

9 October 2019

# Eyeopener

## Awaiting the US-China trade talks

Worsened market sentiment due to politics  
Zloty stable, regional currencies weaker  
EURUSD stable  
Polish debt underperforms the rally abroad  
Today in the evening FOMC minutes

After improvement of the global market sentiment observed on Monday, Tuesday saw demand for the risky assets fading gradually. The uncertainty related to the US-China trade talks persisted and the tensions ahead of the UK leaving the UE rose. PM Boris Johnson repeated that he aims to conduct Brexit at the end of October and warned he will question the bill that imposes a duty on him to postpone Brexit date to end January to the Supreme Court. As a result, stock indexes fell which boosted core bonds. On the FX market we saw no big changes with the weakening pound being an exception.

**Fed governor** Jerome Powell said that the central bank will soon restart the process of the balance sheet expansion and in a few days will publish details how this will be conducted. This action is a response to the September's liquidity distortions on the US market – 1-day repo rates rose to 10% temporarily. Powell added that a permanent standing facility would be introduced to control the volatility on the liquidity market. He added, however, that the planned increase of the Fed balance sheet is only a reaction to the September's distortions, not a next stage of the quantitative easing. Powell did not refer to any particular level or interest rate path and underlined that the Fed actions are determined by the incoming data.

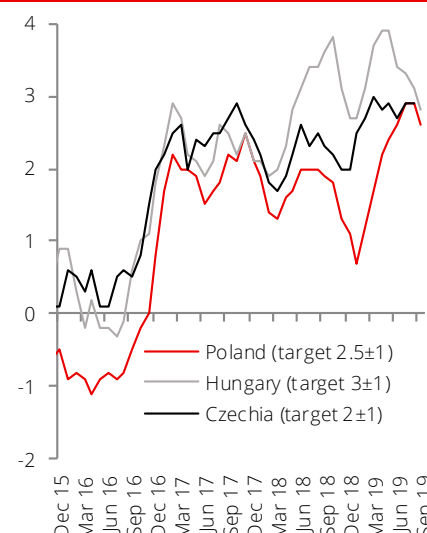
Ahead of the Thursday's **US-China trade talks**, the US introduced visas for the Chinese officials that are suspected of being involved in persecution of Muslim minority in Xinjiang region on China. This action has not been positively received neither by experienced diplomats (former US ambassador in China Max Baucus said that this could be posturing but "China will not be bluffed") nor by the markets that became concerned that such move does not bode well for the trade talks. The US stock prices fell.

**EURUSD** was long stable just below 1.10 and the trading range was narrower than on the previous day. Only at the very end of the domestic session the dollar started to gain noticeably and the exchange rate fell to 1.095 fast. We think the increased volatility from the end of the yesterday's session could continue today in the evening when the FOMC minutes from the September meeting (when the second this year's rate cut was delivered) will be released. The document may show how concerned the US central bankers are as regards the economic outlook. If the tone is not alarming, then the dollar could give up the recent gains as the market might see lower chances for the December rate cut.

**EURPLN** was oscillating close to 4.33 and USDPLN near to 3.94. The zloty was again doing better than other **CEE currencies** – the forint and the koruna lost for the third time in a row versus the euro, while the ruble was losing against the dollar for the second consecutive day. The zloty is currently stronger than prior to the ECJ ruling, but the potential for appreciation is limited by unstable market sentiments. The Brexit issue is coming into the fore again and the risk of no-deal Brexit could hold EURPLN in 4.30-4.31 range in the upcoming time.

On the **Polish interest rate market** the Tuesday session was not very volatile, so IRS rates and bond yields remained close to Monday levels. On the core market, the debt gained after US data, showing that PPI was lower than expected. As a result, 10Y spread to Bund rose for the first time since second half of September. In our view, today the market players will be awaiting the evening FOMC minutes. Message of this document could affect the US, German and Polish bonds. 10Y US bond yields are approaching a local low set in early September (1.43%, currently at 1.50%) and the upcoming weeks could set a direction in the middle term.

Inflation in the CEE region, %y/y



Source: Bloomberg, Santander

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## FX market

### Today's opening

EURPLN	4.3217	CZKPLN	0.1676
USDPLN	3.9436	HUFPLN*	1.2942
EURUSD	1.0959	RUBPLN	0.0605
CHFPLN	3.9679	NOKPLN	0.4304
GBPPLN	4.8155	DKKPLN	0.5786
USDCNY	7.1416	SEKPLN	0.3964

\*for 100HUF

### Last session in the FX market 08/10/2019

	min	max	open	close	fixing
EURPLN	4.319	4.336	4.330	4.327	4.331
USDPLN	3.938	3.951	3.943	3.950	3.9405
EURUSD	1.095	1.100	1.098	1.095	-

## Interest rate market 08/10/2019

### 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)	1.64	0	21 mar 19	PS0424	2.209
DS1029 (10L)	1.89	1	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	1.68	-1	-0.44	0
2L	1.70	0	1.47	-1	-0.48	0
3L	1.64	0	1.39	-1	-0.48	-1
4L	1.61	0	1.36	-1	-0.46	-1
5L	1.61	0	1.35	-1	-0.42	-1
8L	1.60	-1	1.40	-1	-0.27	-1
10L	1.60	0	1.45	-1	-0.16	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.60	1
SW	1.60	0
2W	1.60	0
1M	1.64	0
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	1.68	0
9x12	1.64	0
3x9	1.77	0
6x12	1.75	0

### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.48	3
France	20	0	0.34	4
Hungary			2.42	2
Spain	40	0	0.72	1
Italy	134	3	1.44	1
Portugal	40	0	0.71	0
Ireland	33	-1	0.55	0
Germany	10	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



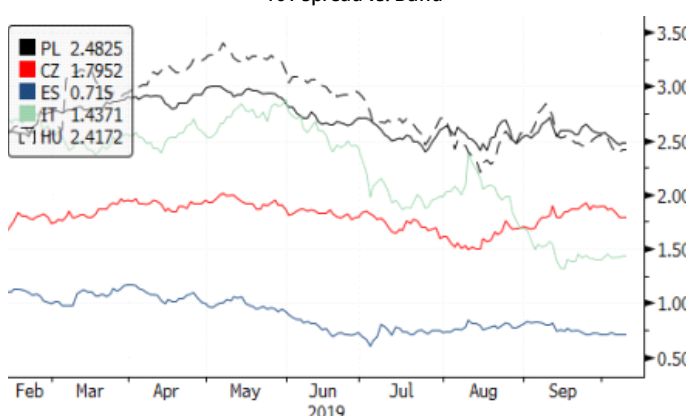
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (4 October)								
14:30	US	Change in Nonfarm Payrolls	Sep	k	145	-	136	168
14:30	US	Unemployment Rate	Sep	%	3.7	-	3.5	3.7
MONDAY (7 October)								
08:00	DE	Factory Orders	Aug	% m/m	-0.3	-	-0.6	-2.1
09:00	CZ	Industrial Production	Aug	% y/y	-3.3	-	-3.8	5.6
09:00	HU	Industrial Production SA	Aug	% y/y	4.9	-	2.7	8.7
TUESDAY (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	52.0	-	51,3	52.1
08:00	DE	Industrial Production SA	Aug	% m/m	-0.3	-	0,3	-0.6
09:00	HU	CPI	Sep	% y/y	2.9	-	2.8	3.1
WEDNESDAY (9 October)								
20:00	US	FOMC Meeting Minutes						
THURSDAY (10 October)								
08:00	DE	Exports SA	Aug	% m/m	0.0	-		0.8
09:00	CZ	CPI	Sep	% y/y	2.9	-		2.9
14:30	US	CPI	Sep	% m/m	0.1	-		0.1
14:30	US	Initial Jobless Claims	week	k	215	-		213
FRIDAY (11 October)								
	PL	Rating review: S&P				A-		A-
	PL	Rating review: Moody's				A2		A2
08:00	DE	HICP	Sep	% m/m	-0.1	-		-0.1
16:00	US	Michigan index	Oct	pts	92.3	-		93.2

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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