

31 January 2019

Eyeopener

Fed withdraws from rate hikes plan

Next data key for the US monetary policy
 Dovish FOMC boosts zloty and euro
 Global yields down after FOMC meeting
 Today, Poland 2018 GDP data

On Tuesday, US equities rose while European stock indexes declined. The FX market was stable ahead of the FOMC press conference and Brexit news. ADP data about the US labour market surprised to the upside, while German inflation and European ESI indicators were lower than expected. A significant rise of market volatility was seen in the evening in reaction to the outcome of the FOMC meeting.

In line with expectations, yesterday the FOMC left interest rates unchanged with main Fed Funds rate in 2.25-2.50% range. As we were expecting, the tone of the statement and comment of Fed Governor during the press conference became clearly less hawkish. The FOMC decided it "will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate". Thus, **the Committee retreated from the plan to raise rates twice this year**, what was suggested in the December forecast edition. According to Jerome Powell, the slower economic growth in Europe and China, uncertainty about Brexit, trade negotiations or recent government shutdown have undermined the US economic prospects. Uncertainty about these factors is a rationale behind becoming more patient in the monetary policy. Additionally, the Fed Governor said that the normalisation of Fed balance sheet may not bring it back to pre-2009 levels. In reaction to this major swing in the US monetary policy the dollar lost, bonds gained, while stock markets climbed.

ESI business climate indicators confirmed deterioration of business sentiment in many sectors at the start of the year. Indices of current and expected economic activity fell in manufacturing, services and trade. The survey also revealed worsening of expected employment, while indicators of expected prices rebounded up sharply. Construction sector stands out in this environment with the index of orders portfolio still on the rise. Consumer indicators were still quite good, after their December's collapse related to energy prices. Households' inflation expectations rose to the highest level in 4.5 years, but the level of the index is still not very high, much below the multi-year average.

EURUSD moved little during the European session and only after the FOMC meeting it rapidly rose above 1.15 from 1.141. This morning there were very poor data on German retail sales. Still, this may not be enough to stop the upside impulse of EURUSD, but could decrease the pace of the dollar depreciation vs the euro.

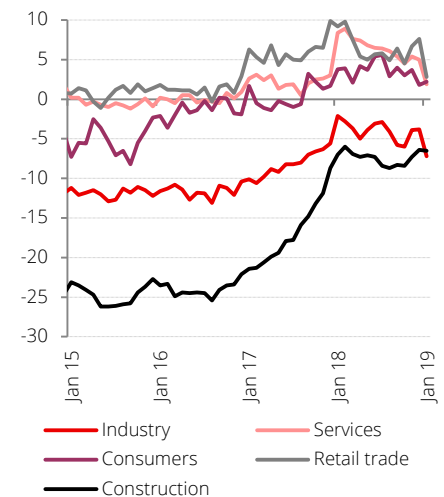
EURPLN was heading lower since the beginning of the yesterday session and USDPLN was stable. EURPLN did not immediately respond to the FOMC meeting outcome, but this morning it was already below 4.28 on rising EURUSD. USDPLN dropped to 3.72 from 3.755. The rise of EURUSD and positive mood on the opening of the session may hold EURPLN at the lower level, but the exchange rate has still not been knocked out of the horizontal trend in which it has been holding since August.

In case of the CEE currencies, forint gained on the Hungarian central bank rhetoric and FOMC decision. EURCZK rebounded after the Czech ministry of finance cut the GDP forecast for 2019. USDRUB dropped triggered by rising oil prices and weak dollar.

On the domestic fixed income market yields and IRS stabilized ahead of the FOMC meeting. US bonds gained slightly while Bund did not move much. The outcome of the FOMC meeting pushed core yields down strongly and we believe that dovish Fed rhetoric could strengthen Polish debt today as well.

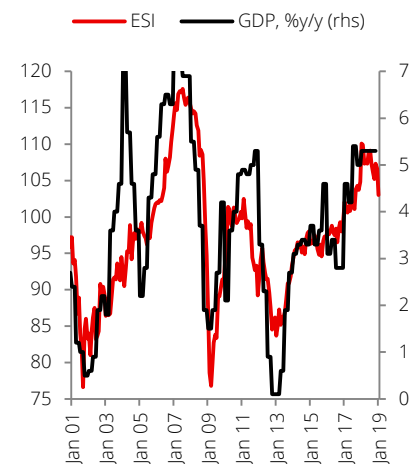
Today at 10:00CET Poland flash 2018 GDP will be released. In our opinion, GDP rose by 5.1% y/y, the fastest since 2007. It was probably the last reading above 5.0% for a long time. Already in 4Q18 the GDP growth may have fallen slightly below this level (we see it at 4.8% y/y) and in the following quarters it will continue to slow down, mainly owing to the economic downturn abroad. For this year we expect GDP growth at 3.8% y/y.

ESI sentiment indicators



Source: European Commission, GUS, Santander

Main ESI index and economic growth



Source: European Commission, GUS, Santander

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FX market

Today's opening			
EURPLN	4.2810	CZKPLN	0.1664
USDPLN	3.7202	HUFPLN*	1.3571
EURUSD	1.1507	RUBPLN	0.0570
CHFPLN	3.7481	NOKPLN	0.4425
GBPPLN	4.8913	DKKPLN	0.5735
USDCNY	6.7022	SEKPLN	0.4125

*for 100HUF

Last session in the FX market 30/01/2019

	min	max	open	close	fixing
EURPLN	4.286	4.298	4.296	4.289	4.2952
USDPLN	3.749	3.761	3.759	3.756	3.7577
EURUSD	1.141	1.145	1.143	1.142	-

Interest rate market 30/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.48	-1	25 sty 19	OK0521	1.479
PS0424 (5L)	2.16	-1	25 sty 19	PS0424	2.160
WS0428 (10L)	2.77	-1	25 sty 19	WS0428	2.783

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.76	0	-0.22	0
2L	1.77	0	2.72	1	-0.16	0
3L	1.84	0	2.66	1	-0.07	0
4L	1.94	0	2.64	1	0.04	0
5L	2.04	0	2.64	1	0.16	0
8L	2.25	0	2.70	1	0.50	-1
10L	2.39	0	2.76	1	0.71	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.48	32
T/N	1.50	3
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	1.70	-1
9x12	1.70	0
3x9	1.77	0
6x12	1.75	0

Measures of fiscal risk

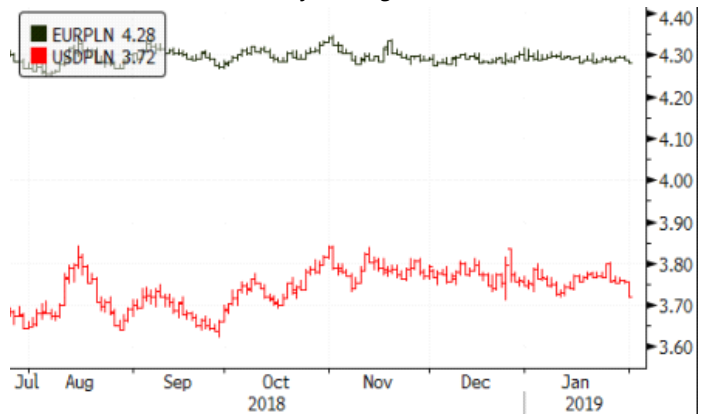
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.61	2
France	37	0	0.41	0
Hungary			2.65	2
Spain	76	0	1.07	0
Italy	204	-3	2.40	-1
Portugal	88	-1	1.48	0
Ireland	40	1	0.73	0
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

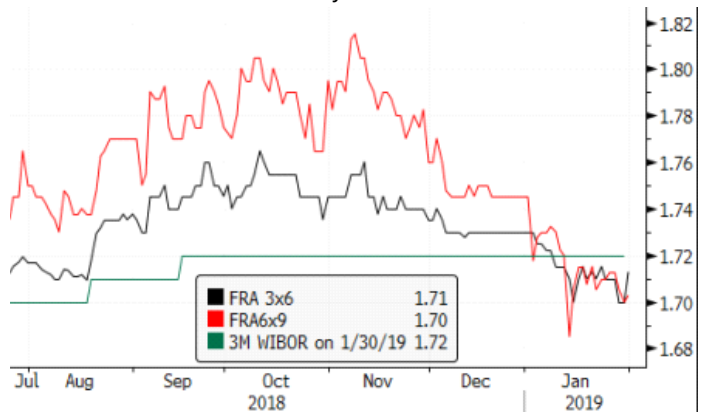
Zloty exchange rate



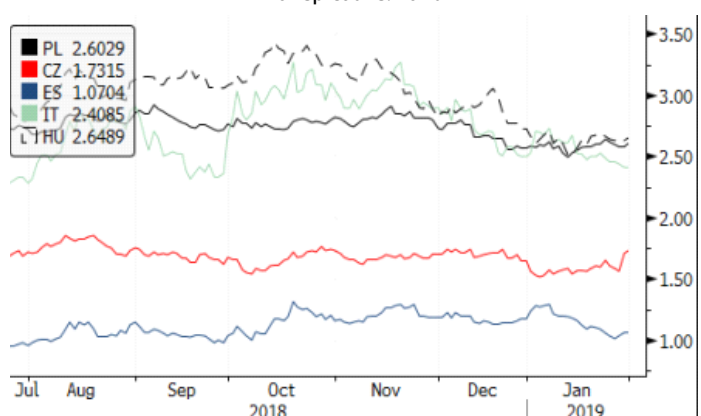
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
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	-	106.2
14:00	DE	HICP	Jan	% m/m	-0.9	-	-1.0
14:15	US	ADP report	Jan	k	170	-	213
16:00	US	Pending Home Sales	Dec	% m/m	0.5	-	-2.2
20:00	US	FOMC decision		%	2.5	-	2.5
THURSDAY (31 January)							
08:00	DE	Retail Sales	Dec	% m/m	-0.6	-	-4.3
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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