

27 September 2018

Eyeopener

FOMC hikes rates

FOMC rates up, 'accommodative' out from statement... but bias in monetary policy unchanged

Zloty and bonds slightly stronger before FOMC

Today: solid set of US data

On Wednesday, the market moods were quite positive prior to the FOMC decision. Stock indices went up, bonds gained and EM currencies appreciated. US housing market data were better than expected, but did not affect the trade. The Fed decision to hike rates translated into losses on the stock markets (mostly due to lower pricing of financials), some falls of bond yields and strengthening of the dollar against the euro.

FOMC raised interest rates by 25bp to 2-2.25%, as expected. The monetary policy is no longer called 'accommodative' in the statement, and the accompanying economic projection had an upgraded forecast of GDP for 2018 and 2019, by 0.3pp and 0.1pp respectively. Inflation forecast for this year was 0.1pp higher vs. the previous version, expectations for 2019 did not change. Despite the changes the statement was received as neutral by the markets (US bond yields went down a bit, while the dollar strengthened). It was a consequence of other changes in the projection: economic growth in 2021 was shown decreasing to 1.8% from 2.1% in 2020. The neutral tone of the conference was underlined by a remark from the Fed chairman that removal of the word 'accommodative' does not mean a change of the Fed's direction. What is more, the expectations of members about future path of interest rates did not change. They still think there should be one more rate hike this year, 25bp in December, three more in 2019 and another one in 2020.

Yesterday **EURUSD** corrected its Tuesday rise and was close to 1.173 at the end of the day as compared to 1.177 at the start of the session. There were no important changes on the EURUSD chart prior to the FOMC meeting. In the first reaction to the Fed decision, the exchange rate went up and then fell to 1.175 after information that interest rates expectations did not change and Trump-Trudeau meeting on changes in NAFTA was cancelled. Trump's negative comment on Fed rate hike, issued one hour after the decision release, did not undermine the greenback. This morning the euro purchases 1.170 dollars as the Italian government has postponed its meeting on the 2019 budget.

EURPLN benefited from the positive global market sentiment and fell temporarily below 4.27 after closing of the Polish session reaching its fresh September low. The zloty gained vs the euro third session in a row, yesterday it outperformed its CEE peers. Asian and LatAm EM currencies gained more than the zloty. The FOMC decision to hike rates did not stop the zloty appreciation. Today in the morning EURPLN is slightly above 4.27 due to European stock indexes drop at the opening and dollar appreciation.

Among the other **CEE currencies**, the forint remained roughly stable, while the koruna and ruble depreciated. In line with expectations, the Czech central bank hiked rates by 25bp taking its main rate to 1.50%. Bank's governor Jiri Rusnok said after the decision that one more rate hike cannot be excluded and it could take place later this year or in early 2019. Before the yesterday's decision, the market has been pricing three hikes, with the two of them to be delivered in 2019 so the yesterday's comment of the bank governor might have sounded a bit dovish. As a result, the koruna depreciated with EURCZK rising to 25.68 from 25.58.

Yesterday **domestic yields** decreased, following strengthen of core bond market. The scale of strengthen accounted to 3-4 pts. a little more than core markets move (10Y Bund yields declined 1.5 pts., while US bonds declined about 1.7 pts.) and more than the most of Southern Europe yields. FOMC conference influenced further yields' drops on core markets including UST's drop about 3 pts. Today we expect further decreasing of domestic yields, following core markets. Lower demand on risky assets (after Donald Trump' expressed his frustration with negotiations with Canada within the NAFTA) may limit stronger yield falls today.

Forecasts of Federal Reserve Board members

	Forecast for 2018*	Forecast for 2019*
GDP		
June	2.8	2.4
September	3.1	2.5
Unemployment rate		
June	3.6	3.5
September	3.7	3.5
PCE inflation		
June	2.1	2.1
September	2.1	2.0
Fed funds rate		
June	2.4	3.1
September	2.4	3.1

*median

Source: Federal Reserve, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2772	CZKPLN	0.1665
USDPLN	3.6568	HUFPLN*	1.3214
EURUSD	1.1697	RUBPLN	0.0555
CHFPLN	3.7780	NOKPLN	0.4499
GBPPLN	4.8005	DKKPLN	0.5735
USDCNY	6.8735	SEKPLN	0.4139

*for 100HUF

Last session in the FX market 26/09/2018

	min	max	open	close	fixing
EURPLN	4.274	4.293	4.292	4.276	4.2865
USDPLN	3.638	3.653	3.646	3.639	3.643
EURUSD	1.173	1.178	1.177	1.175	-

Interest rate market 26/09/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	-2	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.54	-3	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.23	-3	6 wrz 18	WS0428	3.249

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	0	2.79	0	-0.24	0
2L	1.99	-1	3.00	-1	-0.11	0
3L	2.19	-1	3.07	-1	0.07	-1
4L	2.38	-1	3.09	-1	0.25	-1
5L	2.54	-1	3.09	-3	0.41	-1
8L	2.86	-2	3.11	-2	0.80	-2
10L	3.03	-1	3.14	-3	1.01	-2

WIBOR rates

Term	%	Change (bps)
O/N	2.05	-1
T/N	2.04	0
SW	1.62	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	0
3x6	1.76	-1
6x9	1.79	0
9x12	1.83	0
3x9	1.86	0
6x12	1.90	0

Measures of fiscal risk

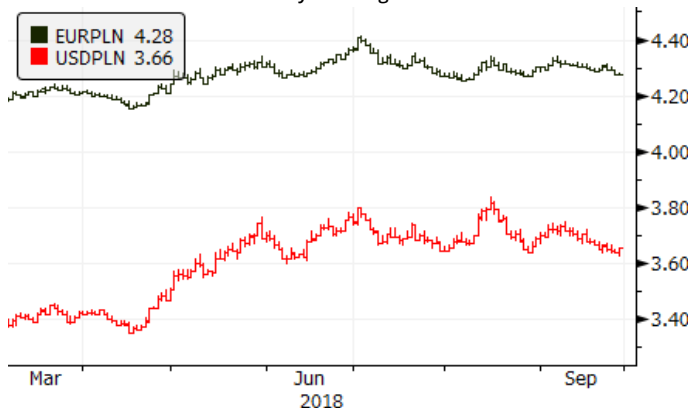
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.75 1
France	25 1	0.32 0
Hungary	116 1	3.10 4
Spain	65 4	1.03 3
Italy	221 8	2.45 12
Portugal	64 0	1.40 3
Ireland	25 0	0.50 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

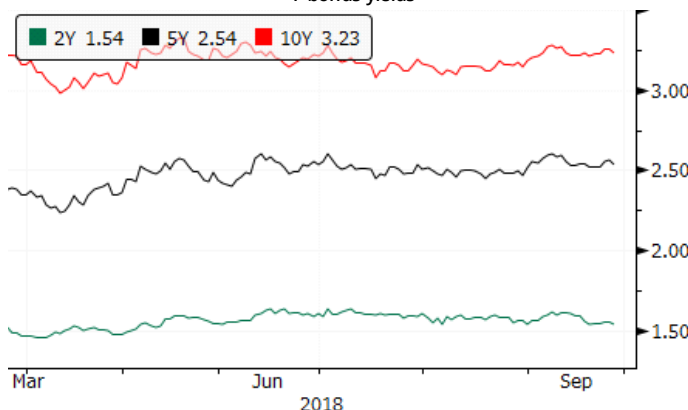
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

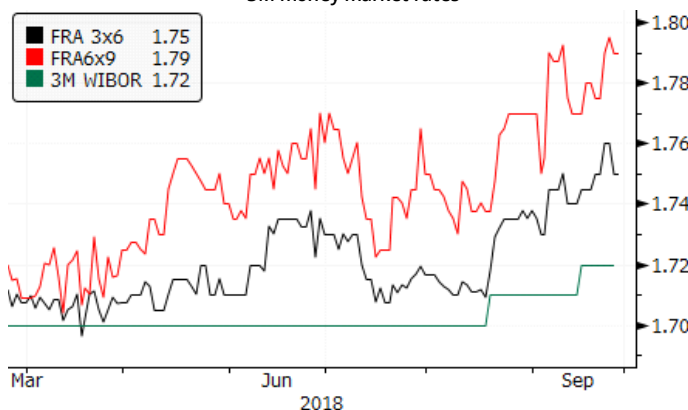
Zloty exchange rate



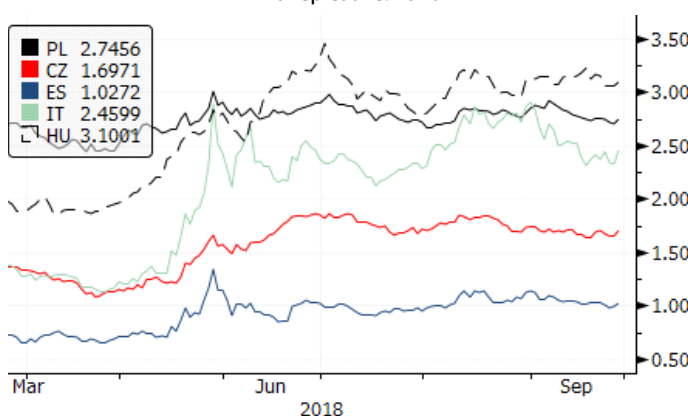
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL VALUE	LAST
TIME		INDICATOR	PERIOD		MARKET	SANTANDER		VALUE
CET								
FRIDAY (21 September)								
09:30	DE	Flash Manufacturing PMI	Sep	pts	55.7	-	53.7	55.9
09:30	DE	Flash Services PMI	Sep	pts	55.0	-	56.5	55.0
10:00	EZ	Flash Manufacturing PMI	Sep	pts	54.5	-	53.3	54.6
10:00	EZ	Flash Services PMI	Sep	pts	54.4	-	54.7	54.4
10:00	PL	Retail Sales Real	Aug	% y/y	7.0	6.4	6.7	7.1
MONDAY (24 September)								
10:00	DE	Ifo index	Sep	pt	103.0	-	103.7	103.9
14:00	PL	Money supply M3	Aug	% y/y	7.5	7.4	7.5	7.3
TUESDAY (25 September)								
10:00	PL	Unemployment rate	Aug	%	5.9	5.9	5.8	5.9
16:00	US	Consumer confidence index	Sep	pt	132.0	-	138.4	134.7
WEDNESDAY (26 September)								
13:00	CZ	Central bank decision		%	1.50	-	1.50	1.25
16:00	US	New home sales	Aug	% m/m	0.5	-	3.5	-1.6
20:00	US	FOMC decision		%	2.25	-	2.25	2.0
THURSDAY (27 September)								
14:00	DE	HICP	Sep	% m/m	0.1	-		0.0
14:30	US	Durable goods orders	Aug	% m/m	2.0	-		-1.7
14:30	US	GDP	2Q	% q/q	4.2	-		4.2
14:30	US	Initial jobless claims	week	k	210	-		204
16:00	US	Pending home sales	Aug	m/m	-0.5	-		-0.7
FRIDAY (28 September)								
11:00	EZ	Flash HICP	Sep	% y/y	2.0	-		2.0
14:30	US	Personal spending	Aug	% m/m	0.3	-		0.4
14:30	US	Personal income	Aug	% m/m	0.4	-		0.3
14:30	US	PCE	Aug	% m/m	0.1	-		0.1
16:00	US	Michigan index	Sep	pt	100	-		100.8

Source: Santander Bank Polska, Bloomberg, Parkiet
* in case of the revision the data is updated

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