

27 August 2019

Eyeopener

USA and China set the tone

Zloty stronger, yuan weaker
EURUSD slightly down
Polish bond yields stable
Today Hungarian central bank decision and US data

Market mood at the start of the week was better than in the final days of the previous week. The trade wars issue was still the most important factor, but Donald Trump's remarks this time helped calm down the situation. The US president stated that the trade negotiations are heading towards a deal. As a result, stock indexes in Europe went up, albeit the changes were limited by the fact that the London market was closed. The market sentiment was not worsened by weaker-than-expected data from Germany. The August reading of Ifo index was the lowest since 2012 (main components describing current situation and expectations were the weakest since 2014 and 2009 respectively). Many sectors: construction, industry, retail trade had the worst readings since 2009-2010. Employment plans captured by the Ifo index were the lowest since 2015 which points to risks to the German labour market. In the USA, July durable goods orders surprised to the upside, as did the Dallas Fed Manufacturing Activity index (2.7 pts vs -4-pts consensus).

The IMF delegation came to Buenos Aires on Saturday and started to meet the economic team of the presidential candidate of the opposition, Alberto Fernandez. The talks are about last year's USD56bn IMF loan to Argentina and its servicing risk – the next tranche should be paid out this September according to the schedule. If it were blocked then the risk of Argentina's default, with effect spreading to other EM markets, would grow.

MPC's Kamil Zubelewicz, who supported the July motion for a 25bps hike together with Eugeniusz Gatnar said yesterday that prices in Poland are rising and a response of monetary policy is necessary. Like Gatnar, Zubelewicz gathered that a rate hike would secure more room for a potential easing in face of a crisis.

Today morning we saw final German 2Q GDP: -0.1% q/q, 0.0% y/y. Better than expected contribution of government spending +0.5% vs expected +0.4%, and worse of private consumption +0.1% vs +0.2% and investments -0.1% vs +0.1%. Today in the afternoon, there are some US data releases on the agenda e.g. consumer confidence.

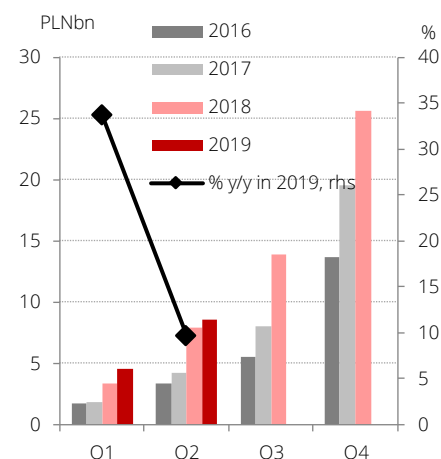
EURUSD started the Asian session around 1.1165 but during the day the dolar gained a bit and the pair closed at 1.1115. On Tuesday morning, EURUSD opened at 1.11. Today's morning German GDP data did not surprise and the market sentiment is neutral. We think EURUSD might remain stable today awaiting important data releases in the following days, for example second US GDP estimate for the Q2.

EURPLN fell yesterday by c0.5% at low volatility and with no major macroeconomic data release. USDPLN eased temporarily by PLN0.01 and closed at 3.92, whereas CHFPLN at 4.01. **As for the other CEE currencies**, EURHUF remained close to 329, USDRUB near 66, while EURCZK traded slightly lower – closed at 25.78 vs 25.82 a day before. Today at 14:00CET the Hungarian central bank will announce its rate decision. The market expects no change in the parameters of monetary policy.

Fixed Income market was also calm on Tuesday. Polish government bonds gained in price along the whole curve: 2Y (-1bp) to 1.55%, 5Y (-4bp) to 1.69%, 10Y (-7bp) to 1.93%. Because the German and US bonds as well as Polish IRS remained stable, the changes in spreads resulted mainly from the changes in the Polish government bonds market – the asset swap spread narrowed to 29bp, the spread vs Bund to 260bp and to UST to 39bp.

After 2Q19 local governments recorded a budget surplus of PLN13.5bn, i.e. similarly to results after 2Q18 (PLN13.4bn). We are expecting the entire year to close with a result similar to 2018, contributing about 0.2-0.3% to total GG deficit. Investment spending in local governments rose by 9.6% y/y in 2Q19 as compared to 33.8% y/y in 1Q19. EU-financed investment spending decelerated to 18.6% y/y from 48.4% y/y. These numbers confirm our call for decelerating profile of investment in local government after a sudden acceleration triggered by elections in 2018. We are expecting a further slowdown in the quarters to come, and in our view total investment in the economy will be slowing down as well.

Investments and local governments



Source: Ministry of Finance, Santander

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FX market

Today's opening

EURPLN	4.3653	CZKPLN	0.1692
USDPLN	3.9305	HUFPLN*	1.3262
EURUSD	1.1106	RUBPLN	0.0593
CHFPLN	4.0179	NOKPLN	0.4355
GBPPLN	4.8046	DKKPLN	0.5853
USDCNY	7.1642	SEKPLN	0.4070

*for 100HUF

Last session in the FX market 26/08/2019

	min	max	open	close	fixing
EURPLN	4.357	4.385	4.378	4.359	4.3719
USDPLN	3.916	3.936	3.925	3.924	3.9335
EURUSD	1.111	1.116	1.115	1.111	-

Interest rate market 26/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.68	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	1.93	-7	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	0	1.79	2	-0.48	0
2L	1.66	0	1.53	1	-0.53	-2
3L	1.62	0	1.43	0	-0.53	0
4L	1.61	0	1.39	0	-0.51	0
5L	1.60	0	1.37	0	-0.48	0
8L	1.62	1	1.40	0	-0.34	-3
10L	1.65	0	1.45	0	-0.22	-3

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	1.71	2
6x9	1.67	0
9x12	1.61	-1
3x9	1.77	1
6x12	1.74	1

Measures of fiscal risk

Headlines of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.61	-6
France	21	0	0.28	-1
Hungary			2.55	-3
Spain	43	0	0.79	0
Italy	190	0	1.94	-5
Portugal	46	0	0.83	0
Ireland	34	0	0.63	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

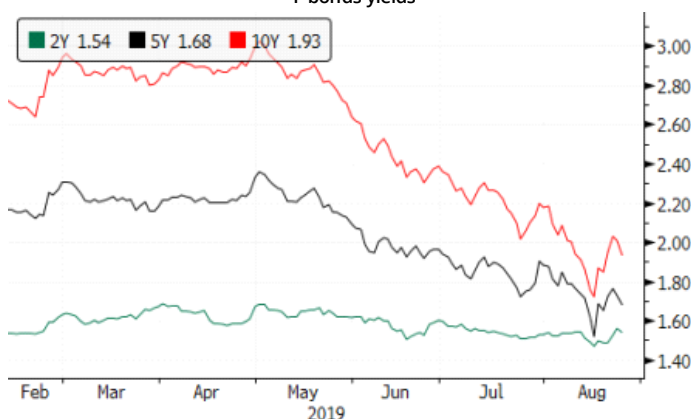
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

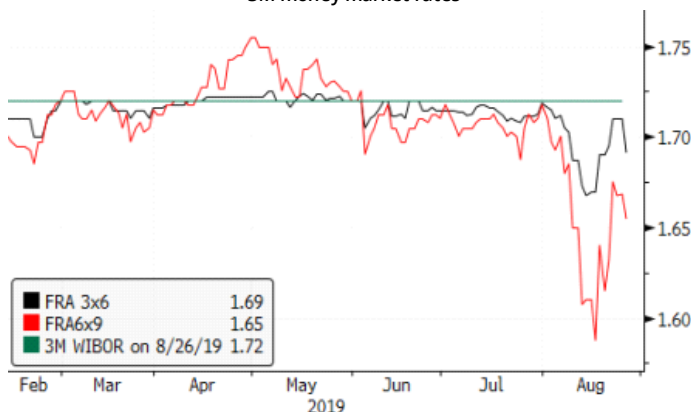
Zloty exchange rate



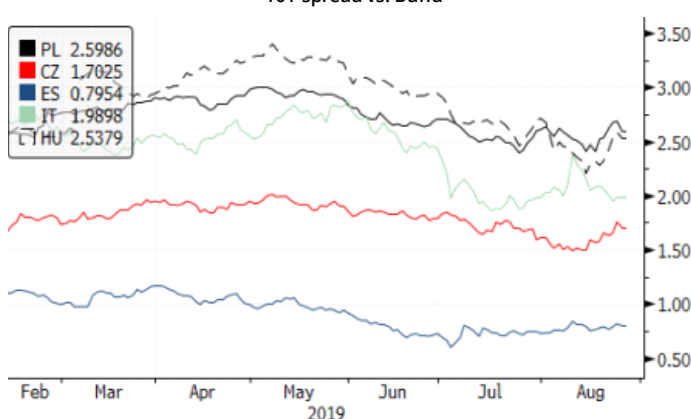
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER		
CET						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	-	94.3	95.7
10:00	PL	Unemployment Rate	Jul %	5.2	5.2	5.2	5.3
14:30	US	Durable Goods Orders	Jul % m/m	1.1	-	2.1	1.8
TUESDAY (27 August)							
08:00	DE	GDP	2Q % y/y	0.4	-	0.4	0.4
14:00	HU	Central Bank Rate Decision	%	0.90	-		0.9
16:00	US	Consumer Conference Board	Aug pts	129.0	-		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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