

5 September 2019

Eyeopener

Markets stay optimistic

China open to monetary easing and talks with the USA
Euro and CEE currencies slightly stronger
Bond yields up in Poland and abroad
Today a set of US data

On Wednesday, the global market sentiment was pretty good with the stock indexes rising, EM currencies gaining and core yields rising somewhat. This might have been thanks to the information from Hong Kong where the controversial extradition bill would be withdrawn (though this is only one of five conditions outlined by the protesters) and from China where the administration said reserve requirement rate could be lowered in due course. Additionally, we have had some better-than-expected services PMIs in the whole euro zone (53.5 vs consensus at 53.4), Germany (54.8 vs 54.4 expected), France (53.4 vs consensus at 53.3). The lower house of the British parliament rejected the idea of snap elections and has a good chance to block the Hard Brexit option and to forward Brexit date to the end of January 2020 - these events supported the pound. Today in the morning, the positive market mood is still present after China officials said that trade negotiations with the USA will be resumed in October.

In **Italy**, the new cabinet's composition was filed in to the president Mattarella for approval. Giuseppe Conte was nominated as Prime Minister and Roberto Gualtieri from the Democratic Party as finance minister. The cabinet was perceived as more pro-European than expected, so the Italian debt gained.

The **ECB's** chief economist Phillip Lane said that the new data show inflation running below the ECB's preferred level and that the capacity utilisation in the euro zone economy is still low. Christine Lagarde, the ECB governor in spe, spoke in favour of negative ECB rates and non-standard monetary policy instruments like purchases of government securities. As regards the **FOMC**, Neel Kashkari and John Williams underlined that the Fed should not succumb to political pressure. Robert Kaplan (hawk) said that the picture of the US economy is mixed: outlook for the US economy is unsure, but consumer spending is strong. Still, Kaplan stressed that the Fed cannot wait too long with decision to cut rates, as it will be too late if consumption is allowed to slow down. The Fed Beige Book included a sentence stating that majority of companies remained optimistic about the short-term outlook despite the uncertainty connected to trade wars.

Since 28 February 2020, JP Morgan will add Chinese bonds to his GBI-EM interest rate index with the maximum share of 10%. Estimates show that inflows related to this change would amount to USD3bn per month which could help, at least to some extent, stabilise the yuan.

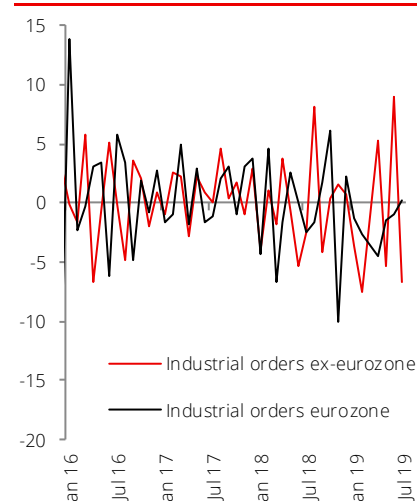
EURUSD continued its march higher for another day, opened at 1.097 and closed at 1.103. The dolar index fell from 98.9 to 98.4. This morning's poor factory orders data from Germany (-2.7% m/m vs -1.4% m/m expected) may encourage the fx pair to reverse yesterday's move.

Zloty vs EUR yesterday opened at 4.348, closed stronger at 4.338 and after a few days of correction is currently about 1.3pct stronger than on last Thursday's close. Other currencies from the CEE region followed suit: EURHUF fell to 329.4 from 330 (with an intraday low at 328.3). USDRUB fell by 1.4pct of which the RUB basket contributed 0.8pp and the EURUSD move c0.6pp. EURCZK was the only stable currency in the region - unchanged at 25.85.

Polish fixed income market followed core markets closely. Both the government bond curve and the swaps curve traded higher by 2bp on the short-end (2Y) and on the long-end (10Y) higher by 7bp and 4bp respectively. As a result the asset swap widened to 33bp. On the core markets, the German yield curve also traded higher - the 10Y bond +4bp to -67bp, the spread vs Bund widened +3bp to 255bp.

Today markets will be awaiting important data from the US at 4pm Warsaw time: ISM non-manufacturing index, durable goods orders and capital goods orders.

Germany Industrial Orders, % m/m



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3440	CZKPLN	0.1682
USDPLN	3.9571	HUFPLN*	1.3185
EURUSD	1.0978	RUBPLN	0.0594
CHFPLN	4.0071	NOKPLN	0.4359
GBPPLN	4.8045	DKKPLN	0.5826
USDCNY	7.1599	SEKPLN	0.4048

*for 100HUF

Last session in the FX market 04/09/2019

	min	max	open	close	fixing
EURPLN	4.334	4.349	4.345	4.336	4.3667
USDPLN	3.932	3.964	3.961	3.932	3.9882
EURUSD	1.097	1.103	1.097	1.103	-

Interest rate market 04/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.56	2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.71	4	21 mar 19	PS0424	2.209
DS1029 (10L)	1.89	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	1	1.72	-2	-0.50	1
2L	1.66	3	1.43	-1	-0.55	1
3L	1.61	4	1.32	-1	-0.56	1
4L	1.58	4	1.27	-1	-0.54	2
5L	1.56	4	1.25	0	-0.51	2
8L	1.54	3	1.30	1	-0.36	3
10L	1.55	4	1.35	2	-0.25	3

WIBOR rates

Term	%	Change (bps)
O/N	1.64	0
T/N	1.65	0
SW	1.60	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	1.72	1
6x9	1.67	1
9x12	1.60	0
3x9	1.78	1
6x12	1.73	4

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.56 4
France	21 0	0.32 -2
Hungary		2.65 8
Spain	42 -1	0.84 -2
Italy	162 -11	1.50 -2
Portugal	42 0	0.83 1
Ireland	34 -1	0.62 -2
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

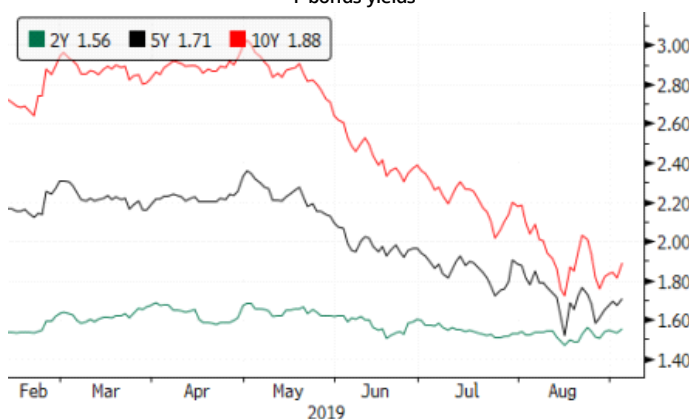
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

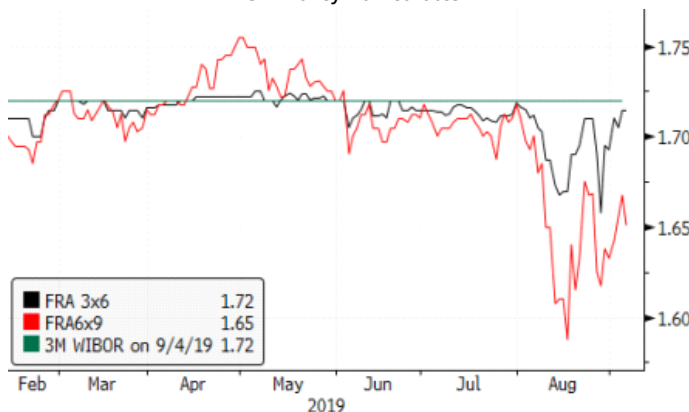
Zloty exchange rate



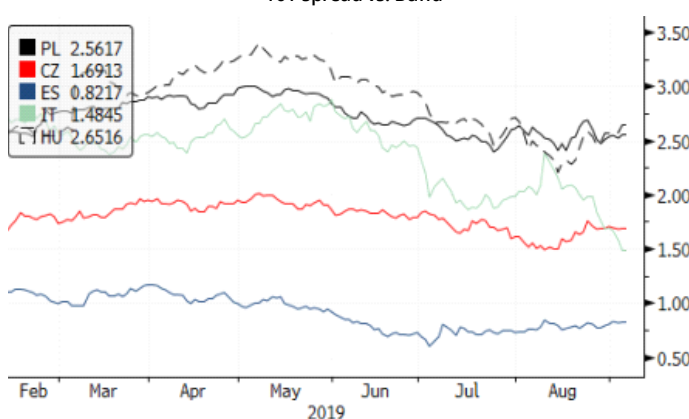
T-bonds yields



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 - 5041
08:00	DE	Retail Sales	Jul	% m/m	-1.25	-	-2.2 3.5
09:00	CZ	GDP SA	2Q	% y/y	2.7	-	2.7 2.7
09:00	HU	GDP	2Q	% y/y	4.9	-	4.9 4.9
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.8 2.9
10:00	PL	GDP	2Q	% y/y	-	4.4	4.5 4.4
11:00	EZ	Flash HICP	Aug	% y/y	1.0	-	1.0 1.1
11:00	EZ	Unemployment Rate	Jul	%	7.5	-	7.5 7.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.6 0.3
14:30	US	Personal Income	Jul	% m/m	0.3	-	0.1 0.4
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.2 0.1
16:00	US	Michigan index	Aug	pts	92.3	-	89.8 92.1
MONDAY (2 September)							
09:00	PL	Poland Manufacturing PMI	Aug	pts	47.7	47.6	48.8 47.4
09:55	DE	Germany Manufacturing PMI	Aug	pts	43.6	-	43.5 43.6
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	47.0	-	47.0 47.0
TUESDAY (3 September)							
16:00	US	ISM manufacturing	Aug	pts	51.2	-	49.1 51.2
WEDNESDAY (4 September)							
03:45	CN	Caixin China PMI Services	Aug	pts	51.7	-	52.1 51.6
09:55	DE	Markit Germany Services PMI	Aug	pts	54.4	-	54.8 54.4
10:00	EZ	Eurozone Services PMI	Aug	pts	53.4	-	53.5 53.4
11:00	EZ	Retail Sales	Jul	% m/m	-0.45	-	-0.6 1.1
THURSDAY (5 September)							
08:00	DE	Factory Orders	Jul	% m/m	-1.4	-	-2.7 2.7
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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