

18 September 2019

Eyeopener

Waiting for the Fed

Pretty calm Tuesday sessio
 Fed could cut rates by 25bp, but with a relatively hawkish comment
 Dollar and CEE fx weaker
 Today Polish wages and employment data, Eurozone inflation, Fed decision

Tuesday's session was pretty calm on the developed equity markets where a stabilization or only mild drop was recorded while the EM stocks closed in red. The dollar depreciated, oil price fell c5% at the opening (today in the morning WTI trades at cUS\$59/bbl) giving up part of the Monday's jump. The price of gold rose slightly hovering around the psychological level of US\$1500.

Today in the evening, **FOMC is widely expected to cut interest rates** by 25bp taking the target range for the Fed funds rate to 1.75%-2.00% from the current 2.00-2.25%. This would be the second rate cut in 10 years (the first one was delivered in late July). This month, the updated economic forecasts and dot plot will be published. The market will seek if FOMC suggests that more cuts are on the way, as demanded by president Trump. However, given the most recent comments of the Fed governor Powell (saying that the July hike was a "mid-cycle adjustment", not a beginning of an easing cycle) we would rather expect a hawkish rhetoric. Additionally, during the press conference there could be a question about the recent sharp changes on the repo market where we saw rates rising to c10% due to tax payments and large bond issuances encouraging the Fed to intervene on the market.

In an interview for Reuters agency **MPC's Eugeniusz Gatnar** presented his inflation view, which made him file in a hike motion on the central bank meeting in July: increase to 3.5% y/y at the year-end, jump above the upper limit of tolerance band at the start of 2020 and then a longer presence in 2.5-3.5% range. The MPC member said that he is not intending to file in hike motions at every consecutive meeting, but he may do so in November when the MPC gets the new projection. In our view, the MPC hawks will fail to gather a majority to support policy tightening, as global factors (risks to economic growth, monetary easing by main central banks) will outweigh the CPI factor (our inflation forecasts are quite similar to the scenario outlined by Eugeniusz Gatnar).

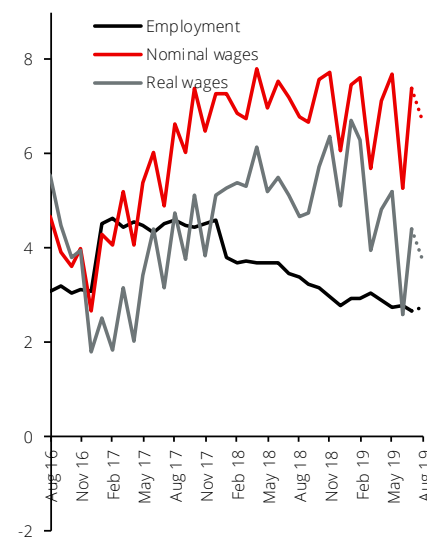
The Dziennik Gazeta Prawna daily suggested that the government could abandon the plan to abolish the **annual limit on social security contributions** (currently 30 average wages). However, today the government's spokesperson said that this measure is intended to be enacted and it was already put into 2020 budget. Abolishment of the limit is to yield cPLN5bn into the GG budget per annum.

EURUSD on Tuesday retraced some of the Monday's move lower and traded higher back to 1.106 from 1.10 and this despite stronger US industrial production data (0.6% m/m vs expected 0.2% m/m). **EURPLN** traded on the weaker side with a high at 4.347, but then retraced part of the move in the second part of the day and closed at 4.338. **USDPLN** closed around 3.922 as a result of a waker USD in general. **CHFPLN** closed at 3.95. As to the other CEE currencies, forint and koruna traded weaker throughout most of the day and gained a bit towards the end of the day. **EURHUF** hit a high of 334.3 while **EURCZK** at 25.92. They closed, respectively, at 333.6 and 25.9. **USDRUB** rose 0.6% after crude oil dropped 5% (decreasing the gain from the Friday close to just above 9%)

On the **domestic interest rate market** bond yields were holding stable, just like core debt. Bund yields rose c1bp along the curve while the UST did not move awaiting the today's Fed decision. Polish bonds gained slightly, yields fell 3bp on the belly and 5bp on the front end. IRS rose 1-2bp and so the asset swap spread narrowed by 5bp. The Polish-German spread fell 4bp along the curve and closed at 257bp for the 10Y.

Today we will get to see August new home starts in the USA (14:30CET) and the Fed decision on interest rates. In the euro zone August HICP is to be released at 11:00CET. In Poland we will get to see employment and wages at 10:00CET.

Employment and wages in corporate sector, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3396	CZKPLN	0.1675
USDPLN	3.9223	HUFPLN*	1.3015
EURUSD	1.1063	RUBPLN	0.0609
CHFPLN	3.9470	NOKPLN	0.4385
GBPPLN	4.8985	DKKPLN	0.5811
USDCNY	7.0862	SEKPLN	0.4050

*for 100HUF

Last session in the FX market 17/09/2019

	min	max	open	close	fixing
EURPLN	4.328	4.347	4.328	4.341	4.341
USDPLN	3.919	3.947	3.934	3.922	3.9412
EURUSD	1.099	1.107	1.100	1.107	-

Interest rate market 17/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.48	-4	21 mar 19	OK0521	1.633
PS1024 (5L)	1.86	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.12	0	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	1.91	-1	-0.40	0
2L	1.77	0	1.72	-2	-0.43	0
3L	1.77	0	1.64	-3	-0.43	0
4L	1.78	1	1.60	-3	-0.40	-1
5L	1.80	1	1.60	-3	-0.36	-2
8L	1.82	2	1.64	-3	-0.18	-4
10L	1.84	1	1.68	-3	-0.05	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.65	0
T/N	1.65	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	1.72	0
6x9	1.71	0
9x12	1.69	0
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

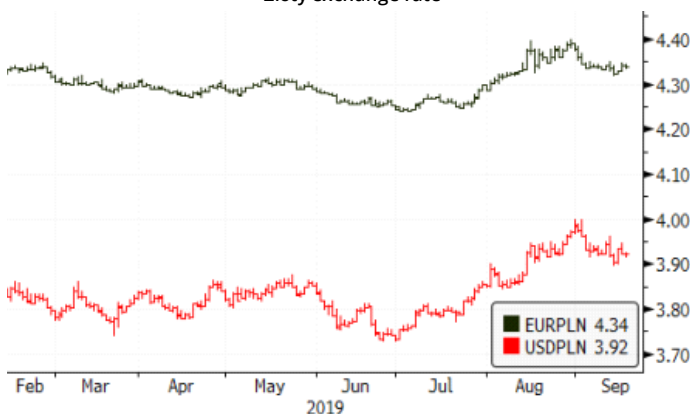
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	-1
France	20	-3	0.29	1
Hungary			2.55	1
Spain	38	1	0.76	2
Italy	118	5	1.40	7
Portugal	40	1	0.78	3
Ireland	33	-1	0.53	1
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

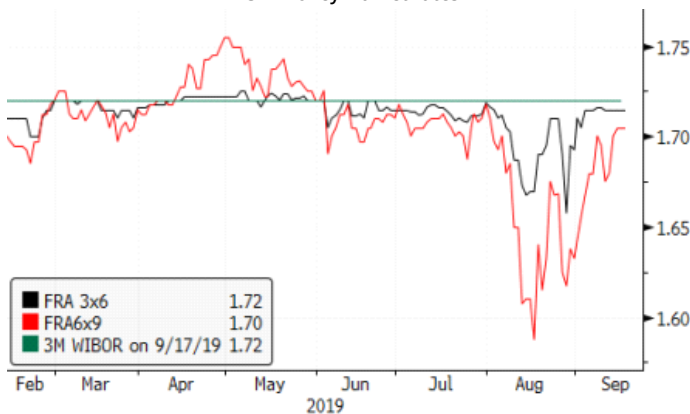
Zloty exchange rate



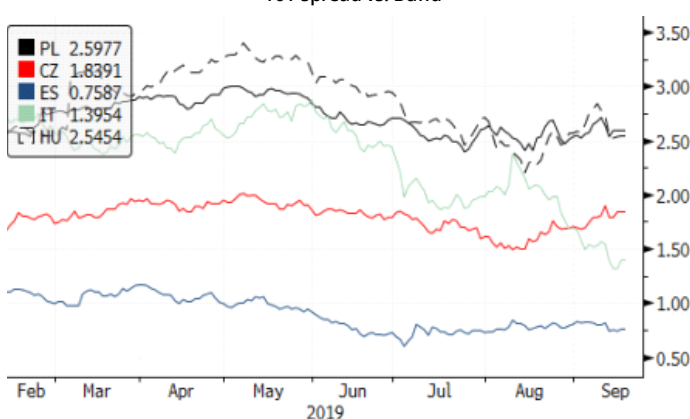
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (13 September)								
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.9	2.8
14:00	PL	Current Account Balance	Jul	€mn	-295	-401	-814	21
14:00	PL	Trade Balance	Jul	€mn	-111	-14	-376	-77
14:00	PL	Exports	Jul	€mn	19077	18845	19239	18068
14:00	PL	Imports	Jul	€mn	18966	18859	19615	18145
14:30	US	Retail Sales Advance	Aug	% m/m	0.2		0.4	0.7
16:00	US	Michigan index	Sep	pts	90.8		92.0	89.8
MONDAY (16 September)								
14:00	PL	CPI Core	Aug	% y/y	2.1	2.1	2,2	2.2
TUESDAY (17 September)								
11:00	DE	ZEW Survey Current Situation	Sep	pts	-15.0		-19.9	-13.5
15:15	US	Industrial Production	Aug	% m/m	0.2		0.6	-0.1
WEDNESDAY (18 September)								
10:00	PL	Employment in corporate sector	Aug	% y/y	2.7	2.72	-	2.7
10:00	PL	Average Gross Wages	Aug	% y/y	6.75	6.73	-	7.4
11:00	EZ	HICP	Aug	% y/y	1.0		-	1.0
14:30	US	Housing Starts	Aug	% m/m	4.95		-	-4.0
20:00	US	FOMC decision	Sep.19		2.0		-	2.25
THURSDAY (19 September)								
10:00	PL	Sold Industrial Output	Aug	% y/y	1.25	0.9	-	5.8
10:00	PL	PPI	Aug	% y/y	0.8	0.95	-	0.6
14:30	US	Initial Jobless Claims	Sep.19	k	215.0		-	204.0
14:30	US	Index Philly Fed	Sep		10.75		-	16.8
16:00	US	Existing Home Sales	Aug	% m/m	-0.56		-	2.46
FRIDAY (20 September)								
10:00	PL	Retail Sales Real	Aug	% y/y	5.2	4.36	-	5.7

Source: Santander Bank Polska. Bloomberg, Parkiet
* in the case of a revision the data is updated

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