

12 September 2019

# Eyeopener

## How will the ECB support the economy?

Optimism ahead of the ECB decision  
 NBP governor: bad weather for hawks, we can cut rates  
 EURUSD down, forint ever weaker, zloty stable to euro  
 Domestic bonds recover from losses  
 Today ECB decision

The global sentiment was quite positive yesterday thanks to the most recent changes in Donald Trump's advisors team and hopes for an end of the trade war after China excluded some US goods from the tariff list. The US president pledged to postpone some tariffs on Chinese imports by two weeks in October. Yesterday the US dollar index gained, rising to the highest level in a week, putting a pressure on EM currencies. Bonds stabilised after the recent rebound in yields and ahead of the ECB decision.

Today the market will focus on the **ECB meeting**. The central bank is likely to ease its policy, e.g. by cutting deposit rate by 10bp. After August comment of Olli Rehn stating that the bank is ready to deliver more than the market had expected, more central bankers spoke in a less optimistic manner. As a result, in our view the ECB might not turn out as dovish as expected. Despite the decision on rates, the ECB may also introduce tiering for deposit rates, alter its forward guidance and mull extension of asset purchases.

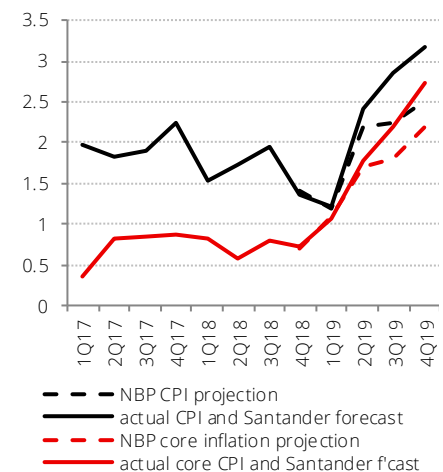
**MPC left rates unchanged.** The statement was changed a little: negative risks to (still respectable) growth have grown in the council's opinion. MPC acknowledged there can be a 1Q20 spike in CPI, but followed by a return to the target. At the press conference, Adam Glapinski was mainly asked about his conversation with PiS leader Jaroslaw Kaczyński, where the NBP governor had stated the planned minimum wage rise (by 15.6%) would have no negative effect on economy. He explained the effect on CPI could be 0.1pp in 2020 and 2021 and zero on GDP growth. Asked about the response of the hawkish members (none of them was present at the conference), if the large minimum wage rise increased the number of members preferring a tighter policy, he said that "quite the opposite" happened. We think this might mean that this time there was a motion of a 25bp cut voted after the 25bp hike voted in July. Glapinski also stressed the global context which he called "bad weather for the MPC hawks" (central banks easing policies, considerations of more QE, Germany probably in recession). Additionally, NBP governor mentioned the option of a rate cuts in Poland without the usual remark that this would generate some risk to the banking system stability. Just like we expected, the rhetoric during the press conference was softened in order to diminish the information about the July rate hike motion. We still think the MPC will keep rates stable in 2019 and 2020.

On Wednesday **EURUSD** had the biggest 1-day downward move since the end of August partly as a result of increased hopes toward a better US-CN trade deal. At the end of the day EURUSD traded in the vicinity of 1.10. We think the ECB rate decision and comments will not weaken the euro, at least not as a first market reaction. In general, the EURUSD volatility might be heightened today, especially during the ECB press conference (start at 2:30pm).

**EURPLN** traded yesterday above 4.33 in line with our expectations. Zloty traded not as weak as other regional currencies, however USDPLN traded up to 3.95 from 3.92 as a function of the lower EURUSD. As for other CEE currencies, EURHUF printed another all time high – it traded briefly above 333.0. Koruna also weakened vs euro while ruble gained vs dollar. We believe, that both PLN and other CEE currencies might weaken a bit today after the ECB meeting, but those moves might prove temporary. We believe that even if the ECB does not deliver on the dovish market expectations at this meeting, investors might start to price in more dovishness at one of the subsequent meetings. The latter should be positive for CEE currencies.

On the **Polish fixed income** market on Wednesday we saw a significant correction after a few days of yields trending higher. Both bond and IRS curves moved lower by 6-9bp in the belly and at the long end. The correction at the short end did not exceed 2bp. Similarly to PLN forecast, we think that POLGBs in the first reaction to ECB meeting might sell off a bit but the move higher in yields might prove temporary.

July NBP projection, % y/y



Source: NBP, GUS, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://www.santander.pl/en/economic-analysis)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luzziński +48 22 534 18 85  
 Wojciech Mazurkiewicz +48 22 534 18 86  
 Grzegorz Ogonek +48 22 534 19 23  
 Marcin Sulewski, CFA +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.3325	CZKPLN	0.1675
USDPLN	3.9232	HUFPLN*	1.3071
EURUSD	1.1044	RUBPLN	0.0600
CHFPLN	3.9542	NOKPLN	0.4385
GBPPLN	4.8484	DKKPLN	0.5808
USDCNY	7.1147	SEKPLN	0.4056

\*for 100HUF

### Last session in the FX market 11/09/2019

	min	max	open	close	fixing
EURPLN	4.331	4.342	4.331	4.342	4.335
USDPLN	3.919	3.949	3.923	3.945	3.9273
EURUSD	1.099	1.106	1.104	1.101	-

## Interest rate market 11/09/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.56	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.84	-9	21 mar 19	PS0424	2.209
DS1029 (10L)	2.07	-9	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	1.71	0	1.86	0	-0.47	0
2L	1.73	-4	1.65	2	-0.51	1
3L	1.71	-6	1.57	3	-0.51	0
4L	1.71	-7	1.53	3	-0.49	1
5L	1.71	-8	1.52	4	-0.45	2
8L	1.72	-7	1.56	4	-0.27	3
10L	1.74	-7	1.61	4	-0.13	3

### WIBOR rates

Term	%	Change (bps)
O/N	1.65	0
T/N	1.64	0
SW	1.60	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	1.71	-1
6x9	1.68	-2
9x12	1.64	-5
3x9	1.78	0
6x12	1.77	-1

### Measures of fiscal risk

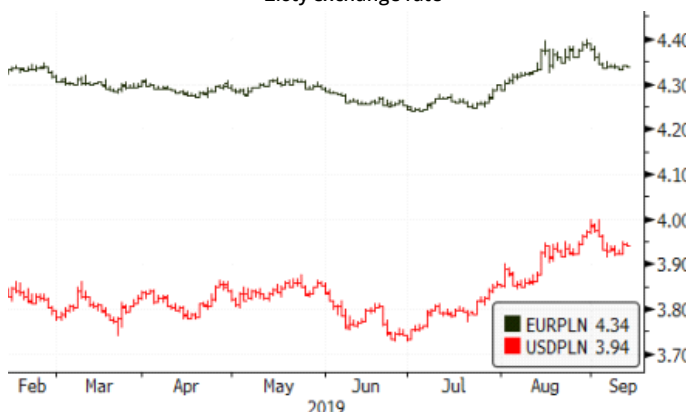
Measures of risk-adjusted				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.63	-10
France	21	-1	0.30	0
Hungary			2.72	-8
Spain	41	-1	0.82	0
Italy	145	-7	1.52	-1
Portugal	43	0	0.82	-2
Ireland	32	1	0.56	-4
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

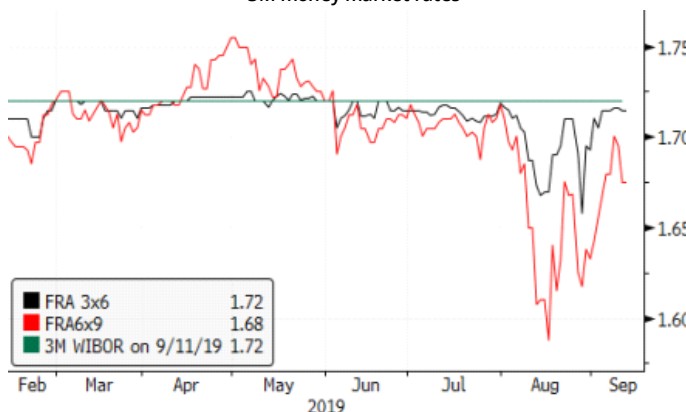
## Zloty exchange rate



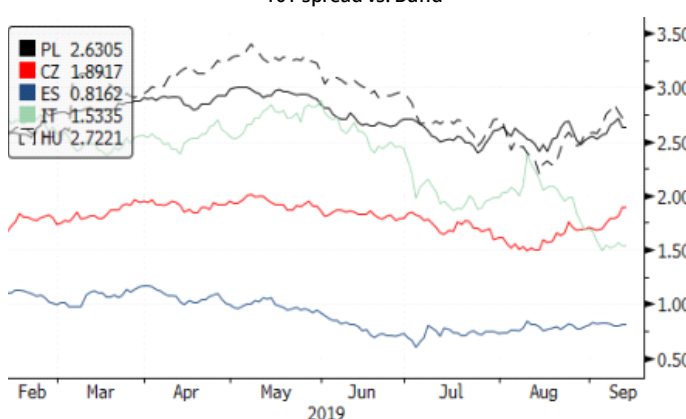
## T-bonds yields



## 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 (6 September)								
08:00	DE	Industrial Production SA	Jul	% m/m	0.4	-	-0.6	-1.5
09:00	CZ	Industrial Production	Jul	% y/y	2.9	-	0.1	-3.8
09:00	HU	Industrial Production SA	Jul	% y/y	5.85	-	8.7	4.1
11:00	EZ	GDP SA	2Q	% y/y	1.1	-	1.2	1.1
14:30	US	Change in Nonfarm Payrolls	Aug	k	160	-	130	159
14:30	US	Unemployment Rate	Aug	%	3.7	-	3.7	3.7
MONDAY (9 September)								
08:00	DE	Exports SA	Jul	% m/m	-0.7	-	0.5	-0.1
TUESDAY (10 September)								
09:00	CZ	CPI	Aug	% y/y	2.8	-	2.9	2.9
09:00	HU	CPI	Aug	% y/y	3.2	-	3.1	3.3
WEDNESDAY (11 September)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
THURSDAY (12 September)								
08:00	DE	HICP	Aug	% m/m	-0.1	-	-0.1	-0.1
11:00	EZ	Industrial Production SA	Jul	% m/m	0.0	-		-1.6
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	CPI	Aug	% m/m	0.1	-		0.3
14:30	US	Initial Jobless Claims	week	k	215	-		217
FRIDAY (13 September)								
10:00	PL	CPI	Aug	% y/y	-	2.8		2.8
14:00	PL	Current Account Balance	Jul	€mn	4.0	-400		21
14:00	PL	Trade Balance	Jul	€mn	-80	-14		-77
14:00	PL	Exports	Jul	€mn	19 046	18 845		18 068
14:00	PL	Imports	Jul	€mn	18 955	18 859		18 145
14:30	US	Retail Sales Advance	Aug	% m/m	0.2	-		0.7
16:00	US	Flash Michigan index	Sep	pts	90.2	-		89.8

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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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.