

6 September 2019

Eyeopener

Stronger zloty, weaker bonds

Weaker data from Germany, stronger from USA
Zloty and other regional currencies stronger, dollar weaker
Bond yields higher after US data releases
Today, US labour market data, euro zone GDP

On Thursday the FX markets were quite stable, while the FI markets recorded quite high volatility and yields both on the core and domestic markets went up, mostly due to positive US data: ADP report, July industrial orders and ISM in services surprised to the upside. In Czechia we got to see strong retail sales, in Russia August inflation was below expectations and this supported expectations for rate cuts (the first one at today's CBR meeting). The German data continue to surprise on the weaker side: after disappointing industrial orders, today industrial output was also weak.

ECB's Luis de Guindos, when asked about negative interest rates, said that the central banks does not want to act aggressively, but will be determined. He also said that interest rates are likely to remain low for an extended period. MNB's head György Matolcsy suggested that Hungary will eliminate its net external debt until 2021 and commented that his country is no longer vulnerable and moved to the group of most resistant economies.

Polish Labour Ministry estimated **August unemployment rate** at 5.2%, unchanged vs July and in line with our forecast. The monthly change of the number of the unemployed was -1.7k which is the smallest drop recorded in August since 2012. In our view the unemployment rate can fall a bit more, but at a slower pace. At the turn of the year, seasonal effects are likely to send the unemployment rate up to c5.5%.

EURUSD continued its march higher for another day, on Thursday alone just 0.5% from 1.1030 to 1.1080, but from Tuesday already 1.5% higher, from 1.0920. Implied probabilities from the options markets for tenors of 1month suggest equal probabilities of moves higher and lower from the current levels (1mth 25d risk reversals trade close to zero).

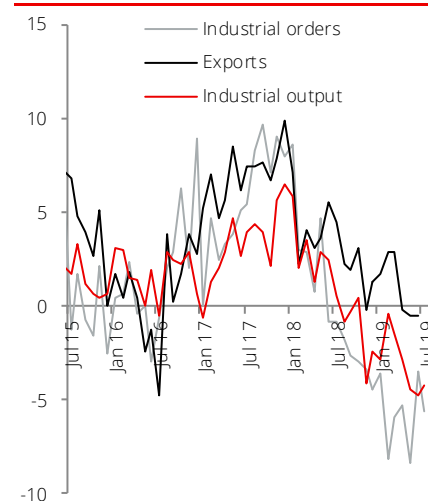
Polish zloty has traded on the weaker side during the Asian markets (EURPLN at 4.35) but gained on Thursday morning and during the day as a result of better than expected US macroeconomic data and the general positive mood on the markets. EURPLN closed at 4.3375. Other **CEE currencies** were stable: EURHUF traded whole day near 329.50, EURCZK at 25.85 (and this despite strong retail sales data). As for USDRUB it fell but only slightly to 66.0 from 66.2 – the move was mainly driven by EURUSD (the RUB basket barely moved awaiting Friday's central bank rate decision at 12:30 Warsaw time)

On the **domestic interest rate market** the 10Y bond yield rose c10bp while the respective IRS by 13bp (the asset swap spread narrowed by 3bp to 30bp). The short end of both curves was fairly stable. Polish bonds followed Bunds where the 10Y yield rose to -0.60% from -0.67%. However, the biggest moves were recorded on the UST market driven by the set of a very good macro data (ADP report, services ISM and durable goods orders). The US bond curve shifted 10-12bp up vs Thursday's closing. Today, this move might continue should the nonfarm payrolls confirm the strong signal from the ADP report.

At the **bond switch auction**, the Ministry of Finance sold bonds for PLN5.7bn and repurchased debt for PLN5.75bn. After the auction the Ministry announced that already c20% of the 2020 gross borrowing needs are now covered.

Today's the most important data is the release of the US nonfarm payrolls and euro zone 2Q GDP. Strong print of the ADP report makes the positive surprise in NFP more likely.

German economic activity, %y/y



Source: Bloomberg, 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	4.3440	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 05/09/2019

	min	max	open	close	fixing
EURPLN	4.332	4.350	4.336	4.339	4.3667
USDPLN	3.913	3.947	3.932	3.930	3.9882
EURUSD	1.102	1.109	1.103	1.104	-

Interest rate market 05/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.56	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.78	7	21 mar 19	PS0424	2.209
DS1029 (10L)	1.98	9	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.70	1	1.78	6	-0.48	2
2L	1.71	4	1.52	9	-0.53	3
3L	1.66	6	1.42	10	-0.53	3
4L	1.66	9	1.38	11	-0.54	2
5L	1.67	11	1.36	11	-0.51	2
8L	1.66	12	1.41	11	-0.36	3
10L	1.69	14	1.46	11	-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	1.71	0
6x9	1.68	1
9x12	1.65	5
3x9	1.78	0
6x12	1.74	0

Measures of fiscal risk

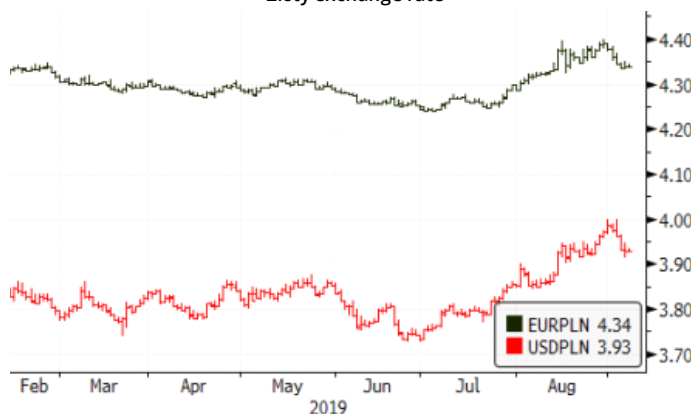
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.57	1
France	21	0	0.30	0
Hungary			2.74	9
Spain	41	1	0.83	0
Italy	151	-3	1.54	5
Portugal	42	2	0.84	0
Ireland	33	0	0.58	-4
Germany	11	0	-	-

* 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



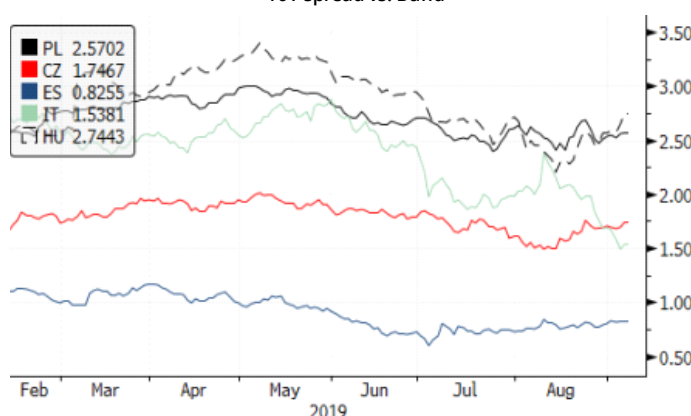
T-bonds yields



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	-	195 155
14:30	US	Initial Jobless Claims	week	k	214	-	217 215
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	2.1 2.1
16:00	US	ISM services	Aug	pts	53.6	-	56.4 53.7
16:00	US	Factory Orders	Jul	% m/m	0.8	-	-0.6 0.6
FRIDAY (6 September)							
08:00	DE	Industrial Production SA	Jul	% m/m	0.4	-	-0.6 -1.1
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>.