

27 September 2019

Eyeopener

Polish MPC took a vote on rate cuts

US housing market data above expectations again
Zloty and other EM currencies weakened
Polish bonds outperformed Bunds
Today new important US data

On Thursday the global sentiment improved after Wednesday's rise in the risk aversion. Stock indices gained after Trump said that a deal with China might occur earlier than many expect. On top of that, economic data from the US either matched expectations (GDP, initial jobless claims) or exceeded expectations (pending home sales, another decent reading from the housing sector). Increased risk appetite has not been noticed in the EM currencies.

French government proposed a budget for 2020 with a slightly larger deficit than initially suggested. The document assumes tax cuts worth around EUR10bn aimed at supporting the demand. French Minister of Finance Bruno Le Maire called on his German counterpart to start fiscal easing as well.

The MPC minutes revealed that in September the **motion to cut interest rates** was submitted (and rejected). Please recall that at the previous MPC meeting in July there was a motion to hike rates (supported by two hawks: Gątnar and Zubelewicz). Apparently after the summer holidays their hawkish opinions have softened due to (as the minutes suggest) increased uncertainty about growth outlook, so they did not repeat the call for tightening, although warned that such a move could be possible in future. We guess that the rate cut motion came from ultra-dovish Eryk Łon and probably gained support of no more than 1-2 members. It does not change our expectations about monetary policy outlook but confirms our earlier call that in the coming months the MPC may discuss both rate cuts and rate hikes. While the doves would focus on the ongoing economic slowdown, hawks may be under the spell of rising inflation, which will jump above 4% at the start of 2020, in our view. But the most likely scenario is still keeping rates hold at least until the end of next year, which will be supported by majority led by governor Głapiński.

MPC member Grażyna Ancyparowicz said in PAP interview that next year the GDP growth is unlikely to slow much below 4% predicted for 2019. In her opinion, there are no serious economic imbalances right now in Poland.

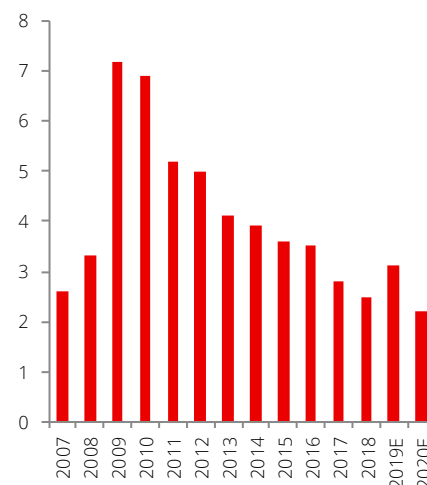
Moody's chief analyst on Poland Heiko Peters said yesterday that the assumed zero deficit in 2020 budget is overly optimistic. In his view with lower economic growth and higher share of fixed expenditures it may be hard to reach the assumed result. Moody's is to review Poland's rating on 11 October.

EURUSD dropped to almost 1.092 at yesterday's opening, setting a year-to-date low, but at the end of the day it came back close to the opening level of 1.096. The US data were close to consensus and the market is more interested in this afternoon's major releases. In our view the PCE inflation reading may be key today. EURUSD is close to an important support, this year it already rebounded three times from 1.092 so this and the next sessions may set the direction for the following week.

EURPLN and **USDPLN** again went in the same direction and again it was a move up. The zloty weakened to c4.395 vs the euro and c4.015 vs the dollar. Yesterday most of EM currencies lost vs the euro. The forint performed worse than the zloty (EURHUF rebounded to 335.5 from 333.5) while the koruna did better than the zloty (EURCZK up to 25.86 from 25.75, offsetting the whole decline from the day before caused by hawkish rhetoric of the Czech central bank). For now, EURPLN behaves as we expected – the exchange rate is holding at an elevated level waiting for next week's ECJ ruling.

On the Polish interest rate market bond yields and IRS rates declined, with the strongest move at the long end of the curve. 10Y Polish bond gained much more than 10Y Bund, but slightly less than the US Treasuries. FRA market did not react to information that the MPC voted on rate cut motion in September. We think that today the US data will have the biggest impact on the debt market. Yield of Polish 10Y bond is still close to the support at 2.0%.

France, GG deficit, % of GDP



Source: Bloomberg, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +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	4.3847	CZKPLN	0.1697
USDPLN	4.0158	HUFPLN*	1.3066
EURUSD	1.0919	RUBPLN	0.0624
CHFPLN	4.0390	NOKPLN	0.4422
GBPPLN	4.9527	DKKPLN	0.5873
USDCNY	7.1367	SEKPLN	0.4114

*for 100HUF

Last session in the FX market 26/09/2019

	min	max	open	close	fixing
EURPLN	4.373	4.398	4.383	4.388	4.3861
USDPLN	3.995	4.017	4.005	4.016	4.0092
EURUSD	1.092	1.097	1.094	1.093	-

Interest rate market 26/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.48	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.78	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	-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	1.70	0	1.85	-1	-0.42	-1
2L	1.70	0	1.64	-1	-0.45	-1
3L	1.66	-1	1.56	-1	-0.45	0
4L	1.64	-1	1.52	-1	-0.43	-1
5L	1.64	-2	1.51	-1	-0.40	0
8L	1.64	-2	1.53	-1	-0.27	-1
10L	1.64	-2	1.57	-1	-0.15	6

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-22
T/N	1.55	-8
SW	1.59	0
2W	1.60	0
1M	1.63	-1
3M	1.72	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.70	0
6x9	1.67	-1
9x12	1.63	0
3x9	1.77	0
6x12	1.75	0

Measures of fiscal risk

Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.59	-2
France	21	-1	0.29	-1
Hungary			2.51	5
Spain	42	-1	0.73	2
Italy	138	-1	1.41	-1
Portugal	43	-1	0.75	2
Ireland	33	1	0.54	-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

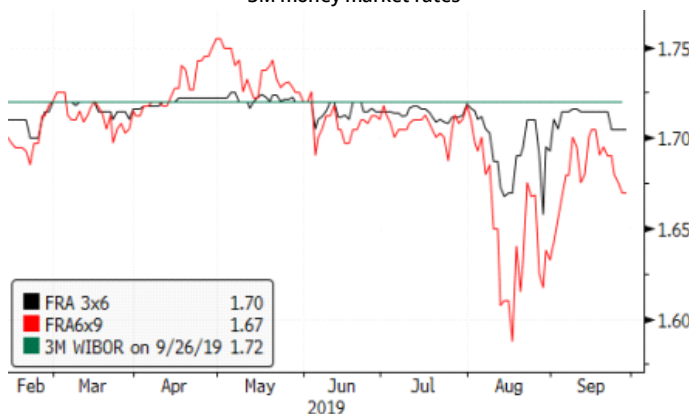
Zloty exchange rate



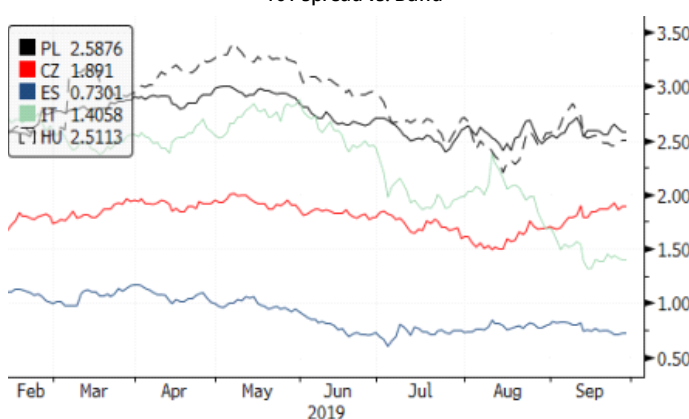
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (20 September)								
10:00	PL	Retail Sales Real	Aug	% y/y	5.25	4.4	4.4	5.7
MONDAY (23 September)								
09:30	DE	Flash Germany Manufacturing PMI	Sep	pts	44.3	-	41.4	43.5
09:30	DE	Flash Markit Germany Services PMI	Sep	pts	54.3	-	52.5	54.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Sep	pts	47.3	-	45.6	47.0
10:00	EZ	Flash Eurozone Services PMI	Sep	pts	53.3	-	52.0	53.5
10:00	PL	Construction Output	Aug	% y/y	1.9	3.9	2.7	6.6
14:00	PL	Money Supply M3	Aug	% y/y	10.0	10.1	9.9	9.9
TUESDAY (24 September)								
10:00	DE	IFO Business Climate	Sep	pts	94.5	-	94.6	94.3
10:00	PL	Unemployment Rate	Aug	%	5.2	5.2	5.2	5.2
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
16:00	US	Consumer confidence index	Sep	pts	133.0	-	125.1	134.2
WEDNESDAY (25 September)								
13:00	CZ	Central Bank Rate Decision		%	2.0	-	2.0	2.0
16:00	US	New Home Sales	Aug	% m/m	3.3	-	7.1	-8.6
THURSDAY (26 September)								
14:00	PL	MPC minutes						
14:30	US	GDP Annualized	2Q	% q/q	2.0	-	2.0	2.0
14:30	US	Initial Jobless Claims	week	k	212	-	213	210
16:00	US	Pending Home Sales	Aug	% m/m	1.0	-	1.6	-2.5
FRIDAY (27 September)								
11:00	EZ	ESI	Sep	pct.	103.0	-		103.1
14:30	US	Durable Goods Orders	Aug	% m/m	-1.2	-		2.0
14:30	US	Personal Spending	Aug	% m/m	0.3	-		0.6
14:30	US	Personal Income	Aug	% m/m	0.4	-		0.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.1	-		0.2
16:00	US	Michigan index	Sep	pts	92.1	-		92.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a 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.