

20 December 2018

Eyeopener

Strong production in November

Poland industrial and construction output beat expectations
 Fed raises rates and signals two hikes for 2019
 Zloty pressured by the Fed hike, EURUSD down only for a while
 Today Czech central bank decision and some US data

On Wednesday the data about Polish industrial and construction output for November was released which surprised to the upside. Meanwhile, the consumer sentiment index disappointed. The data from USA and Europe did not materially impact the market while waiting for the evening decision of the FOMC. The euro gained slightly thanks to the information about the Italy-EU budget agreement which allowed EURPLN to hold at low level.

In line with expectations, **FOMC raised interest rates** yesterday evening by 25bp to 2.25-2.50%. The statement stressed that the situation on the labour market keeps improving and economic activity remains high. According to updated forecasts, GDP growth this year should be 3% (the September Fed forecast was 3.1%) and in 2019 it will be 2.3% (revision from 2.5%). Inflation forecasts were also lowered – to 1.9% in 2018 and 2019 from 2.1% and 2% respectively. The slightly lower growth profile and inflation path caused a change in the median of FOMC members' opinions about the preferred path of the policy rate. It is now pointing to two rate hikes in 2019 (instead of three, indicated in September) suggesting that the cycle is coming to an end. At the press conference, Fed chairman Jerome Powell said that a lower number of interest rate hikes will have a beneficial effect on the economy. Investors thought that given the recent market volatility and declining US stock prices, the central bankers will significantly ease their stance. In the view of the market, this did not happen and FOMC sticking to further tightening in 2019, albeit limited, had a negative impact on equities. The dollar gained on rising risk aversion. US bond yields rose after the decision, but as J.Powell was speaking at the press conference, they started to drop heavily.

Poland industrial output surprised to the upside in November, adding 4.7% y/y, while construction expanded by 17.1% y/y, also above consensus. November numbers are in line with GDP slowing down in 4Q18 only slightly from 5.1% recorded in 3Q18. In the quarters to come, we are expecting the industry to slow amid weaker sentiment in German industry and exports. Construction is likely to remain strong as we are expecting the EU-financed public investment to peak in 2019. Sentiment of consumers worsened substantially in December. It does not have to translate to weaker growth of private consumption as household incomes are still growing at a reasonable pace.

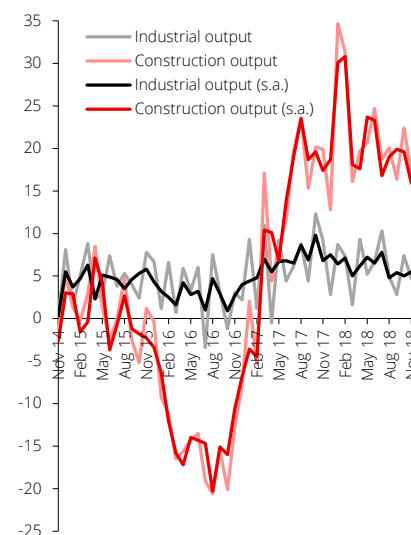
EURUSD continued the upward trend while waiting for the FOMC's decision and press conference. Just before the decision it was close to 1.144, but the message of the press conference pushed the exchange rate down to 1.136. However today in the morning EURUSD rose above 1.14, despite stock futures falling at the opening of the European session. It seems that the outcome of FOMC meeting does not have a lasting impact on EURUSD and we assume that euro may keep gains recorded earlier in the week.

EURPLN was moving around 4.282 since the beginning of the day despite slightly rising EURUSD. At night, the zloty lost vs. the euro and the dollar in reaction to the FOMC meeting and this morning EURPLN was just below 4.29 and USDPLN close to 3.76 (yesterday it stayed around 3.745). Soon after opening of the today's session, the zloty managed to recover and we do not expect the Polish currency to depreciate today despite falling stock indexes while a rebound of EURUSD should support the PLN.

In case of other CEE currencies, EURCZK rose from 25.72 to 25.78, but then pulled back to 25.74 in a profit-taking move. Today the Czech central bank will decide on interest rates, which may be crucial for the koruna, at least in the scope of this week. EURHUF rose on Wednesday from 322.3 to 322.9, to close the day at 322.5. USDRUB rose at the start of the day from 67.7, but in the afternoon it dropped to 67 amid improving macro data and a rise of oil prices. The decision to withdraw US troops from Syria also helped.

In the morning, **yields on the domestic interest rate market** went up in reaction to better output data and profit taking after recent strengthening. In the afternoon, yields returned to the morning levels. Falling stock indexes at the opening of the European session boost Bunds which should positively impact the Polish debt as well.

Output growth, % y/y



Source: GUS, NBP, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Konrad Soszyński +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2867	CZKPLN	0.1665
USDPLN	3.7541	HUFPLN*	1.3297
EURUSD	1.1419	RUBPLN	0.0558
CHFPLN	3.7799	NOKPLN	0.4318
GBPPLN	4.7532	DKKPLN	0.5741
USDCNY	6.9018	SEKPLN	0.4142

*for 100HUF

Last session in the FX market 19/12/2018

	min	max	open	close	fixing
EURPLN	4.280	4.286	4.284	4.282	4.2846
USDPLN	3.743	3.775	3.771	3.748	3.7619
EURUSD	1.135	1.144	1.136	1.143	-

Interest rate market 19/12/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.40	1	14 gru 18	OK0521	1.625
PS0424 (5L)	2.33	0	14 gru 18	PS0424	2.382
WS0428 (10L)	2.89	0	14 gru 18	WS0428	2.931

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.81	-1	-0.23	0
2L	1.85	0	2.80	0	-0.15	0
3L	1.96	-1	2.76	-1	-0.04	-1
4L	2.09	-1	2.75	-1	0.09	-1
5L	2.21	-1	2.75	-1	0.24	-2
8L	2.44	0	2.80	-1	0.62	-1
10L	2.57	0	2.84	-1	0.83	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.33	-2
T/N	1.41	1
SW	1.52	-1
2W	1.58	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	1.72	0
3x6	1.73	0
6x9	1.75	0
9x12	1.78	0
3x9	1.80	0
6x12	1.81	0

Measures of fiscal risk

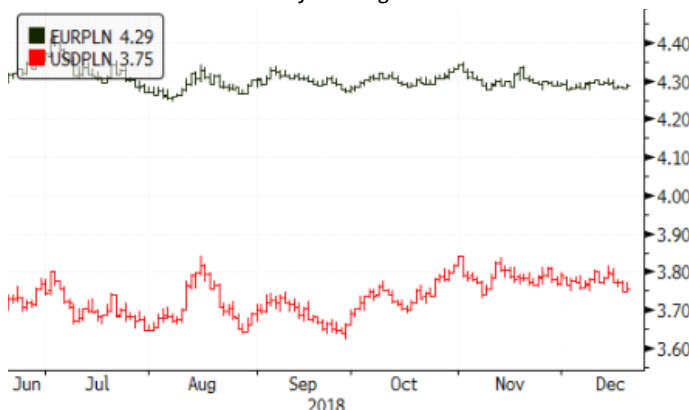
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.67 2
France	25 1	0.46 0
Hungary	116 1	3.00 -6
Spain	65 4	1.15 1
Italy	221 8	2.59 6
Portugal	64 0	1.42 2
Ireland	25 0	0.68 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

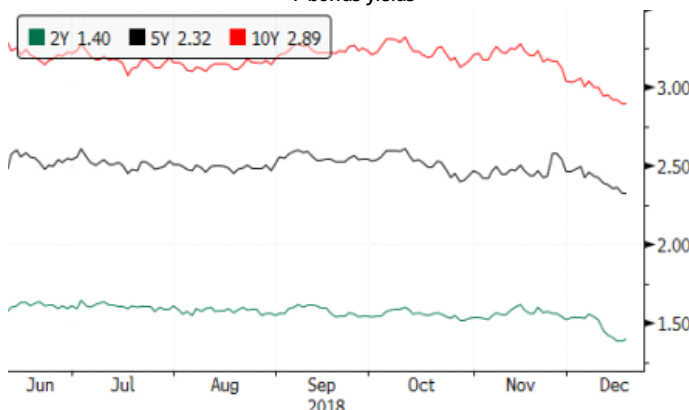
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



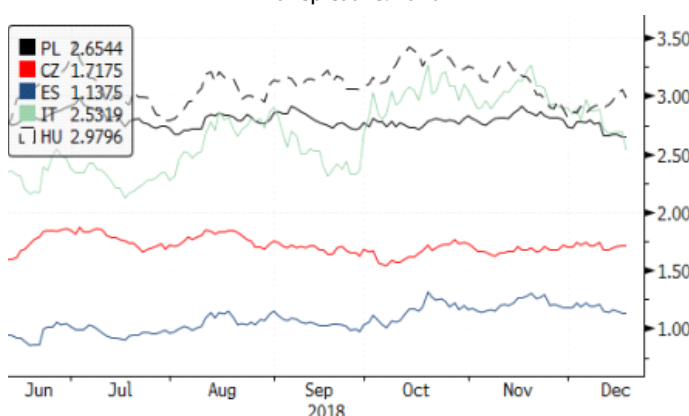
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (14 December)								
09:30	DE	Germany Manufacturing PMI	Dec	pts	51.65	-	51.5	51.8
09:30	DE	Markit Germany Services PMI	Dec	pts	53.5	-	52.5	53.3
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	51.8	-	51.4	51.8
10:00	EZ	Eurozone Services PMI	Dec	pts	53.4	-	51.4	53.4
10:00	PL	CPI	Nov	% y/y	-	1.2	1.3	1.2
14:00	PL	Current Account Balance	Oct	€mn	-471	-559.1	-457	-547
14:00	PL	Trade Balance	Oct	€mn	-341	-334	-588	-449
14:00	PL	Exports	Oct	€mn	19 281	19 530	20 143	17 683
14:00	PL	Imports	Oct	€mn	19 833	19 864	20 731	18 132
14:30	US	Retail Sales Advance	Nov	% m/m	0.1	-	0.2	0.8
15:15	US	Industrial Production	Nov	% m/m	0.3	-	0.6	0.1
MONDAY (17 December)								
11:00	EZ	HICP	Nov	% y/y	2.0	-	1.9	2.0
14:00	PL	CPI Core	Nov	% y/y	0.7	0.7	0.7	0.9
TUESDAY (18 December)								
10:00	DE	IFO Business Climate	Dec	pts	101.8	-	101.0	102.0
10:00	PL	Employment in corporate sector	Nov	% y/y	3.0	3.0	3.0	3.2
10:00	PL	Average Gross Wages	Nov	% y/y	7.15	7.0	7.7	7.6
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
14:30	US	Housing Starts	Nov	% m/m	0.0	-	3.2	1.5
WEDNESDAY (19 December)								
10:00	PL	Sold Industrial Output	Nov	% y/y	4.6	3.3	4.7	7.4
10:00	PL	Construction Output	Nov	% y/y	18.4	10.8	17.1	22.4
10:00	PL	PPI	Nov	% y/y	3.2	2.8	2.7	3.2
16:00	US	Existing Home Sales	Nov	% m/m	-0.4	-	1.9	1.4
20:00	US	FOMC decision		%	2.50	-	2.50	2.25
THURSDAY (20 December)								
	PL	Central Budget Cumul.	Nov	mn PLN	-	-		6476.31
13:00	CZ	Central Bank Rate Decision		%	1.75	-		1.75
14:30	US	Initial Jobless Claims	week	k	215	-		206
14:30	US	Index Philly Fed	Dec	pts	15.0	-		12.9
FRIDAY (21 December)								
10:00	PL	Retail Sales Real	Nov	% y/y	6.8	6.8		7.8
10:00	PL	Unemployment Rate	Nov	%	5.8	5.7		5.7
14:30	US	Durable Goods Orders	Nov	% m/m	2.0	-		-4.3
14:30	US	GDP Annualized	3Q	% Q/Q	3.5	-		3.5
16:00	US	Michigan index	Dec	pts	97.5	-		97.5
16:00	US	Personal Spending	Nov	% m/m	0.3	-		0.6
16:00	US	Personal Income	Nov	% m/m	0.3	-		0.5
16:00	US	PCE Deflator SA	Nov	% m/m	0.0	-		0.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the 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.