

5 December 2018

Eyeopener

Trade war fears are still alive

Optimism after G20 was short-lived
 Złoty gave back part of recent gains, EURUSD down
 Polish yields slightly higher
 Today MPC decision, European data, Fed beige book

Optimistic moods after the G20 summit disappeared quickly from the market after comments of US officials suggesting smaller concessions. Yesterday an impression was growing among investors that Trump's comments on what he achieved in talks with the president of China were exaggerated. As a result, European and US stock indices fell noticeably which positively impacted bonds and the dollar. The pessimism extended to the Asian session despite a jump in Chinese services PMI from 50.8 pts to 53.8. The US currency was supported by the afternoon speech made by the New York Fed chairman. John Williams said that he expected further interest rate hikes in 2019, as the economic standing of the US is very good. Last week FOMC members and Fed chairman himself suggested that the headroom to further tightening of monetary policy is shrinking, therefore the yesterday's opinion helped dollar to trim losses. Although PPI for euro zone surprised to the upside for the sixth month in a row and reached the highest level in 7 years, it failed to support the euro. During the first part of the session pound was gaining in reaction to a comment made by the Advocate-General of the European Court of Justice that UK does not need the EU's consent to abandon the Brexit idea. Italian PM works on a new version of 2019 budget that is to prevent the launch of excessive deficit procedure. Today US markets are closed due to the funeral of George Bush.

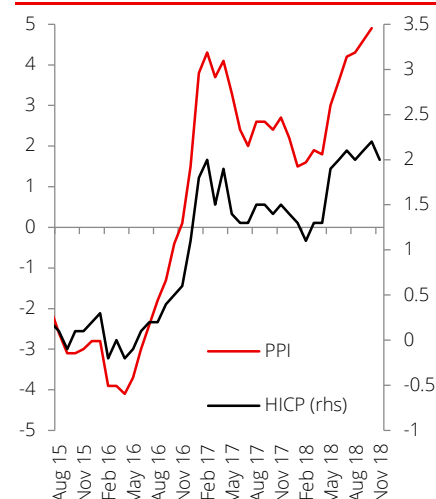
EURUSD rose above 1.14 for a while and fell to 1.135 in the afternoon after the FOMC member comments. Today we will see final services PMIs and euro zone retail sales, in the evening FOMC will release its Beige Book. Still, the market reaction should be limited as investors are waiting for the US labour market data at the end of the week.

EURPLN rebounded temporarily above 4.285 from 4.275 but ended the Polish session around 4.28. USDPLN climbed to 3.77 from 3.75. Profit taking after the recent zloty appreciation was triggered by a deterioration of the global market mood and dollar strengthening. In the case of the other CEE currencies, the forint gave up nearly whole of the Monday's appreciation, while the koruna and ruble were fairly stable. We sustain our view that EURPLN might test 4.26 in the remainder of the year.

On the **domestic interest rate market**, IRS did not change much while the bond yields rose by not more than 2bp, mainly on the belly and long end of the curve. Polish debt underperformed its German and US peers and traded similarly to euro zone peripheral bonds. Today the market attention will focus on the MPC press conference. We think governor Głapiński will try to undermine the fact of voting a 25bp rate hike in November and will manage the press conference in his usual dovish way. This should be easy after the November's surprisingly low CPI reading. As a result, the outcome of the MPC meeting should not generate an upside pressure on IRS or yields.

Today Polish MPC will decide about the interest rates. The tone of the statement shall not differ much from the previous one. The press conference should be more interesting when the NBP governor will likely be asked about the rate hike motion from November. We do not expect any clear information from him apart from repeated declaration that rates will remain flat through 2019. On 20 December, we will get to know how many members dared to go against the rock solid majority built around Adam Głapiński. Still, supporters of loose monetary policy who would want the MPC to stay idle at least until the end of 2019 outnumber these central bankers, who are frustrated with no response to uncomfortably high projected CPI path. The CPI decline from 1.8% y/y to mere 1.2% in November with a likely drop in core inflation seems a sufficient counterweight to claims that the hawkish camp is becoming stronger as it managed to vote a motion in November.

Inflation in the euro zone, %y/y



Source: Bloomberg, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2825	CZKPLN	0.1652
USDPLN	3.7790	HUFPLN*	1.3228
EURUSD	1.1333	RUBPLN	0.0566
CHFPLN	3.7830	NOKPLN	0.4430
GBPPLN	4.7974	DKKPLN	0.5739
USDCNY	6.8675	SEKPLN	0.4185

*for 100HUF

Last session in the FX market 04/12/2018

	min	max	open	close	fixing
EURPLN	4.275	4.285	4.276	4.282	4.281
USDPLN	3.748	3.784	3.767	3.775	3.7516
EURUSD	1.132	1.142	1.135	1.134	-

Interest rate market 04/12/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	0	15 lis 18	OK0521	1.784
PS0424 (5L)	2.47	0	15 lis 18	PS0424	2.626
WS0428 (10L)	3.04	1	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	1.77	0	2.91	-2	-0.24	0
2L	1.88	0	2.97	-3	-0.16	-1
3L	2.02	0	2.96	-4	-0.03	-1
4L	2.15	0	2.94	-5	0.11	-2
5L	2.27	0	2.93	-5	0.25	-2
8L	2.53	-1	2.94	-7	0.63	-3
10L	2.66	-1	2.97	-8	0.84	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-1
T/N	1.54	-1
SW	1.55	0
2W	1.59	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	-1
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.74	1
6x9	1.77	1
9x12	1.81	2
3x9	1.81	0
6x12	1.83	1

Measures of fiscal risk

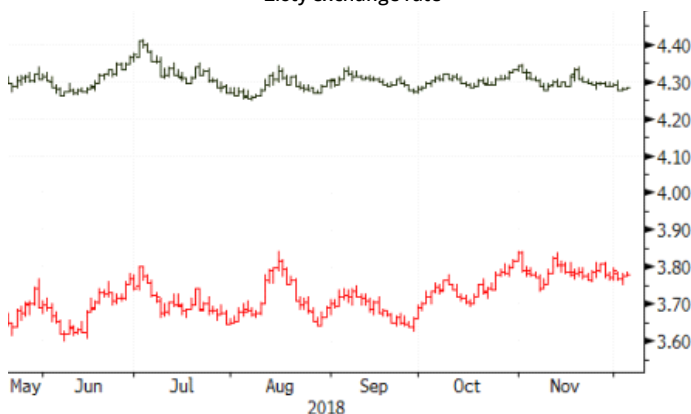
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.78 2
France	25 1	0.41 1
Hungary	116 1	2.85 0
Spain	65 4	1.22 -1
Italy	221 8	2.86 -3
Portugal	64 0	1.54 -1
Ireland	25 0	0.63 1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

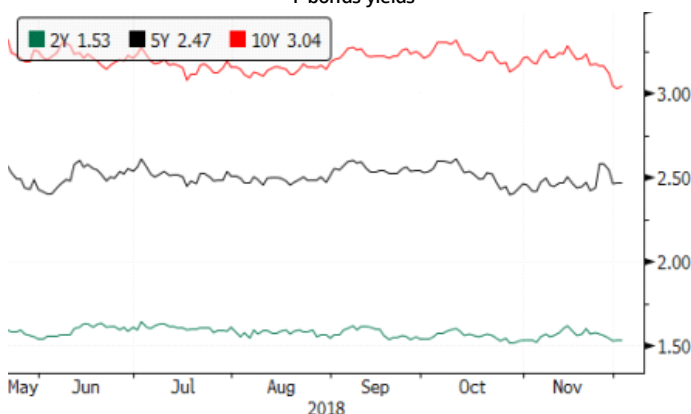
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

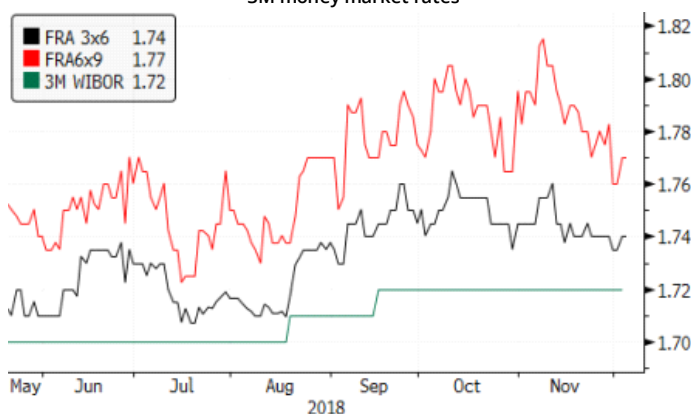
Zloty exchange rate



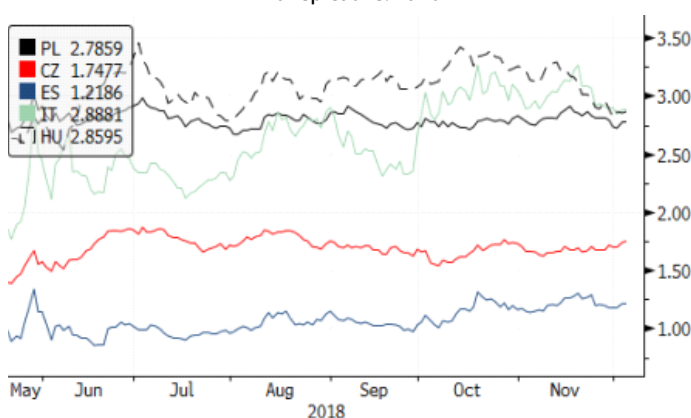
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET	MARKET				SANTANDER	VALUE	VALUE*	
FRIDAY (30 November)								
08:00	DE	Retail Sales	Oct	% m/m	0.4	-	-0.3	-0.3
09:00	CZ	GDP SA	3Q	% y/y	2.3	-	2.4	2.3
10:00	PL	Flash CPI	Nov	% y/y	1.6	1.5	1.2	1.8
10:00	PL	GDP	3Q	% y/y	-	5.1	5.1	5.1
11:00	EZ	Flash HICP	Nov	% y/y	2.0	-	2.0	2.2
11:00	EZ	Unemployment Rate	Oct	%	8.0	-	8.1	8.1
MONDAY (3 December)								
09:00	PL	Poland Manufacturing PMI	Nov	pts	50.4	51.1	49.5	50.4
09:55	DE	Germany Manufacturing PMI	Nov	pts	51.6	-		51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	51.5	-		51.5
16:00	US	ISM manufacturing	Nov	pts	58.0	-		57.7
TUESDAY (4 December)								
No important events								
WEDNESDAY (5 December)								
	PL	MPC decision		%	1.50	1.50		1.50
02:45	CN	Caixin China PMI Services	Nov	pts	50.9	-	53.8	50.8
09:00	HU	GDP	3Q	% y/y	4.8	-		4.8
09:55	DE	Markit Germany Services PMI	Nov	pts	53.3	-		53.3
10:00	EZ	Eurozone Services PMI	Nov	pts	53.1	-		53.1
11:00	EZ	Retail Sales	Oct	% m/m	0.2	-		0.0
20:00	US	Fed Beige Book						
THURSDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	-0.6	-		0.3
09:00	HU	Industrial Production SA	Oct	% y/y	2.3	-		2.2
14:15	US	ADP report	Nov	k	200	-		227
14:30	US	Initial Jobless Claims	week	k	220	-		224
16:00	US	ISM services	Nov	pts	59.5	-		60.3
16:00	US	Durable Goods Orders	Oct	% m/m	-	-		-4.4
16:00	US	Factory Orders	Oct	% m/m	-2.0	-		0.7
FRIDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.3	-		0.2
09:00	CZ	Industrial Production	Oct	% y/y	5.4	-		-0.9
11:00	EZ	GDP SA	3Q	% y/y	1.7	-		1.7
14:30	US	Change in Nonfarm Payrolls	Nov	k	205	-		250
14:30	US	Unemployment Rate	Nov	%	3.7	-		3.7
16:00	US	Michigan index	Dec	pts	97.0	-		97.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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