yuan as well as weighed on EM currencies.

In an interview with PAP, **MPC's Eugeniusz Gatnar** explained factors that encouraged him to file in a motion for a rate hike in July: the probable upward skew of the expected CPI and GDP path from the NBP staff forecasts and the need to build more room for monetary easing in the future (as cuts from the current level could be negative for the banking sector). Apart from that, he thought that the fiscal stimulus and the loan market situation need to be balanced with monetary policy instruments. In our view, such a motion could be filed in also at the upcoming meetings and more MPC members could support it. Still, given the current global context (risks for growth, monetary easing in main economies) we think that proponents of stable rates will remain in majority and there will be no rate change in 2019 or 2020.

According to Rzeczpospolita daily, **the 2020 budget draft**, which should be discussed by the government tomorrow, will assume no deficit for the first time in the last 30 years. In turn, Dziennik Gazeta Prawna daily wrote that the draft will not include some unpopular measures that were supposed to raise revenues (and were suggested in the Convergence Programme Update in April): higher excise tax on alcohol, retail trade tax, digital tax, cancelling 30x limit for social security contributions (representing in total over PLN10bn of additional revenues). DGP suggests that the draft budget shown before elections will be very provisional and based on underestimated spending levels. In our view, realisation of balanced budget in 2020 will be very difficult due to additional spending and economic slowdown, however the deficit should not be high (not exceeding 1% of GDP).

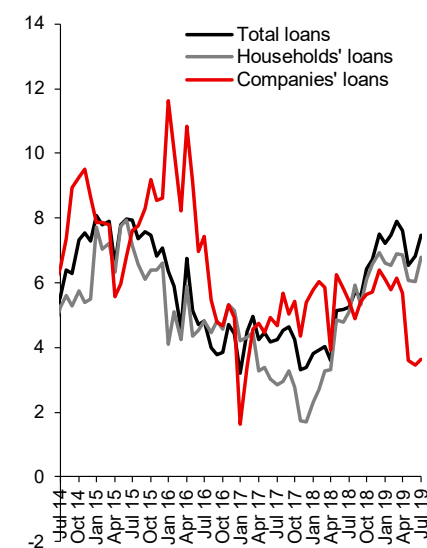
From early Friday session, **EURUSD** was stable as the market awaited Powell's speech in the Jackson Hole. The exchange rate opened at around 1.1085. During the day the dollar traded stronger to 1.105 as a result of hawkish comments of some of the FOMC members (Philadelphia Fed's Harker, for example). Towards the end of the day, EURUSD traded back above 1.11 and closed at 1.1145 after Trump announced that he will reciprocate to increases of tariffs for US products by China.

EURPLN traded stable for the most of the day and only after president Trump started tweeting the exchange rate jumped 4.38 from 4.355. On Monday's opening the global market sentiment is weaker due to escalation of the trade conflict over the weekend. Thus, in the nearest future EURPLN might try to break 4.40 again. **Other CEE currencies** traded slightly, around 0.3%, weaker: EURHUF closed at 329, EURCZK at 25.82, whereas USDRUB closed higher by 0.6% and closed at 66.

On the Polish fixed income market the Polish government bonds and IRS traded stable for most of the day only to trade lower towards the end of the day. The 10Y benchmark bond closed at 2.01 (-3bp) whereas 10Y IRS 1.65 (-1bp) resulting in a slightly narrower 10Y asset swap spread. The 2x10 yield curve slopes are a little more flatter - 44bp on the bonds curve and slightly negative (-1bp) on the swaps curve. The 10Y spread versus the Bund remained relatively stable at around 268bp.

Poland M3 money supply accelerated in July to 9.9% y/y from 9.3% in June, in line with our forecast. Higher pace of growth was caused mainly by PLN weakening, which pushed up the value of foreign currency deposits. Also, companies' deposits and term deposits accelerated, while households' deposits slowed slightly. There were no big changes on the loan market - loans for households mostly maintained pace (PLN-denominated mortgage +12% y/y, its highest since 2015), and in case of corporate credit there was slight slowdown in current loans and acceleration in investment and residential lending.

Poland M3 money supply (% y/y)



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.3756	CZKPLN	0.1692
USDPLN	3.9336	HUFPLN*	1.3304
EURUSD	1.1124	RUBPLN	0.0596
CHFPLN	4.0276	NOKPLN	0.4384
GBPPLN	4.8230	DKKPLN	0.5869
USDCNY	7.1462	SEKPLN	0.4081

*for 100HUF

Last session in the FX market 23/08/2019

	min	max	open	close	fixing
EURPLN	4.351	4.383	4.359	4.374	4.3572
USDPLN	3.920	3.945	3.934	3.923	3.9371
EURUSD	1.105	1.115	1.108	1.114	-

Interest rate market 23/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.56	3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.73	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	-2	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	1.69	-1	1.77	-6	-0.48	-1
2L	1.66	0	1.53	-7	-0.53	-2
3L	1.62	1	1.43	-7	-0.53	-3
4L	1.61	0	1.38	-8	-0.49	3
5L	1.60	-1	1.37	-8	-0.45	3
8L	1.61	-2	1.40	-8	-0.34	-3
10L	1.65	-2	1.45	-8	-0.20	5

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.60	0
SW	1.59	0
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	1.72	0
3x6	1.70	-1
6x9	1.67	-1
9x12	1.62	0
3x9	1.76	-1
6x12	1.72	-1

Measures of fiscal risk

Headlines of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	-3
France	21	0	0.30	-1
Hungary			2.55	-3
Spain	43	0	0.80	-1
Italy	190	0	2.00	1
Portugal	46	0	0.84	0
Ireland	34	0	0.62	-1
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



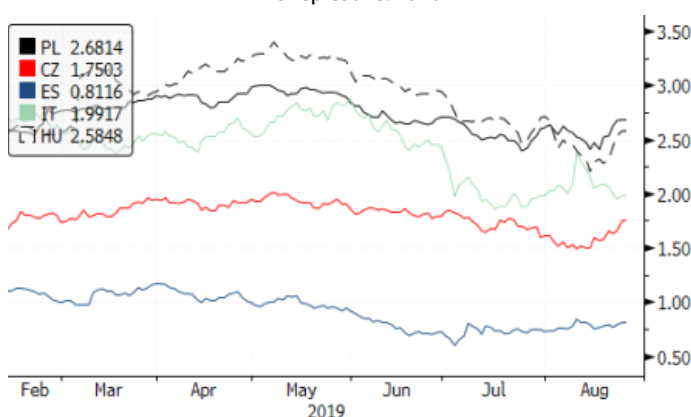
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET	MARKET				SANTANDER	VALUE	VALUE*	
FRIDAY (23 August)								
14:00	PL	Money Supply M3	Jul	% y/y	9.5	9.9	9.9	9.3
16:00	US	New Home Sales	Jul	% m/m	0.46	-	-12.8	20.9
MONDAY (26 August)								
10:00	DE	IFO Business Climate	Aug	pts	96.0	-		95.7
10:00	PL	Unemployment Rate	Jul	%	5.2	5.2		5.3
14:30	US	Durable Goods Orders	Jul	% m/m	1.1	-		1.9
TUESDAY (27 August)								
08:00	DE	GDP	2Q	% y/y	0.0	-		0.4
14:00	HU	Central Bank Rate Decision		%	0.90	-		0.9
16:00	US	Consumer Conference Board	Aug	pts	130.0	-		135.7
THURSDAY (29 August)								
11:00	EZ	ESI	Aug	pct.	0.0	-		102.7
14:00	DE	HICP	Aug	% m/m	0.0	-		0.4
14:30	US	GDP Annualized	2Q	% q/q	2.0	-		2.1
14:30	US	Initial Jobless Claims	week	k	216	-		220
16:00	US	Pending Home Sales	Jul	% m/m	0.0	-		2.8
FRIDAY (30 August)								
09:00	CZ	GDP SA	2Q	% y/y	2.7	-		2.7
09:00	HU	GDP	2Q	% y/y	-	-		4.9
10:00	PL	CPI	Aug	% y/y	-	2.8		2.9
10:00	PL	GDP	2Q	% y/y	-	4.4		4.4
11:00	EZ	Flash HICP	Aug	% y/y	1.1	-		1.1
11:00	EZ	Unemployment Rate	Jul	%	7.5	-		7.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-		0.3
14:30	US	Personal Income	Jul	% m/m	0.3	-		0.4
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-		0.1
16:00	US	Michigan index	Aug	pts	92.3	-		92.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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