

30 January 2019

Eyeopener

Will FOMC sound less hawkish too?

UK wants to change the Brexit deal
Zloty and EURUSD stable after the UK voting
Polish and foreign bonds slightly stronger
Today, ESI data, US ADP report, FOMC decision

On Tuesday stock indexes rebounded somewhat, while IRS rates and bond yields fell in Poland and abroad under impact of uncertainty about outcome of Sino-US trade talks. FX market was less volatile, as investors were awaiting the Plan B vote in London.

Yesterday evening the British parliament approved an amendment that allows PM May to renegotiate Brexit conditions with the EU (the ones that were rejected by MPs earlier this month). A motion against the option of the UK to leave the EU without a new deal also passed, but is not binding. At the same time, anonymous EU sources claimed that the Union is not going to renegotiate the deal in its key elements. In a reaction to the voting results, the pound gave back some of the gains from recent weeks. The attempt of the British parliament to renegotiate the deal while the EU is not interested, was received by the markets as a rise of the probability of a no-deal Brexit. The zloty and its CEE peers did not react to the voting result, and EURUSD was also stable at night. European equity markets open flat vs yesterday's close.

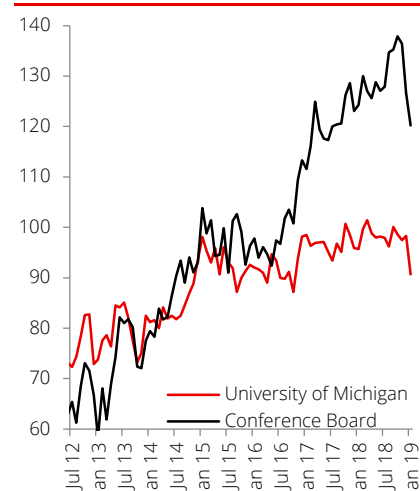
EURUSD was oscillating around 1.143. Investors were quite calm when observing the Brexit debate in the British Parliament. The weaker than expected consumer sentiment data in the US did not cause any major reaction. Today we will get to see the monthly ADP report and the FOMC is making decision on rates in the evening. The FOMC meeting will be concluded with Jerome Powell's press conference. In our view, the record-long government shutdown, no progress in the US-China trade talks and the recent poor global data could influence the tone of the FOMC statement and Powell's message. In December, the Council's members removed one hike from the three expected for 2019, and we think in January **the tone could be even more cautious as regards the pace of the monetary policy tightening**. EURUSD's reaction to the dovish rhetoric of the ECB was only temporary. Should the FOMC adopt a more reserved approach, the dollar could give up part of the recent gains vs the euro.

EURPLN climbed in the morning trading towards 4.298 and then pulled back to around 4.293. Similarly as in case of EURUSD, the zloty ignored the global news. Today, key factor for EURPLN could be EURUSD reaction to FOMC meeting. EURPLN has recently deviated somewhat from the reversed EURUSD but we think that the weaker dollar could be positive for the zloty. On the other hand, note that the volatility of EURPLN is holding very low. Periods of a very low volatility are often followed by sharp jumps of price changes and a rise in volatility is usually a negative phenomenon for the EM currencies. This makes us cautious in assessing the chances for a significant zloty appreciation in the short term.

In case of the other CEE currencies, EURHUF fell as the central bank of Hungary continued to suggest it wants to normalise monetary policy. EURCZK rose from 25.75 to 25.77 despite a remark by Czech central banker Benda about room for 2-3 more rate hikes. USDRUB declined to 66.1 from 66.4 on higher oil prices.

On the domestic debt market, bond yields and IRS rates fell by 2-3bp in the 5-10Y segment amid lower IRS on the core markets and decreases of the US yields. Today we expect the downward pressures on bond yields to hold, which is likely to be supported by ESI reading (we anticipate further deterioration). In our opinion, the evening FOMC press conference will also be positive for the bond market. During the conference, we expect comment referring to the uncertainty related to US-China trade talks and potentially negative consequences of "government shutdown" for the US economy.

Consumer confidence indexes (pts)



Source: Bloomberg

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FX market

Today's opening

EURPLN	4.2952	CZKPLN	0.1666
USDPLN	3.7565	HUFPLN*	1.3545
EURUSD	1.1434	RUBPLN	0.0568
CHFPLN	3.7705	NOKPLN	0.4422
GBPPLN	4.9120	DKKPLN	0.5754
USDCNY	6.7119	SEKPLN	0.4144

*for 100HUF

Last session in the FX market 29/01/2019

	min	max	open	close	fixing
EURPLN	4.291	4.298	4.294	4.296	4.2974
USDPLN	3.749	3.765	3.755	3.759	3.7563
EURUSD	1.141	1.145	1.144	1.143	-

Interest rate market 29/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.49	1	25 sty 19	OK0521	1.479
PS0424 (5L)	2.17	-1	25 sty 19	PS0424	2.160
WS0428 (10L)	2.78	-2	25 sty 19	WS0428	2.783

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	2.76	-1	-0.22	0
2L	1.77	-2	2.71	-2	-0.16	0
3L	1.84	-1	2.65	-2	-0.07	-1
4L	1.94	-2	2.63	-2	0.04	-1
5L	2.04	-2	2.63	-2	0.16	-1
8L	2.25	-3	2.69	-2	0.52	-1
10L	2.39	-2	2.75	-2	0.73	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.16	1
T/N	1.47	20
SW	1.52	0
2W	1.57	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	1.71	0
3x6	1.71	0
6x9	1.71	-1
9x12	1.70	-1
3x9	1.77	0
6x12	1.75	-1

Measures of fiscal risk

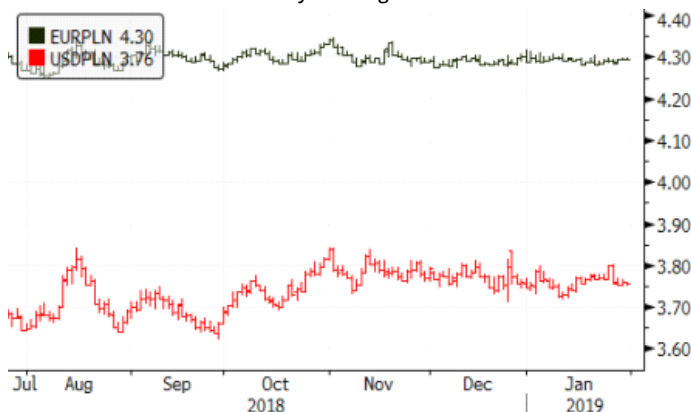
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.59 -1
France	37 0	0.41 0
Hungary		2.65 1
Spain	76 1	1.04 1
Italy	206 1	2.45 1
Portugal	88 -1	1.47 1
Ireland	41 0	0.74 0
Germany	13 0	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

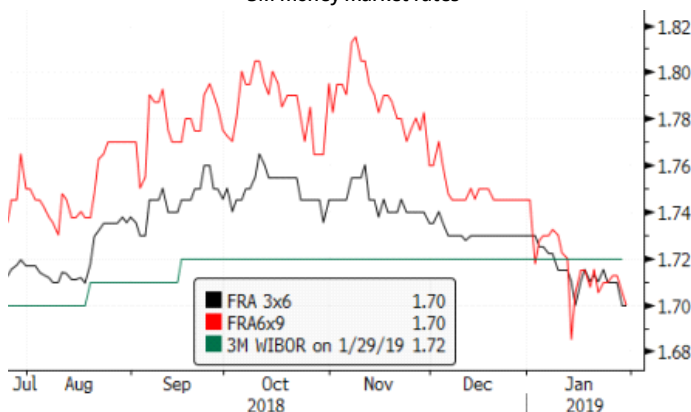
Zloty exchange rate



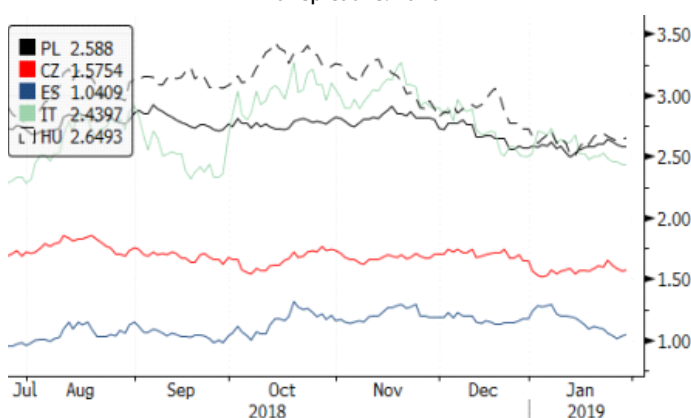
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (25 January)							
10:00	DE	IFO Business Climate	Jan	pts	100.7	99.1	101.0
11:30	PL	Bond Auction					
MONDAY (28 January)							
No important data releases							
TUESDAY (29 January)							
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90
16:00	US	Consumer Conference Board	Jan	pts	124.9	-	120.2
WEDNESDAY (30 January)							
11:00	EZ	ESI	Jan	pts	106.9	-	107.3
14:00	DE	HICP	Jan	% m/m	-0.9	-	0.3
14:15	US	ADP report	Jan	k	170	-	271
16:00	US	Pending Home Sales	Dec	% m/m	1.0	-	-0.7
20:00	US	FOMC decision		%	2.5	-	2.5
THURSDAY (31 January)							
08:00	DE	Retail Sales	Dec	% m/m	-0.6	-	1.6
10:00	PL	GDP	2018	% y/y	5.0	5.1	4.8
11:00	EZ	GDP SA	4Q	% y/y	1.2	-	1.6
11:00	EZ	Unemployment Rate	Dec	%	7.9	-	7.9
14:30	US	Initial Jobless Claims	week	k	218	-	199
FRIDAY (1 February)							
09:00	PL	Poland Manufacturing PMI	Jan	pts	47.5	49.0	47.6
09:55	DE	Germany Manufacturing PMI	Jan	pts	51.5	-	49.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	51.35	-	50.5
11:00	EZ	Flash HICP	Jan	% y/y	1.4	-	1.6
14:30	US	Change in Nonfarm Payrolls	Jan	k	162	-	312
14:30	US	Unemployment Rate	Jan	%	3.8	-	3.9
16:00	US	Michigan index	Jan	pts	0.0	-	90.7
16:00	US	ISM manufacturing	Jan	pts	54.25	-	54.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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