

22 August 2019

# Eyeopener

## No dovish tilt in FOMC minutes

Optimism is back, FOMC minutes without new dovish signals  
Zloty slightly stronger, EURUSD a bit lower  
Another day of bond sell-off  
Today Polish retail sales, flash PMIs abroad

Optimism returned on the global market on Wednesday, as expressed in clear increases on the stock exchanges and the resumption of bond sale-off. Fluctuations on exchange market were rather small in the absence of new information and before the FOMC minutes publication in the evening. The document indicated the wide support for Jerome Powell's statement that the July rate cut was only a 'mid-term adjustment' and not a start of an easing cycle. A few FOMC members reported their concern about the inversion of the yield curve, several members opted for a flexible attitude to the next cuts due to the nature of growth risk, some of them considered whether they should not have cut rates by 50 bp at once. Investors, after reading the document, did not draw back from the expectations for 2-3 rate cuts this year. They probably hope that during the symposium in Jackson Hole, starting today, the Fed head will show greater openness to further monetary policy easing (his speech is planned on Friday afternoon CET). Nevertheless, the Asian trading session ends without conclusion. Recent Boris Johnson's meetings with EU leaders have not removed the risk of "hard Brexit".

Poland's **industrial output** expanded by 5.8% y/y in July, below market and our expectations. Seasonally-adjusted numbers showed a rise by 3.7% y/y, which is one of the worst results this year, second only to 2.7% y/y in June, which was under negative spell of many one-offs. Output of intermediate goods was underperforming and this type of goods is strongly correlated with Polish exports to Germany. Thus, it seems that the weak economic climate in Germany has finally begun to take its toll on Polish industry. July **construction output** is in line with our claim that the sector will be decelerating this year due to EU funds cycle. The data are generally in line with our forecast of further GDP growth slowdown in 3Q19 (4.2% y/y vs 4.4% y/y in 2Q19).

**Member of the MPC Grażyna Ancyparowicz** said in an interview for a local business newspaper's online TV: Parkiet TV, that the current level of the interest rates is „absolutely optimal”. She ruled out the possibility of further monetary easing citing as a reason significant social transfers which are increasing demand. She was simultaneously against rates increases because of the big indebtedness of Poles. According to Ancyparowicz inflation might exceed 3% y/y at the turn of the year and then recede. She saw the current inflation level of 2.9% y/y in July as very far away from the NBP's upper limit of inflation band of 3.5%. We think that in this and the next year the NBP will hold the rates unchanged, but we expect that in the forthcoming MPC meetings we might observe rate hike motions by the hawkish minority.

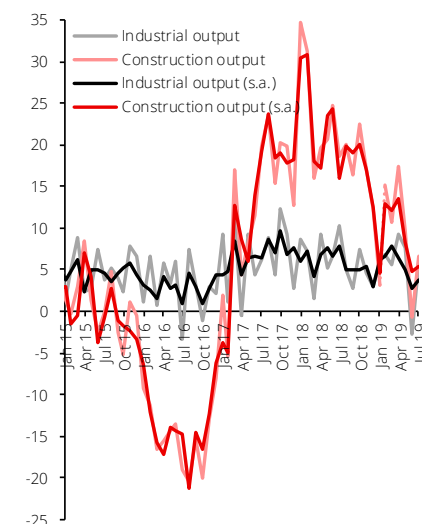
**EURUSD** did not move much yesterday as it started and ended the session near 1.11. After the release of the FOMC minutes, the exchange rate eased below 1.109 and did not try to return to 1.11 later on. The market may remain in the wait-mode ahead of the Powell's Friday speech. Before that, today flash European PMIs have some market-moving potential for the fx pair.

**EURPLN** fell temporarily to 4.345 from 4.36 and USDPLN to 3.915 from 3.93. The zloty benefited from the rise of the global equity indexes and the dollar depreciation vs the basket of developed currencies recorded in the last two days. In case of the other CEE currencies, the ruble was outperforming amid rising oil price and weaker dollar. The forint remained stable vs the euro while the koruna gave up all of its Tuesday's gains. Lack of fresh dovish signals from the FOMC minutes could work today against the EM currencies, including the zloty. The next risk factor is flash PMIs, particularly after the yesterday's poor Polish output data, suggesting fading resilience to German underperformance.

On Wednesday on the Polish **fixed income market**, after a day of pause, we saw a continuation of bonds sell-off which started on Monday. The bond yield curve moved higher by 7-10bp in the middle and the long end. Short term yields remained stable. As for the IRS the 2-year yield bounced by 3bp and 5- and 10-year yields by 6bp. As a result, the 10-year asset swap widening trend accelerated and reached almost 40bp, the most since the beginning of June. Yesterday, Polish debt traded weaker than the core markets – the 10-year spread vs Bund widened to 264bp, the most since the beginning of August, whereas the 10-year spread vs UST widened to 40bp, the most since the end of June.

**Today** at 10:00 we will get to see retail sales data. Similarly as in case of wages and output, we are expecting a visible improvement versus weak June.

### Output growth in Poland



Source: GUS, Santander

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## FX market

### Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.3532 | CZKPLN  | 0.1688 |
| USDPLN | 3.9290 | HUFPLN* | 1.3296 |
| EURUSD | 1.1080 | RUBPLN  | 0.0596 |
| CHFPLN | 4.0018 | NOKPLN  | 0.4383 |
| GBPPLN | 4.7617 | DKKPLN  | 0.5839 |
| USDCNY | 7.0759 | SEKPLN  | 0.4081 |

\*for 100HUF

### Last session in the FX market 21/08/2019

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.345 | 4.361 | 4.360 | 4.348 | 4.3513 |
| USDPLN | 3.915 | 3.931 | 3.928 | 3.916 | 3.921  |
| EURUSD | 1.109 | 1.111 | 1.110 | 1.110 | -      |

## Interest rate market 21/08/2019

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

| Benchmark (term) | %    | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0721 (2L)      | 1.49 | 0            | 21 mar 19    | OK0521    | 1.633         |
| PS1024 (5L)      | 1.72 | 7            | 21 mar 19    | PS0424    | 2.209         |
| DS1029 (10L)     | 1.95 | 10           | 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                            | 1.67 | 1            | 1.79 | 2            | -0.49 | 2            |
| 2L                            | 1.62 | 2            | 1.55 | 3            | -0.53 | 3            |
| 3L                            | 1.56 | 3            | 1.46 | 3            | -0.53 | 4            |
| 4L                            | 1.54 | 4            | 1.42 | 3            | -0.55 | -1           |
| 5L                            | 1.54 | 5            | 1.40 | 3            | -0.52 | -2           |
| 8L                            | 1.56 | 5            | 1.43 | 2            | -0.39 | -2           |
| 10L                           | 1.59 | 5            | 1.47 | 2            | -0.27 | -2           |

## WIBOR rates

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 1.59 | 0            |
| T/N  | 1.59 | 1            |
| SW   | 1.59 | 0            |
| 2W   | 1.60 | 0            |
| 1M   | 1.64 | 0            |
| 3M   | 1.72 | 0            |
| 6M   | 1.79 | 0            |
| 9M   | 1.81 | 0            |
| 1Y   | 1.85 | 0            |

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

| Term | %    | Change (bps) |
|------|------|--------------|
| 1x4  | 1.72 | 0            |
| 3x6  | 1.69 | 0            |
| 6x9  | 1.63 | 2            |
| 9x12 | 1.57 | 2            |
| 3x9  | 1.75 | 0            |
| 6x12 | 1.68 | 2            |

## Measures of fiscal risk

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   |            |              | 2.62        | 8            |
| France   | 22         | 1            | 0.27        | 0            |
| Hungary  |            |              | 2.43        | 12           |
| Spain    | 43         | 0            | 0.77        | -2           |
| Italy    | 200        | -4           | 2.00        | -6           |
| Portugal | 46         | 1            | 0.80        | -1           |
| Ireland  | 35         | -1           | 0.58        | 1            |
| 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

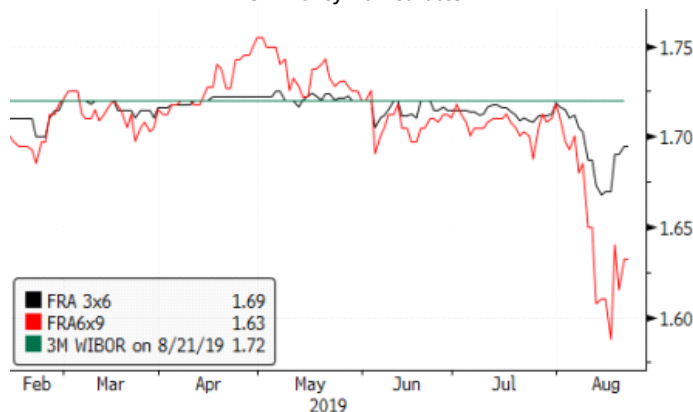
## Zloty exchange rate



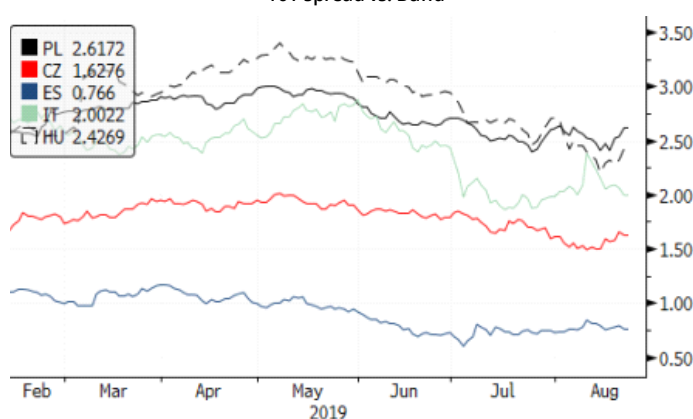
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

| TIME                  |        | COUNTRY                           | INDICATOR | PERIOD | FORECAST  |       | ACTUAL | LAST |
|-----------------------|--------|-----------------------------------|-----------|--------|-----------|-------|--------|------|
| CET                   | MARKET |                                   |           |        | SANTANDER | VALUE | VALUE* |      |
| FRIDAY (16 August)    |        |                                   |           |        |           |       |        |      |
| 14:00                 | PL     | CPI Core                          | % y/y     | 2.1    | 2,1       | 2,2   | 1.9    |      |
| 14:30                 | US     | Housing Starts                    | % m/m     | 0.2    | -         | -4.0  | -1.8   |      |
| 16:00                 | US     | Michigan index                    | pts       | 97.0   | -         | 92,1  | 98.4   |      |
| MONDAY (19 August)    |        |                                   |           |        |           |       |        |      |
| 11:00                 | EZ     | HICP                              | Jul % y/y | 1.1    | -         | 1.0   | 1.3    |      |
| TUESDAY (20 August)   |        |                                   |           |        |           |       |        |      |
| 10:00                 | PL     | Employment in corporate sector    | Jul % y/y | 2.7    | 2.7       | 2.7   | 2.8    |      |
| 10:00                 | PL     | Average Gross Wages               | Jul % y/y | 7.1    | 7.2       | 7.4   | 5.3    |      |
| WEDNESDAY (21 August) |        |                                   |           |        |           |       |        |      |
| 10:00                 | PL     | Sold Industrial Output            | Jul % y/y | 6.5    | 8.0       | 5.8   | -2.7   |      |
| 10:00                 | PL     | Construction Output               | Jul % y/y | 5.3    | 5.3       | 6.6   | -0.7   |      |
| 10:00                 | PL     | PPI                               | Jul % y/y | 0.5    | 0.4       | 0.6   | 0.5    |      |
| 16:00                 | US     | Existing Home Sales               | Jul % m/m | 2.5    | -         | 2.5   | -1.3   |      |
| 20:00                 | US     | FOMC Meeting Minutes              |           |        |           |       |        |      |
| THURSDAY (22 August)  |        |                                   |           |        |           |       |        |      |
| 09:30                 | DE     | Flash Germany Manufacturing PMI   | Aug pts   | 43.0   | -         |       | 43.2   |      |
| 09:30                 | DE     | Flash Markit Germany Services PMI | Aug pts   | 54.0   | -         |       | 54.5   |      |
| 10:00                 | EZ     | Flash Eurozone Manufacturing PMI  | Aug pts   | 46.2   | -         |       | 46.5   |      |
| 10:00                 | EZ     | Flash Eurozone Services PMI       | Aug pts   | 53.0   | -         |       | 53.2   |      |
| 10:00                 | PL     | Retail Sales Real                 | Jul % y/y | 5.9    | 5.6       |       | 3.7    |      |
| 14:00                 | PL     | MPC minutes                       |           |        |           |       |        |      |
| 14:30                 | US     | Initial Jobless Claims            | week k    | 216    | -         |       | 220    |      |
| FRIDAY (23 August)    |        |                                   |           |        |           |       |        |      |
| 14:00                 | PL     | Money Supply M3                   | Jul % y/y | 9.5    | 9.9       | -     | 9.3    |      |
| 16:00                 | US     | New Home Sales                    | Jul % m/m | -0.2   | -         | -     | 7.0    |      |

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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