

3 September 2019

Eyeopener

Slight improvement of PMIs in the region

Positive moods at the start of the week
 Manufacturing PMIs rebounded slightly in CEE
 Zloty a bit stronger versus euro, low EURUSD
 Today, US manufacturing ISM, UK parliament ends holiday break

At the beginning of the week, the global market sentiment was pretty good. Stock indices kept growing, bonds were slightly declining, and emerging markets currencies fluctuations weakened. Positive opening of the Monday session was an effect of the better-than-expected manufacturing PMI index from China and confirmation of higher final PMIs in the euro zone and Germany. Currencies in the developed world were also quite calm and the pound stood out against this backdrop. The British currency lost yesterday to the euro and the dollar due to the worries that PM Johnson may decide to hold early elections on October 14th. That could be the case if MPs from the Conservative Party do not support the government's actions on Brexit. MPs from the opposition Labor Party and some members of the ruling Conservative Party want to block the possibility of leaving the EU without an agreement – the option that the Prime Minister does not want to rule out.

Polish manufacturing PMI rose in August to 48.8, its highest since May, exceeding our forecast and market consensus by c.1pp. The index remains below the neutral level 50, which means that economic activity is still contracting, albeit at slower pace. This refers to new orders and output – they were falling at the slowest pace since May, according to the survey. Firms also reported slight cuts in employment, rising spare capacity and weak cost pressures. Please recall that PMI has not been a good predictor of trends in Polish manufacturing over the past 2-3 years. Nevertheless, it is good to note that in August other business climate surveys also pointed to some rebound, which suggests that Polish industry is still coping relatively well with global economic slowdown. Still, the headline production figures for August are going to be quite weak again, in our view, due to negative calendar effects. As regards the CEE region, PMI for manufacturing increased to 52.6pts from 51.2pts, a multi-month low in Hungary and to 44.9pts from 43.1pts in Czechia (the first rise since June 2018). Decreases were recorded in Russia – to 49.1pts from 49.3pts, but the index was still above local minimum at 48.6pts.

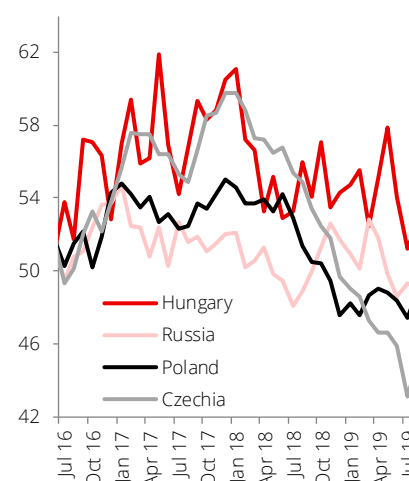
Paweł Borys, head of the Polish Development Fund (PFR), said in the interview with Dziennik Gazeta Prawna daily, that the European Court of Justice's verdict on Swiss franc loans, if unfavorable for Polish banks, would be a great risk for the Polish economy, which may even cause an economic crisis. On the other hand, his base case scenario for Poland is quite benign: he predicts that GDP growth will be above 4.5% this year and over 3.5% in 2020.

After Friday relatively rapid strengthening of the dollar, **EURUSD** opened on Monday morning around 1.0990. During the first few hours it fell to 1.0960 and stayed at this level until the end of the day. Low fluctuations are not surprising in the context of the US Labor Day. Today the key factor for the exchange rate will be the afternoon release of manufacturing ISM index.

On Monday in early trade in Asia **the zloty** opened unchanged vs Friday close (EURPLN at 4.378) however swiftly started to strengthen and already at the start of European session traded at 4.365. On the market lacking US investors (due to US market holiday) the flows from Polish exporters were dominating and towards the end of the day the EURPLN briefly broke 4.35 only to close at 4.36. **Other CEE currencies** had similar FX spot dynamic (close vs open): EURHUF to 330.9 from 331.3, EURCZK to 25.88 from 25.95 and USDRUB to 66.7 from 66.8 (changes tiny around 0.2pct each). Today in the morning the zloty has not reacted to PFR Borys' pretty alarming view of the potential effect of the ECJ ruling and we assume the EURPLN will remain stable at least towards today's ISM data in the US (at 4pm Warsaw time). The GBPPLN exchange rate might remain volatile depending on the outcomes from the British parliament.

On the **domestic interest rate market**, just like on the FX market, the volatility was low – the bond curve remained pretty unchanged on the daily basis while the IRS curve moved 2bp up. On the core debt markets, there was a market holiday in the US; German 30Y bond yield rose 2bp to -0.16%.

Manufacturing PMIs in the region (pts)



Source: Bloomberg, Markit, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: 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	4.3685	CZKPLN	0.1685
USDPLN	3.9772	HUFPLN*	1.3200
EURUSD	1.0984	RUBPLN	0.0595
CHFPLN	4.0160	NOKPLN	0.4361
GBPPLN	4.8389	DKKPLN	0.5859
USDCNY	7.1628	SEKPLN	0.4048

*for 100HUF

Last session in the FX market 30/08/2019

	min	max	open	close	fixing
EURPLN	4.372	4.391	4.390	4.379	4.3844
USDPLN	3.964	3.998	3.972	3.985	3.9717
EURUSD	1.096	1.106	1.105	1.098	-

Interest rate market 30/08/2019

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)	1.67	2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.83	1	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	0	1.80	2	-0.50	0
2L	1.63	-1	1.51	-1	-0.55	-1
3L	1.57	-1	1.39	-2	-0.57	-1
4L	1.54	-1	1.34	-2	-0.55	-1
5L	1.51	-1	1.32	-3	-0.53	-1
8L	1.50	-1	1.34	-3	-0.39	1
10L	1.52	-1	1.38	-3	-0.28	2

WIBOR rates

Term	%	Change (bps)
O/N	1.55	22
T/N	1.57	2
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	1.69	0
6x9	1.63	-1
9x12	1.58	0
3x9	1.76	-1
6x12	1.69	0

Measures of fiscal risk

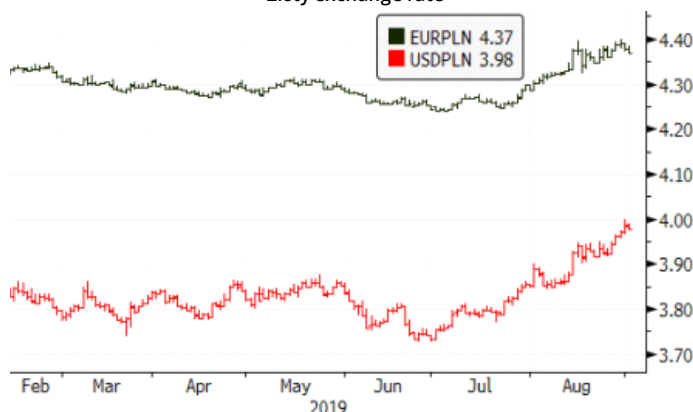
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.53	1
France	21	0	0.29	0
Hungary			2.57	0
Spain	41	0	0.80	0
Italy	161	5	1.70	0
Portugal	42	1	0.82	0
Ireland	33	-1	0.62	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

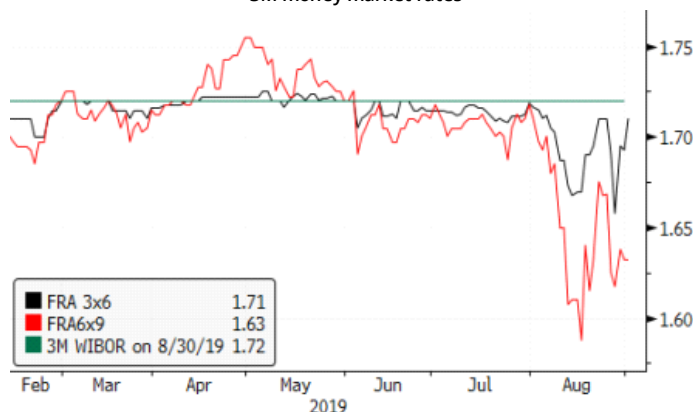
Zloty exchange rate



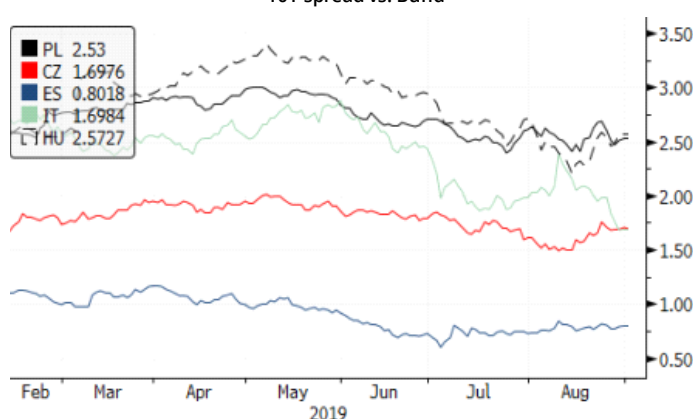
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD				
CET				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (30 August)							
06:50	PL	Central Budget Cumul.	Jul	mn PLN	-	-	-4 783
08:00	DE	Retail Sales	Jul	% m/m	-1.25	-	-2.2
09:00	CZ	GDP SA	2Q	% y/y	2.7	-	2.7
09:00	HU	GDP	2Q	% y/y	4.9	-	4.9
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.8
10:00	PL	GDP	2Q	% y/y	-	4.4	4.5
11:00	EZ	Flash HICP	Aug	% y/y	1.0	-	1.0
11:00	EZ	Unemployment Rate	Jul	%	7.5	-	7.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.6
14:30	US	Personal Income	Jul	% m/m	0.3	-	0.1
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.2
16:00	US	Michigan index	Aug	pts	92.3	-	89.8
MONDAY (2 September)							
09:00	PL	Poland Manufacturing PMI	Aug	pts	47.7	47.6	48.8
09:55	DE	Germany Manufacturing PMI	Aug	pts	43.6	-	43.5
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	47.0	-	47.0
TUESDAY (3 September)							
16:00	US	ISM manufacturing	Aug	pts	51.2	-	51.2
WEDNESDAY (4 September)							
03:45	CN	Caixin China PMI Services	Aug	pts	51.7	-	51.6
09:55	DE	Markit Germany Services PMI	Aug	pts	54.4	-	54.4
10:00	EZ	Eurozone Services PMI	Aug	pts	53.4	-	53.4
11:00	EZ	Retail Sales	Jul	% m/m	-0.45	-	1.1
THURSDAY (5 September)							
08:00	DE	Factory Orders	Jul	% m/m	-1.4	-	2.5
14:15	US	ADP report	Aug	k	143	-	155
14:30	US	Initial Jobless Claims	week	k	214	-	215
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	2.1
16:00	US	ISM services	Aug	pts	53.6	-	53.7
16:00	US	Factory Orders	Jul	% m/m	0.8	-	0.6
FRIDAY (6 September)							
08:00	DE	Industrial Production SA	Jul	% m/m	0.4	-	-1.5
09:00	CZ	Industrial Production	Jul	% y/y	2.9	-	-3.8
09:00	HU	Industrial Production SA	Jul	% y/y	6.85	-	4.12
11:00	EZ	GDP SA	2Q	% y/y	1.1	-	1.1
14:30	US	Change in Nonfarm Payrolls	Aug	k	165	-	164
14:30	US	Unemployment Rate	Aug	%	3.7	-	3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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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>.