

29 November 2018

Eyeopener

Fed loses appetite for rate hikes

Markets stable intraday ahead of G20
 Strong market reaction to Powell's evening speech
 US GDP in line with expectations, poor new home sales
 Today plenty of US data, FOMC minutes

On Wednesday, no significant movements on the global market were observed during the day, while waiting for the Fed chairman's speech and G20 summit. Stock exchange rates oscillated around the Tuesday closing, stock indices went up slightly and yields remained rather flat. The second estimate of the US GDP for 3Q was not surprising and confirmed a slowdown from 4.2% in 2Q to 3.5% in 3Q (the estimate of private consumption growth, however, was reduced from 4% to 3.6%). The real estate market data were disappointing again (this time, in terms of the sale of new houses - the monthly decline in October was the biggest this year), however it did not trigger any significant reactions on the market. It was the Fed chairman's speech that boosted stock exchanges and pushed down bond yields (including 10Y US Treasuries - to the lowest level since mid-September and Bunds - to the lowest level in 3 months). Jerome Powell said that interest rates in the USA are already "slightly below" the neutral level which is a sign for markets that tightening of the monetary policy is close to an end (apart from the expected December hike, only one such event is priced in in 2019).

Yesterday, **EURUSD** deepened the downward move observed since mid-November and reached 1.1264, but the momentum was lower than in the previous days. The rate jumped to 1.136-1.140 range after words of Jerome Powell, who retreated from his hawkish remarks issued one month ago (that there is still much space before rates reach the neutral level). Today new data from the USA are due for release and we will get to see minutes from the last FOMC meeting in the evening. Recently a few FOMC members suggested that 2019 may witness less hikes than they thought earlier. Yesterday the Fed president followed suit, so it is likely that the document will include worries about economic growth and a weaker push for hikes. However, in our view the market reaction after Powell's words has already priced-in the possible change in the central bank's bias.

EURPLN did not move much yesterday and held near 4.295 for the fourth session in a row. **USDPLN** was oscillating around 3.805. In the evening, the zloty gained sharply to 4.285 per euro and 3.765 per dollar. In the case of the **other CEE currencies**, the forint was stable like zloty, while koruna and ruble lost. All of them recovered in the evening. Perhaps signals from the Fed will be enough to set a direction for **EURPLN**, at least within the 4.26-4.34 trading range observed since August.

Yesterday **yields of Polish t-bonds** were very stable, similar to core and euro zone periphery sovereign bond markets. We saw calm trading, investors were waiting for Fed chairman's speech. Core bonds appreciated after the event, and we expect that today Polish bonds will follow the core bond markets.

The US dollar vs. the euro



Source: Bloomberg, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2858	CZKPLN	0.1652
USDPLN	3.7625	HUFPLN*	1.3259
EURUSD	1.1391	RUBPLN	0.0565
CHFPLN	3.7910	NOKPLN	0.4407
GBPPLN	4.8268	DKKPLN	0.5743
USDCNY	6.9441	SEKPLN	0.4171

*for 100HUF

Last session in the FX market 28/11/2018

	min	max	open	close	fixing
EURPLN	4.283	4.300	4.297	4.287	4.2994
USDPLN	3.769	3.814	3.807	3.779	3.8114
EURUSD	1.127	1.137	1.129	1.134	-

Interest rate market 28/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	0	15 lis 18	OK0521	1.784
PS0424 (5L)	2.58	0	15 lis 18	PS0424	2.626
WS0428 (10L)	3.17	0	15 lis 18	WS0428	3.226

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.90	-1	-0.24	0
2L	1.93	0	2.99	-2	-0.14	0
3L	2.12	0	3.00	-2	0.00	0
4L	2.27	0	3.00	-1	0.16	0
5L	2.40	0	3.01	-1	0.30	1
8L	2.66	0	3.06	-1	0.70	1
10L	2.80	0	3.11	0	0.91	1

WIBOR rates

Term	%	Change (bps)
O/N	1.40	-12
T/N	1.52	0
SW	1.55	0
2W	1.59	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	1.74	0
6x9	1.78	-1
9x12	1.82	-1
3x9	1.81	0
6x12	1.86	0

Measures of fiscal risk

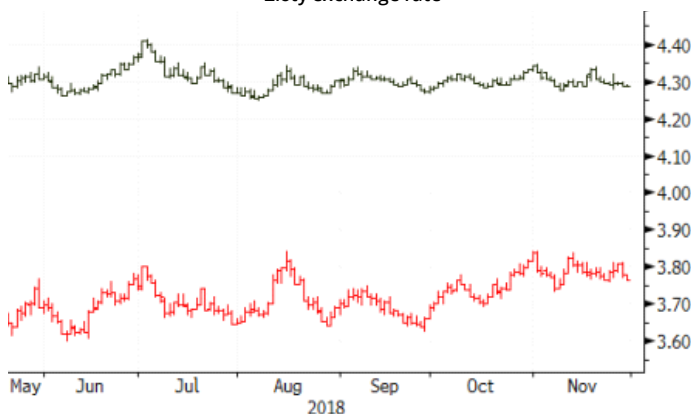
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	2
France	25	1	0.38	0
Hungary	116	1	2.95	-1
Spain	65	4	1.19	0
Italy	221	8	2.91	0
Portugal	64	0	1.52	1
Ireland	25	0	0.60	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

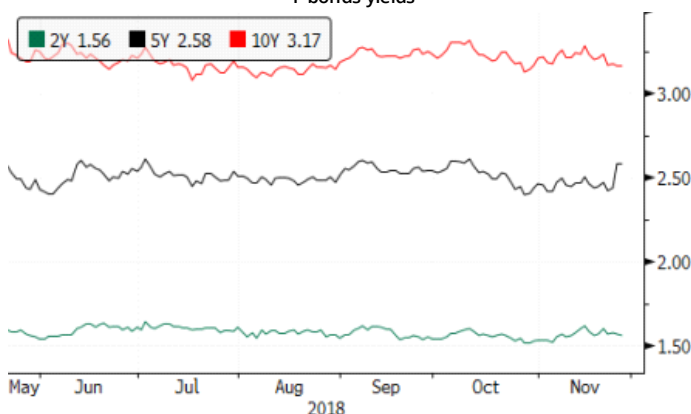
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

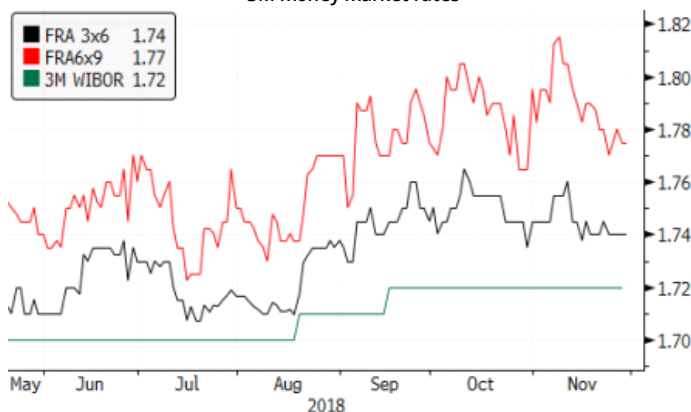
Zloty exchange rate



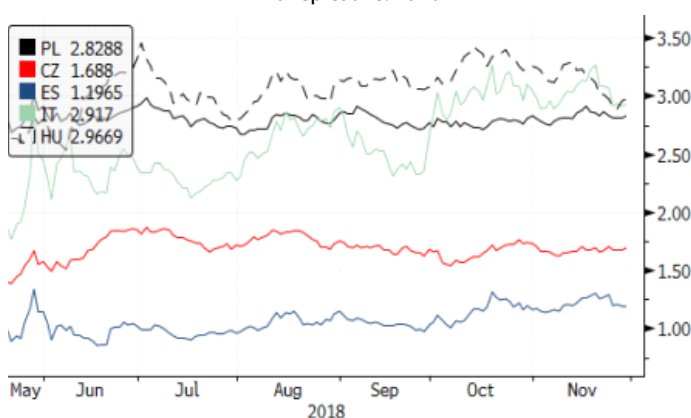
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (23 November)								
08:00	DE	GDP WDA	3Q	% y/y	1.1	-	1.1	1.1
09:30	DE	Flash Germany Manufacturing PMI	Nov	pts	52.2	-	51.6	52.2
09:30	DE	Flash Markit Germany Services PMI	Nov	pts	54.5	-	53.3	54.7
10:00	EZ	Flash Eurozone Manufacturing PMI	Nov	pts	52.0	-	51.5	52.0
10:00	EZ	Flash Eurozone Services PMI	Nov	pts	53.5	-	53.1	53.7
14:00	PL	Money Supply M3	Oct	% y/y	7.8	7.9	8.3	7.9
MONDAY (26 November)								
10:00	DE	IFO Business Climate	Nov	pts	-	-	102.0	102.9
TUESDAY (27 November)								
10:00	PL	Unemployment Rate	Oct	%	-	5.7	5.7	5.7
16:00	US	Consumer Conference Board	Nov	pts	136.2	-	135.7	137.9
WEDNESDAY (28 November)								
14:30	US	GDP Annualized	3Q	% Q/Q	3.5	-	3.5	3.5
16:00	US	New Home Sales	Oct	% m/m	4.0	-	-8.9	1.0
THURSDAY (29 November)								
11:00	PL	Bond switch auction						
11:00	EZ	ESI	Nov	pct.	-	-		109.8
14:00	DE	HICP	Nov	% m/m	-	-		0.1
14:30	US	Initial Jobless Claims	week	k	220	-		216
14:30	US	Personal Spending	Oct	% m/m	0.4	-		0.4
14:30	US	Personal Income	Oct	% m/m	0.4	-		0.2
14:30	US	PCE Deflator SA	Oct	% m/m	0.2	-		0.1
16:00	US	Pending Home Sales	Oct	% m/m	0.5	-		0.5
20:00	US	FOMC Meeting Minutes						
FRIDAY (30 November)								
09:00	CZ	GDP SA	3Q	% y/y	-	-		2.3
10:00	PL	Flash CPI	Nov	% y/y	1.5	1.5		1.8
10:00	PL	GDP	3Q	% y/y	5.1	5.1		5.1
11:00	EZ	Flash HICP	Nov	% y/y	-	-		2.2
11:00	EZ	Unemployment Rate	Oct	%	-	-		8.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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