

11 September 2019

Eyeopener

Today MPC meeting

Bonds under pressure of signals from Germany
EM currencies weaken
Domestic labour demand softens
Today MPC decision

Tuesday was another day of relatively small changes on developed markets currencies and of weakening core and euro zone periphery bonds. The dollar remained strong which weighed on emerging markets currencies, mainly on the forint. Before yesterday, information about the possibility that Germany loosens its fiscal policy were only unconfirmed media reports. Yesterday German finance minister stated that in case of a crisis the country is ready to spend billions of euros to support the economy. The statement did not affect the euro, but fitted the current upside trend on European bond yields. The markets received some support from news that China will make effort to mitigate the negative effects of the trade war and that Trump removed from office his national security adviser John Bolton – known for hawkish attitude to the current conflicts, so his removal may lead to lower discounting of geopolitical risk (e.g. when it comes to USA-Iran tensions).

In today's interview for Polish Radio 1, J. Kaczyński said that NBP estimates point to no risks to the economy coming from the planned rise of minimum wage. As far as we know, there is no clear-cut conclusion in global economic research on this, but there is more consensus on risks that come from pushing the minimum wage above 50% of average wage. What in our view is an economically risky project is the planning of minimum wage growth for the next five years without much knowledge what the economic situation might be.

Today the Polish MPC meets after the summer break. The previous time the Council met was when the flash June CPI (2.6% y/y) was known and currently we have the details of August figure (2.8% y/y after the fall from 2.9%). These developments pushed inflation above the path from the July NBP projection: the 2Q average was 2.4% vs the projected 2.2%, while the 3Q average could be 2.8-2.9% instead of 2.2-2.3% indicated by NBP staff. Core inflation is also visibly above the projected path. Still, we do not expect to see any change of rhetoric to the hawkish side. The global growth uncertainty and monetary easing abroad gives the MPC good reasons to stick to wait-and-see approach and keep rates stable for longer. NBP governor Adam Glapiński has an extra task this time – to discredit the July motion of two members to hike rates by 25bp (likely to be repeated this time) as being far from the MPC consensus view. He might even soften his stance somewhat and elaborate more on the possibility to cut rates to provide a counterweight to the rate hike motion. We continue to expect unchanged rates this year and next.

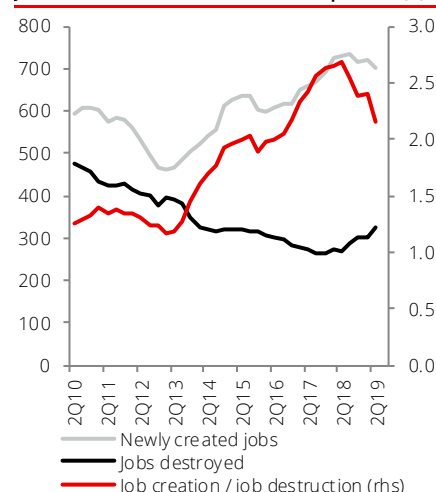
EURUSD traded yesterday around 1.104 amid no significant macroeconomic data releases and despite the words of the German Minister of Finance. Yesterday's low volatility is likely to hold ahead of the tomorrow's ECB meeting. Today's data calendar is light in macro data as well and EURUSD is likely to trade within 1.102-1.108 – a narrow range from last Thursday.

EURPLN remained above 4.33 – a level at which the downtrend from the second half of August stopped. **USDPLN** traded yesterday between 3.92 and 3.93. We think EURPLN will remain above 4.33 till tomorrow's ECB decision. As for the other CEE currencies – the forint was underperforming – EURHUF traded up to 331.8, only slightly below the all-time high from the end of August. The forint was under pressure because of the weaker-than-expected inflation data and lower Hungarian equities (the worst performance within the CEE region). The koruna and the ruble were quite stable.

On the **Polish fixed income market** bond yields and IRS rates rose by 3-6 bp in the belly and at the long end, whereas the short end remained stable or even traded a bit lower. Polish debt securities were under pressure due to rising core yields. As a result the 10Y spread vs Bund widened to 270 bp – the highest level since end of June.

Labour demand, as measured by the number of vacancies, decreased in Q2 on a YoY basis. This was the second quarter of decrease in a row, after previous 5 years of increases. The decrease was observed both in the total number of vacancies as well as new jobs created during Q2. Simultaneously, the number of jobs destructed during Q2 increased. Our interpretation of the data is that the companies adjusted their demand for labour lower because of growing uncertainty and/or supply issues on the labour market. The share of new unfilled vacancies to all vacancies remaining at the end of Q2 fell to the lowest level in the last 9 years, which might mean a lower wage pressure.

Job creation and destruction, in quarter (k)



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3325	CZKPLN	0.1675
USDPLN	3.9232	HUFPLN*	1.3071
EURUSD	1.1044	RUBPLN	0.0600
CHFPLN	3.9542	NOKPLN	0.4385
GBPPLN	4.8484	DKKPLN	0.5808
USDCNY	7.1147	SEKPLN	0.4056

*for 100HUF

Last session in the FX market 10/09/2019

	min	max	open	close	fixing
EURPLN	4.331	4.339	4.337	4.331	4.335
USDPLN	3.918	3.930	3.922	3.923	3.9273
EURUSD	1.103	1.106	1.106	1.104	-

Interest rate market 10/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.56	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.92	6	21 mar 19	PS0424	2.209
DS1029 (10L)	2.16	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	1.71	0	1.85	4	-0.47	0
2L	1.77	1	1.64	7	-0.51	1
3L	1.77	3	1.54	8	-0.51	1
4L	1.77	3	1.50	8	-0.49	1
5L	1.78	3	1.49	8	-0.45	2
8L	1.79	4	1.53	7	-0.27	3
10L	1.81	3	1.58	7	-0.13	3

WIBOR rates

Term	%	Change (bps)
O/N	1.65	0
T/N	1.64	-1
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	0
6x9	1.70	-1
9x12	1.69	1
3x9	1.78	-1
6x12	1.78	0

Measures of fiscal risk

Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.70	7
France	21	0	0.30	0
Hungary			2.77	-3
Spain	41	-1	0.80	-1
Italy	145	-1	1.55	-2
Portugal	43	-1	0.82	-1
Ireland	32	1	0.58	3
Germany	11	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

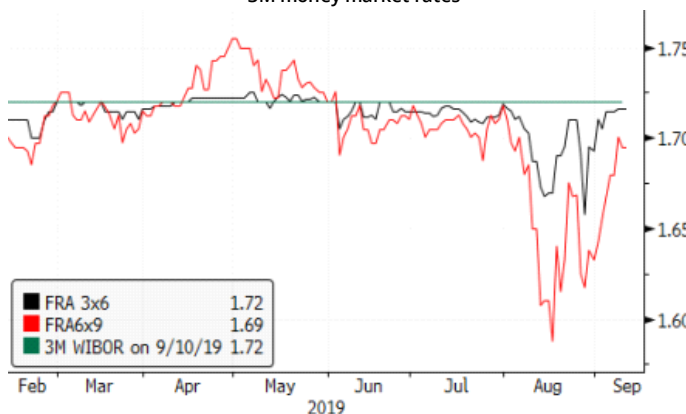
Zloty exchange rate



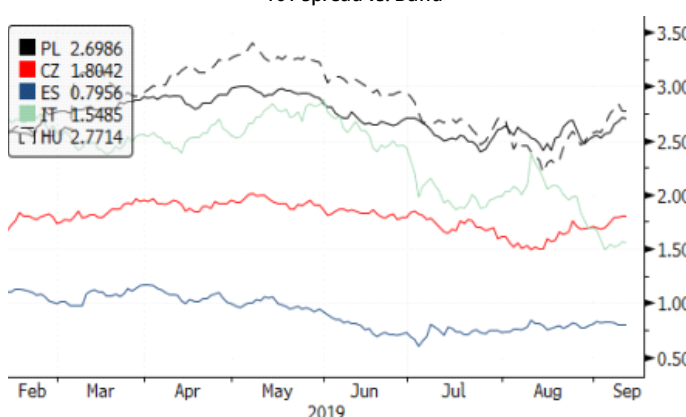
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar									
TIME					FORECAST		ACTUAL	LAST	
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (6 September)									
08:00	DE	Industrial Production SA	Jul	% m/m	0.4	-	-0.6	-1.5	
09:00	CZ	Industrial Production	Jul	% y/y	2.9	-	0.1	-3.8	
09:00	HU	Industrial Production SA	Jul	% y/y	5.85	-	8.7	4.1	
11:00	EZ	GDP SA	2Q	% y/y	1.1	-	1.2	1.1	
14:30	US	Change in Nonfarm Payrolls	Aug	k	160	-	130	159	
14:30	US	Unemployment Rate	Aug	%	3.7	-	3.7	3.7	
MONDAY (9 September)									
08:00	DE	Exports SA	Jul	% m/m	-0.7	-	0.5	-0.1	
TUESDAY (10 September)									
09:00	CZ	CPI	Aug	% y/y	2.8	-	2.9	2.9	
09:00	HU	CPI	Aug	% y/y	3.2	-	3.1	3.3	
WEDNESDAY (11 September)									
	PL	MPC decision		%	1.50	1.50		1.50	
THURSDAY (12 September)									
08:00	DE	HICP	Aug	% m/m	-0.1	-		-0.1	
11:00	EZ	Industrial Production SA	Jul	% m/m	-0.05	-		-1.6	
13:45	EZ	ECB Main Refinancing Rate	Sep.19	%	0.0	-		0.0	
14:30	US	CPI	Aug	% m/m	0.1	-		0.3	
14:30	US	Initial Jobless Claims	week	k	215	-		217	
FRIDAY (13 September)									
10:00	PL	CPI	Aug	% y/y	-	2.8		2.8	
14:00	PL	Current Account Balance	Jul	€mn	4.0	-400		21	
14:00	PL	Trade Balance	Jul	€mn	-80	-14		-77	
14:00	PL	Exports	Jul	€mn	19 046	18 845		18 068	
14:00	PL	Imports	Jul	€mn	18 955	18 859		18 145	
14:30	US	Retail Sales Advance	Aug	% m/m	0.2	-		0.7	
16:00	US	Flash Michigan index	Sep	pts	90.2	-		89.8	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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