

19 September 2019

Eyeopener

US rates down

Fed decision in line with expectations
Record high consumer optimism holds, employment growth decreases
Dollar and CEE fx stable
Today Polish output data

Wednesday session was calm and the realised volatility was low ahead of the FOMC meeting. On the data front, the number of new housing starts in August was the highest in 12 years. Moreover, the Fed added liquidity to the repo market for the second day in a row (US\$75bn on Wednesday, US\$53bn on Tuesday). Fed cut the interest rate as expected by 25bp and as a result the market impact was relatively muted. Three FOMC members dissented (two opposed the cut, one wanted -50bp). The disagreements within Fed also relate to the expected interest rate at the end of the year: five members see them unchanged, five members expect it 25bp lower and the remaining seven members see it lower by more than 25bp. Governor Jerome Powell said this was an „insurance” cut and assessed the outlook for the US economy as „favourable”. He said that only a proper slowdown of the economy warrants further rate cuts. The market reaction to the interest rate decision and the press conference was mild – the dollar gained a bit. Bank of Japan has not changed the parameters of the monetary policy, which strengthened the yen.

MPC's Łukasz Hardt said in the interview for Dziennik Gazeta Prawna daily that the rate cut should be considered if inflation persistently approaches 3.5%. He was sceptical about the NBP inflation projection reaching and stabilising at the target in 2020. For him, a strong argument for a rate hike would be an increase of inflation expectations, generating wage pressure. Even atypical rate hike by 15bp would be, in his view, a good option to raise the NBP's credibility.

Poland's **HICP inflation** climbed in August to 2.8% y/y from 2.7% y/y, while core inflation increased to 2.2% y/y from 2.1% y/y. Both gauges are at the highest level in more than 7 years. As regards core inflation, tradables' prices showed 0% y/y and this is relatively high for this category, as in 2014-2017 it was falling by 1% y/y or more and then in 2018 was attempting to escape the negative territory. The non-tradable part of the core basket (mostly services) rose by 3.9% y/y and this is the highest result in 7 years (3.8% y/y in July).

Poland's August **employment** slowed to 2.6% y/y vs market consensus 2.7% y/y. In monthly terms, employment fell by 8k and this was the worst August performance since 2011. There is growing evidence that demand for labour in Poland is losing steam and this may translate into lower wage pressure in the upcoming quarters. **Wages** grew by 6.8% y/y, in line with expectations. In our view the data confirm that the Polish economy is slowing down and we are expecting GDP growth to fall to 4.0% y/y in 4Q19 from 4.5% y/y in 2Q19. Still, consumption shall remain a strong growth contributor.

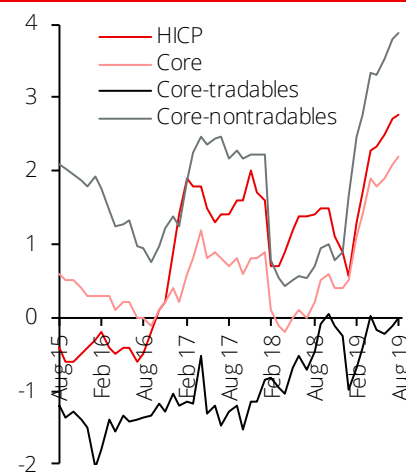
In September, **consumer confidence** remained record high. Most of the components are close to or have just established new all-time-tops. The current assessment index reached its highest level ever thanks to the most optimistic ever score for economic situation changes in the last 12 months. Expectations component does not look bad but the gap between economic situation assessment and economic outlook measure is now the most positive ever. Judging by the second highest reading of households' current financial situation gauge, the record high major purchases index, private consumption should be quite strong in 3Q19. Given the entry into force of further fiscal package items, we expect private consumption growth to rise from 4.4% y/y in 2Q to c5% in 2H19.

On Wednesday **EURUSD** remained stable throughout the day within a 1.1040-1.1075 range, awaiting the Fed. After the rate decision EURUSD fell to 1.1015, while on Thursday morning it opens at 1.1045. Zloty was weakening throughout Wednesday with **EURPLN** up to 4.34. USDPLN remained stable around 3.926 and CHFPLN at 3.94. Other CEE currencies like forint and ruble traded a bit stronger (closed at 333.2 and 64.3, respectively). EURCZK remained stable at 25.9.

On the Polish **interest rate market** in anticipation for the Fed the bond yields and swap rates were trading c4bp lower along the curves (asset swaps unchanged). On the core markets, German yields also declined 4bp at the long end and thus the spread to Bund remained at 258bp. US yield curve fell by c.7-8bp before the Fed decision, with 10Y yield at 1.77%. After the FOMC, the yield peaked at 1.82% during the Asian session and on Thursday morning it is back near 1.78%. Lack of clear move in UST after the Fed suggests, in our view, that the Polish session should be calm as well.

Today at 16:00CET US home sales are due for release. In Poland, we will get to see industrial output and PPI at 10:00CET. ECB's Cœuré and Lautenschläger are scheduled to speak.

HICP inflation and its components, % y/y



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.3407	CZKPLN	0.1677
USDPLN	3.9297	HUFPLN*	1.3043
EURUSD	1.1046	RUBPLN	0.0611
CHFPLN	3.9449	NOKPLN	0.4391
GBPPLN	4.9005	DKKPLN	0.5812
USDCNY	7.1022	SEKPLN	0.4043

*for 100HUF

Last session in the FX market 18/09/2019

	min	max	open	close	fixing
EURPLN	4.333	4.344	4.341	4.339	4.3419
USDPLN	3.912	3.933	3.922	3.922	3.9322
EURUSD	1.104	1.108	1.107	1.106	-

Interest rate market 18/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.46	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.81	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.07	-6	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	-1	1.88	-3	-0.41	0
2L	1.75	-2	1.67	-4	-0.43	0
3L	1.74	-3	1.59	-5	-0.43	-1
4L	1.74	-4	1.56	-5	-0.42	-1
5L	1.75	-5	1.55	-5	-0.38	-2
8L	1.77	-5	1.59	-5	-0.23	-3
10L	1.79	-5	1.63	-5	-0.10	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-2
T/N	1.63	-2
SW	1.60	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.80	-1
1Y	1.84	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	-1
6x9	1.69	-2
9x12	1.68	-1
3x9	1.78	-1
6x12	1.77	-1

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	-7
France	18	3	0.28	0
Hungary			2.49	-9
Spain	39	0	0.73	0
Italy	123	1	1.38	-1
Portugal	41	-1	0.74	-1
Ireland	32	1	0.51	-6
Germany	10	2	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

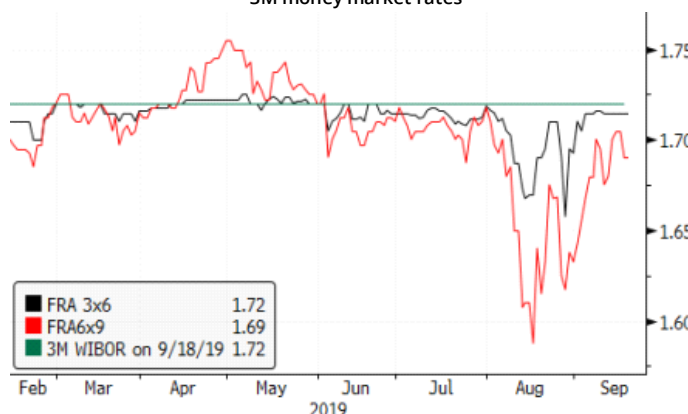
Zloty exchange rate



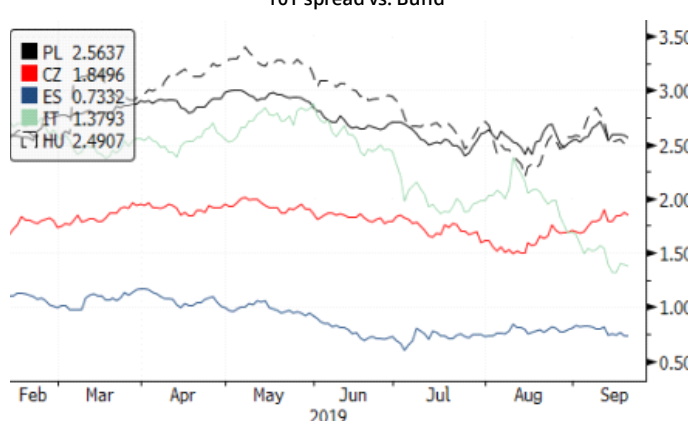
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		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	2.6	2.7
10:00	PL	Average Gross Wages	Aug	% y/y	6.75	6.73	6.8	7.4
11:00	EZ	HICP	Aug	% y/y	1.0		1.0	1.0
14:30	US	Housing Starts	Aug	% m/m	4.95		12.3	-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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