

21 June 2019

# Eyeopener

## Fed open to easing

FOMC communication strengthened the zloty and debt, weakened the dollar

Wages stronger than forecast, employment weaker

Today Polish output and PPI, flash PMIs from euro zone

On Wednesday during the day the zloty, CEE fx and core market bonds were weakening, but in the evening they started to gain substantially given the dovish FOMC rhetoric. Polish data on wages and employment were mixed, so were the US data released on Thursday. Donald Trump returned to aggressive rhetoric vs Iran, but his suggestions were not in the spotlight and the FOMC communication dominated the markets, supporting equities and commodities.

At the Wednesday meeting, **FOMC** left rates unchanged. The dot plot showed that its members prefer to keep rates stable in 2019 (as in March, but this time 8 out of 17 contributors to the chart preferred cuts this year), in 2020 rates should go down (instead of one hike shown in the previous dot plot) and in 2021 there might be one rate hike. The rhetoric of Fed was quite dovish – Jerome Powell stressed that for many members now the case for more accommodation strengthened. This led to significant declines of bond yields and to dollar weakness.

June **consumer confidence** indicators for Poland went up strongly, hitting an all-time high. Interestingly, all the subindices improved, with the most considerable changes in expected change of unemployment and conditions for saving money (the indicator turned positive for the first time ever). Polish consumers are clearly optimistic and this will be underpinning consumption growth this years. Still, the strong jump in consumer confidence in June is most probably connected to one-off factors, like disbursement of the pension benefit. Lavish fiscal policy is likely to further boost consumer confidence in the months to come..

May data on **wages and employment** in the corporate sector seem a reflection of how tight the labour market has become. Employment surprised to the downside while wages grew more than expected. Employment growth was 2.7% y/y, the weakest since early 2016, vs 2.9% previously and 2.9% market expectations. The May m/m employment change was -12k, which is the worst outcome for the month since 2009 (for comparison: in the last eight years the figure stayed between -2k and +4k). Wages grew 7.7% y/y vs 7.1% market median and our 7.0% forecast. This is the third highest reading in this business cycle. Real wage bill remained close to 8% y/y vs 9-percent average for 2018, but bear in mind that before searching for implications for consumption growth one needs to add the increased social transfers in May (13. pension) and more coming in summer.

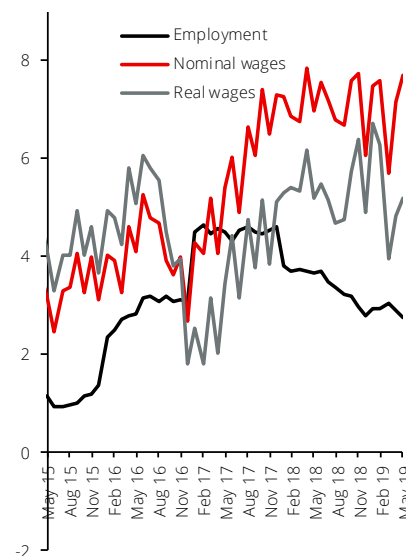
On Wednesday across the day, **EURUSD** was rising slightly, waiting for the FOMC conference, finally EURUSD shifted up to 1,1210 from 1,1190. After the FOMC conference USD started to weaken and on Thursday evening it reached 1.1290, hitting 1,1320 on the way. Today Eurozone PMI-manufacturing readings are beating the forecasts, which is likely to help to hold EURUSD close to 1.13.

On Wednesday **EURPLN** rose to 4.2710 from 4.2630, waiting for the FOMC conference and following the falls of stock markets. After the FOMC conference, EURPLN slid to 4,2520. Other CEE currencies behaved in a similar way, EURHUF rose before FOMC to 324.30 from 323.20 but then decreased to 323.10, EURCZK to 25.58 from 25.64, while USDRUB declined to 62.85 from 64.10, additionally fueled by rising oil prices. Today we expect the EURPLN to correct some of the movethat occurred after the Fed meeting.

On Wednesday **yields of Polish bonds** rebounded after the large decreases from Tuesday. We expect the domestic bonds to strengthen today as, due to the market holiday yesterday, it had so far no opportunity to follow the rapid descent of core market bonds after FOMC.

**Today** at 10:00 CET Polish data on the industrial production and PPI are due for release. We are expecting the industrial production reading above forecasts, while PPI % y/y is likely to drop to 1.5% after the 2.6% in April.

Employment and wages in corporate sector, % y/y



Source: GUS, Santander

### 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	4.2596	CZKPLN	0.1663
USDPLN	3.7657	HUFPLN*	1.3169
EURUSD	1.1312	RUBPLN	0.0597
CHFPLN	3.8321	NOKPLN	0.4400
GBPPLN	4.7837	DKKPLN	0.5706
USDCNY	6.8726	SEKPLN	0.4010

\*for 100HUF

### Last session in the FX market 20/06/2019

	min	max	open	close	fixing
EURPLN	4.252	4.270	4.268	4.254	4.2673
USDPLN	3.759	3.805	3.805	3.767	3.8104
EURUSD	1.121	1.132	1.122	1.129	-

## Interest rate market 20/06/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.52	2	21 mar 19	OK0521	1.633
PS0424 (5L)	1.92	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.33	-3	21 mar 19	DS1029	2.877

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	1.96	-16	-0.36	-1
2L	1.74	0	1.73	-18	-0.37	0
3L	1.75	0	1.67	-18	-0.34	-1
4L	1.79	0	1.67	-17	-0.29	-1
5L	1.84	0	1.70	-15	-0.21	-1
8L	1.98	0	1.83	-13	0.03	-1
10L	2.08	1	1.92	-12	0.20	-2

### WIBOR rates

Term	%	Change (bps)
O/N	1.54	1
T/N	1.54	0
SW	1.56	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.86	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	0
6x9	1.71	0
9x12	1.69	0
3x9	1.78	0
6x12	1.77	0

### Measures of fiscal risk

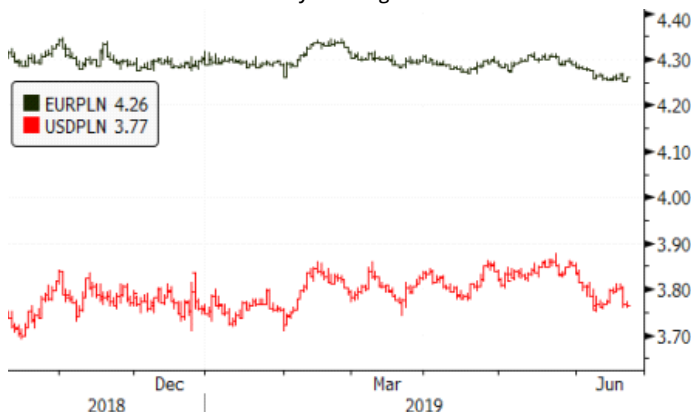
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.63 -5
France	27 -2	0.33 0
Hungary		2.90 0
Spain	40 -1	0.70 -1
Italy	195 -5	2.43 -4
Portugal	44 0	0.84 -1
Ireland	29 -1	0.53 -1
Germany	12 -1	- -

\* 10Y treasury bonds over 10Y Bunds

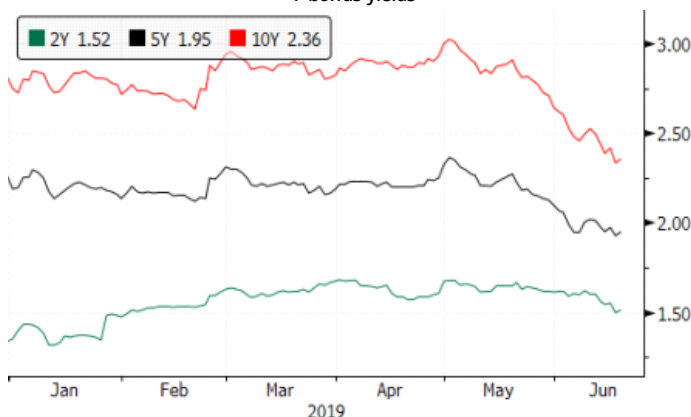
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

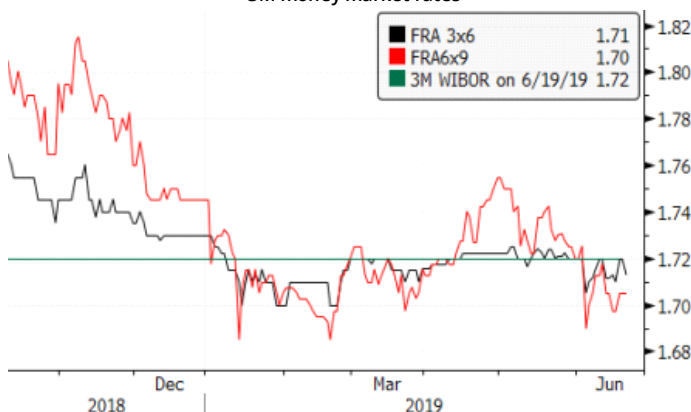
## Zloty exchange rate



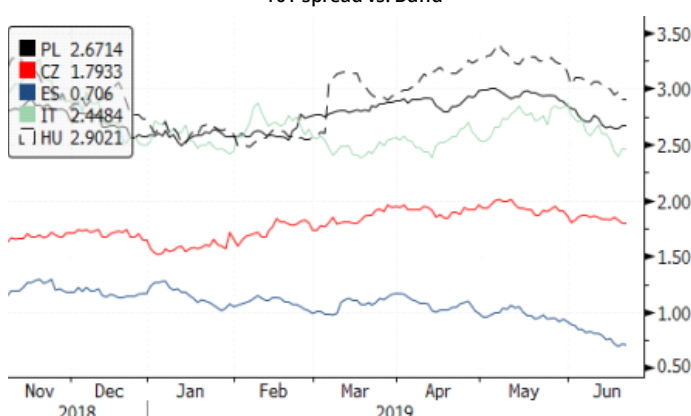
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (14 June)								
10:00	PL	CPI	May	% y/y	2.3	2.3	2.4	2.3
14:30	US	Retail Sales Advance	May	% m/m	0.6	-	0.5	-0.3
15:15	US	Industrial Production	May	% m/m	0.2	-	0.4	-0.4
16:00	US	Michigan index	Jun	pts	98.0	-	97.9	100.0
MONDAY (17 June)								
14:00	PL	CPI Core	May	% y/y	1.7	1.7	1.7	1.7
TUESDAY (18 June)								
11:00	EZ	HICP	May	% y/y	1.2	-	1.2	1.2
11:00	DE	ZEW Survey Expectations	Jun	pts	-5.6	-	-21.1	-2.1
14:30	US	Housing Starts	May	% m/m	0.3	-	-0.9	6.8
WEDNESDAY (19 June)								
10:00	PL	Employment in corporate sector	May	% y/y	3.0	3.0	2.7	2.9
10:00	PL	Average Gross Wages	May	% y/y	7.2	7.0	7.7	7.1
20:00	US	FOMC decision		%	2.5	-	2.5	2.5
THURSDAY (20 June)								
14:30	US	Initial Jobless Claims	week	k	220	-	216	222
14:30	US	Index Philly Fed	Jun	pts	10.5	-	0.3	16.6
FRIDAY (21 June)								
09:30	DE	Flash Germany Manufacturing PMI	Jun	pts	44.6	-	45.4	44.3
09:30	DE	Flash Markit Germany Services PMI	Jun	pts	55.2	-	55.6	55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Jun	pts	48.0	-		47.7
10:00	EZ	Flash Eurozone Services PMI	Jun	pts	53.0	-		52.9
10:00	PL	Sold Industrial Output	May	% y/y	7.8	8.7		9.2
10:00	PL	PPI	May	% y/y	1.6	1.5		2.6
16:00	US	Existing Home Sales	May	% m/m	2.12	-		-0.38

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>.