

10 January 2019

# Eyeopener

## MPC turn more dovish

FOMC members opinions hit US dollar and push yields down

Polish MPC more dovish

FOMC less convinced about future rate path

Today: jobless claims and Czech CPI

For the vast part of the Wednesday session the global FX market quotations were stable and only in the afternoon dollar started losing after comments of FOMC members. Charles Evans and Raphael Bostic suggested that there was no need to rush with another interest rate hikes in the USA and after the December movement bankers from the US Central Bank could wait for new data release to decide about the possible interest rate movements later this year. Those comments were also reflected in FOMC minutes released in the evening. In response to those opinions dollar started losing quickly, while the bonds market reacted positively. In Europe tension related to Brexit escalated. Yesterday the British Parliament passed a bill obliging the government to present within 3 days ( 21 days so far) an alternative plan in the case the already negotiated EU exit conditions are not accepted.

In line with expectations, the **MPC** left interest rates unchanged with the reference rate at 1.50%. Governor Adam Glapiński visibly changed his tone to even more dovish during the press conference and suggested that rates might even remain intact until the end of the MPC term (i.e., until 2022). In the previous months, Glapiński indicated 2019 or 2020 as the horizon of interest rate stability. Later on, monetary easing is possible with use of non-conventional tools, as further rate cuts would be risky. Glapiński explained that after oil prices fell and energy price hike was averted, inflation does not exceed the target in the whole forecasting horizon. Moreover, after 2022 the inflow of EU funds will fall markedly, contributing to slower GDP growth.

We see the CPI inflation to be higher than the MPC expectations, but we believe that the inflation rebound will be too slow to change the MPC rhetoric in 2019, thus we think that rates will stay stable this year.

In the **FOMC** minutes from the December meeting released on Wednesday an opinion is expressed that the Committee should be more cautious when tightening further its monetary policy, because inflation muted. Furthermore, some members pointed out that the recent nervous reactions of financial markets and worsening global growth outlook make it less obvious that the policy of further rate hikes should be continued. In reaction to the release of the minutes, the dollar got weaker while US bond yields dropped.

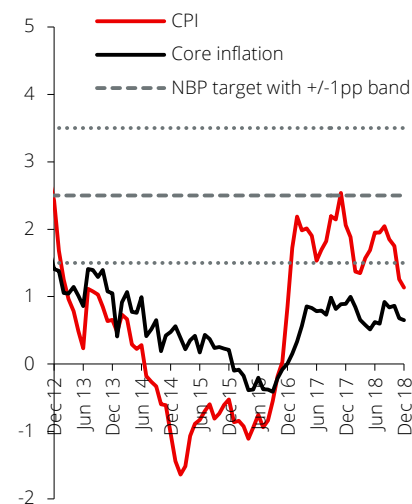
Yesterday the **finance minister Teresa Czerwińska** said that at the end of 2018 the central budget deficit was markedly lower than PLN15bn. The Minister also repeated her claim that the deficit-to-GDP will be below 0.5%.

Yesterday **EURUSD** broke a local peak at 1.15 in reaction to conservative comments of FOMC members and reached the highest level since the second half of October. This move was fueled by FOMC minutes. Today we will get to see weekly jobless claims in the US and tomorrow – inflation. Break of 1.15 opens the gate to further rises of EURUSD, but the end-of-the-week effect may limit the strengthening potential of the euro in the upcoming two days.

**EURPLN** remained near 4.295 while USDPLN fell to 3.72 from 3.75 thanks to EURUSD rise. The other CEE currencies did not move much either. We have already mentioned that we see little chances for the zloty appreciation in the short term and the yesterday's lack of reaction to stock prices rise and higher EURUSD supports our view.

On the **domestic interest rate market** 2-5Y IRS and yields fell by c5bp amid dovish rhetoric of the Polish MPC and reserved comments of the FOMC members. On the long end, rates were on the rise but ended the day 2bp below Tuesday's closing levels thanks to opinion expressed by the Polish and US central bankers. Today we expect domestic yields to move further down after the UST yields fell in reaction to the FOMC minutes released on Wednesday evening.

CPI and core inflation vs NBP target



Source: GUS, NBP, Santander

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## FX market

### Today's opening

EURPLN	4.3043	CZKPLN	0.1679
USDPLN	3.7264	HUFPLN*	1.3387
EURUSD	1.1551	RUBPLN	0.0557
CHFPLN	3.8295	NOKPLN	0.4399
GBPPLN	4.7587	DKKPLN	0.5765
USDCNY	6.7886	SEKPLN	0.4199

\*for 100HUF

### Last session in the FX market 09/01/2019

	min	max	open	close	fixing
EURPLN	4.291	4.303	4.297	4.299	4.2989
USDPLN	3.721	3.758	3.751	3.727	3.7509
EURUSD	1.144	1.154	1.145	1.153	-

## Interest rate market 09/01/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.41	-2	14 gru 18	OK0521	1.625
PS0424 (5L)	2.28	-2	14 gru 18	PS0424	2.382
WS0428 (10L)	2.84	-1	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	1.74	-1	2.79	1	-0.22	0
2L	1.81	-2	2.72	1	-0.15	0
3L	1.91	-1	2.66	1	-0.04	0
4L	2.03	0	2.64	1	0.09	0
5L	2.14	-1	2.64	2	0.22	0
8L	2.36	0	2.71	2	0.61	1
10L	2.49	-1	2.76	2	0.82	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.59	1
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	1.72	0
3x6	1.72	0
6x9	1.73	0
9x12	1.75	0
3x9	1.79	0
6x12	1.79	0

## Measures of fiscal risk

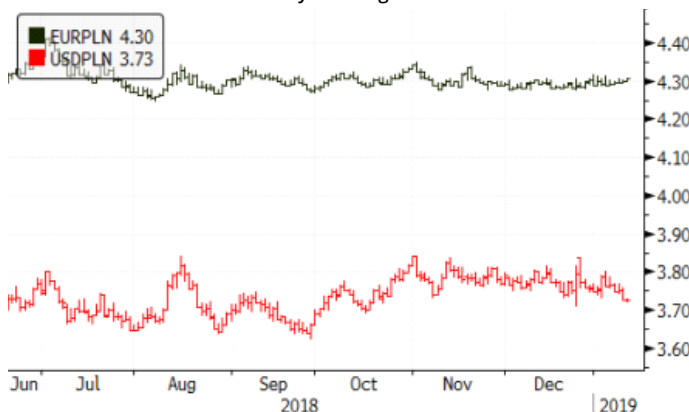
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.58	1
France	25	1	0.44	0
Hungary	116	1	2.62	-3
Spain	65	4	1.23	2
Italy	221	8	2.62	2
Portugal	64	0	1.50	1
Ireland	25	0	0.64	-4
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

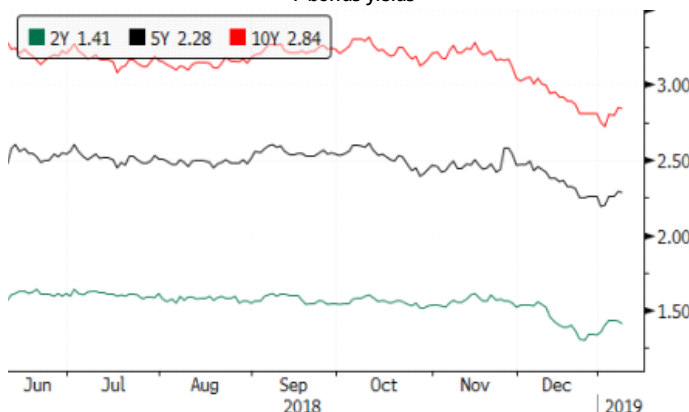
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

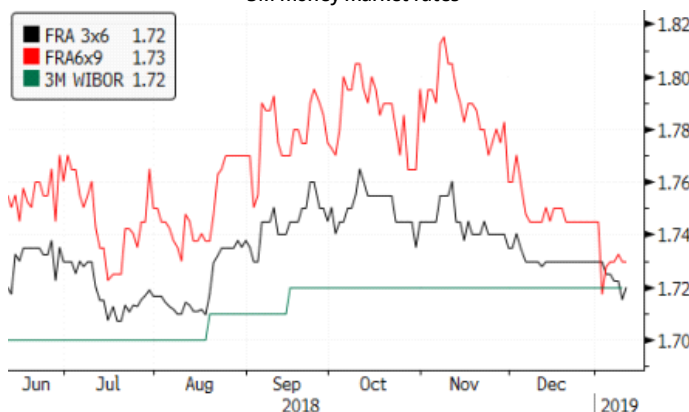
## Zloty exchange rate



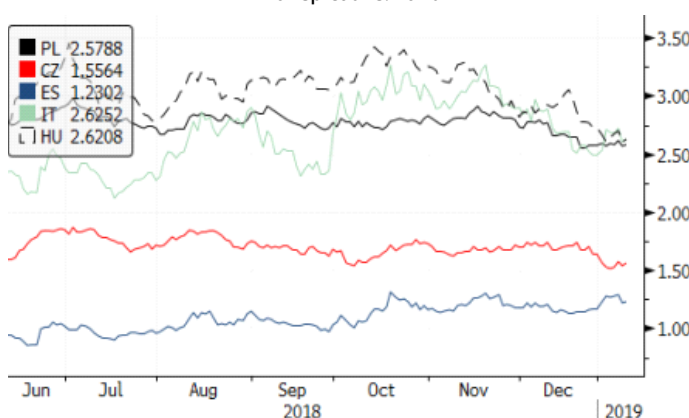
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (4 January)								
02:45	CN	Caixin China PMI Services	Dec	pts	53.0		53.9	53.8
09:55	DE	Markit Germany Services PMI	Dec	pts	52.5	-	51.8	52.5
10:00	EZ	Eurozone Services PMI	Dec	pts	51.4	-	51.2	51.4
10:00	PL	CPI	Dec	% y/y	1.1	1.0	1.1	1.3
11:00	EZ	Flash HICP	Dec	% y/y	1.7	-	1.6	2.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	183	-	312	176
14:30	US	Unemployment Rate	Dec	%	3.7	-	3.9	3.7
MONDAY (7 January)								
08:00	DE	Retail Sales	Nov	% m/m	0.4	-	1.4	-0.3
08:00	DE	Factory Orders	Nov	% m/m	-0.2	-	-1.0	0.3
11:00	EZ	Retail Sales	Nov	% m/m	0.1	-	0.6	0.3
16:00	US	ISM services	Dec	pts	59.5	-	57.6	60.7
TUESDAY (8 January)								
08:00	DE	Industrial Production SA	Nov	% m/m	0.5	-	-1.9	-0.8
09:00	CZ	Industrial Production	Nov	% y/y	5.0	-	4.8	6.7
09:00	HU	Industrial Production SA	Nov	% y/y	-	-	3.5	3.3
11:00	EZ	ESI	Dec	pct.	108.0	-	107.3	109.5
WEDNESDAY (9 January)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
08:00	DE	Exports SA	Nov	% m/m	-0.5	-	-0.4	0.9
11:00	EZ	Unemployment Rate	Nov	%	8.1	-	7.9	8.1
20:00	US	FOMC Meeting Minutes						
THURSDAY (10 January)								
09:00	CZ	CPI	Dec	% y/y	2.1	-		2.0
14:30	US	Initial Jobless Claims	week	k	226	-		231
FRIDAY (11 January)								
09:00	CZ	GDP SA	3Q	% y/y	2.4	-		2.4
14:30	US	CPI	Dec	% m/m	-0.1	-		0.0

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

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