

30 October 2019

Eyeopener

Before the FOMC decision

Early elections in the UK
 EURUSD stable, EURPLN below 4.27
 Fixed income market stable
 Today in the evening FOMC decision, earlier US GDP and labor market data

On Tuesday the trade was calm ahead of FOMC decision and further development of Brexit issues. Snap election is going to be organised this year on 12 December after Labour Party's leader Jerome Corbyn confirmed his support after EU decision to postpone the Brexit until end of January 2020. Meanwhile, the Chinese press cited an anonymous source stating that the US and China are to sign a "small" trade deal on 17 November.

MPC's **Eugeniusz Gatnar** said in an interview with PAP that the housing market situation gives reasons to worry given quick growth of prices and credit, which are a strong argument against rate cuts. The MPC member said he is ready to support **a rate hike by 15bps**, in line with proposal put forward by Łukasz Hardt in mid-September. We do not rule out there will be votes on rate cuts and hikes at the November meeting. However, both motions are unlikely to gather majority and rates will remain unchanged until end of 2020, in our view.

Year-to-date result of central budget amounted to -PLN1.8bn after September. September alone saw a surplus of PLN0.2bn. In January-September total revenues grew by 8.5% y/y (VAT +6.4% y/y, CIT +17.7% y/y, PIT +12.7% y/y) and spending by 10.4%. In our view, tax revenues are likely to grow at a solid rates in the months to come (yet PIT will be under negative spell of lower tax rates) and spending will be reined in, so the year is likely to close with deficit markedly below PLN20bn.

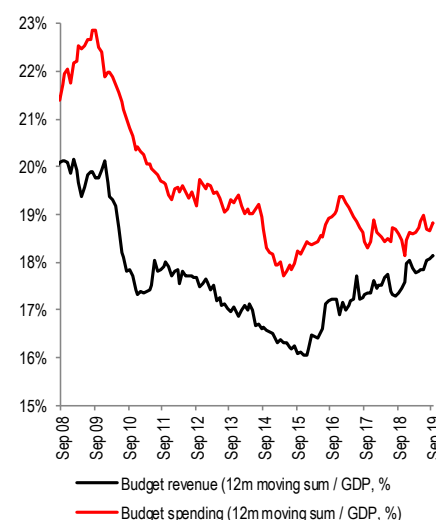
Minister Jadwiga Emilewicz said yesterday in Radio Zet that the **government prepared the new proposal of tax for large retail shops**. It will be the so-called congestion tax, based on "the difficulties which a large retailer places on the city fabric" not on their revenues or profits. Minister suggested it could be analogous to the solution used in Spain. She did not reveal details of the new tax design, so it is hard to speculate about how much money it could raise. It looks that the government is trying to copy solutions used elsewhere in Europe to avoid troubles from the European Commission.

EURUSD was hovering in 1.107-1.112 range for the third day in a row and was near to 1.11 at the end of the session. Some volatility was recorded also in case of other main currencies. The stabilisation was supported by expectations for Wednesday evening FOMC decision. In our view, today the US interest rates will go down by 25bps for the third time this year. We think this will be the last move in the adjustment cycle. If market expectations for further cuts cool down, then the dollar might gain. In our view, the British parliament's decision to conduct snap elections could be supporting the single currency against the greenback.

EURPLN fell below 4.27 support and USDPLN plummeted to 3.837 from 3.86. In case of the **other CEE currencies**, weakening (the forint and ruble) or stabilization (koruna) was recorded. The zloty appreciation vs the euro is running for a fifth consecutive week already and we think that potential for further EURPLN drop at that pace is fading. We think that any dollar appreciation after the evening FOMC decision could trigger some profit taking. Also, since May EURPLN is following the VIX index pretty closely and the latter is now only slightly above its cyclical lows seen in the last two years. This suggests that volatility could rise soon which could weigh on the zloty.

The **domestic interest rate market** stabilized. Bonds pared part of Monday's losses (yield fell by 1-2bp) while the IRS rates continued to rise, though at a slower pace than a day earlier. Bunds gained as well while the Treasuries remained stable. The recent European data was not that bad and the risk of hard Brexit faded which was pushing the core yields up. Today's FOMC decision may add to the factors generating an upside pressure on yields. The Fed interest rates are likely to be cut but the Committee may not suggest that the easing will continue in the months to come.

Budget revenue and spending



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2666	CZKPLN	0.1671
USDPLN	3.8379	HUFPLN*	1.2925
EURUSD	1.1116	RUBPLN	0.0601
CHFPLN	3.8664	NOKPLN	0.4161
GBPPLN	4.9432	DKKPLN	0.5710
USDCNY	7.0593	SEKPLN	0.3955

*for 100HUF

Last session in the FX market 29/10/2019

	min	max	open	close	fixing
EURPLN	4.264	4.277	4.273	4.268	4.2757
USDPLN	3.836	3.862	3.848	3.842	3.8598
EURUSD	1.107	1.112	1.110	1.111	-

Interest rate market 29/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.46	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.73	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	-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	1.77	-1	-0.35	0
2L	1.74	0	1.67	0	-0.35	0
3L	1.74	0	1.64	0	-0.33	-1
4L	1.75	1	1.63	0	-0.28	1
5L	1.77	0	1.63	0	-0.23	2
8L	1.79	0	1.70	0	-0.04	2
10L	1.82	0	1.76	0	0.08	2

WIBOR rates

Term	%	Change (bps)
O/N	1.64	-1
T/N	1.64	-1
SW	1.59	0
2W	1.60	0
1M	1.63	0
3M	1.71	-1
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	0
3x6	1.71	0
6x9	1.68	0
9x12	1.65	0
3x9	1.78	0
6x12	1.75	0

Measures of fiscal risk

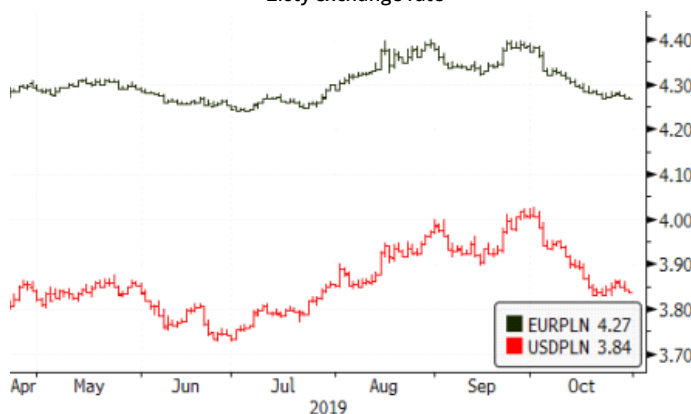
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.36 -1
France	19 0	0.30 0
Hungary		2.29 -3
Spain	35 1	0.64 0
Italy	112 1	1.35 1
Portugal	36 1	0.58 0
Ireland	26 3	0.41 -2
Germany	9 1	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

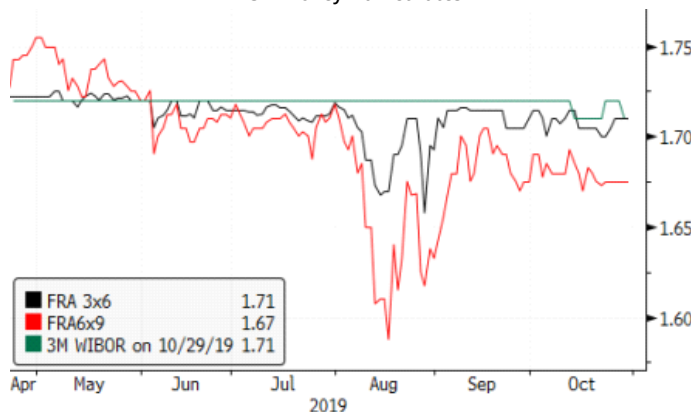
Zloty exchange rate



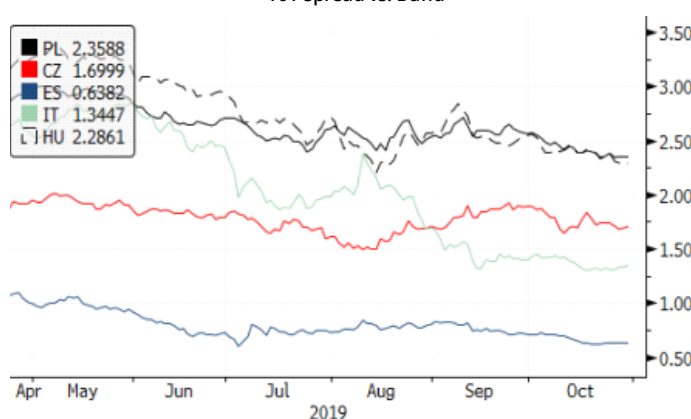
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (25 October)								
10:00	DE	IFO Business Climate	Oct	pts	94.5	-	94.6	94.6
16:00	US	Michigan index	Oct	pts	96.0	-	95.5	96.0
MONDAY (28 October)								
No major releases								
TUESDAY (29 October)								
15:00	US	Consumer Conference Board	Oct	pts	127.8	-	125.9	126.3
15:00	US	Pending Home Sales	Sep	% m/m	1.0	-	1.5	1.4
WEDNESDAY (30 October)								
11:00	EZ	ESI	Oct	pct.	101.1	-		101.7
13:15	US	ADP report	Oct	k	132	-		134
13:30	US	GDP Annualized	3Q	% q/q	1.6	-		2.0
14:00	DE	HICP	Oct	% m/m	0.0	-		-0.1
19:00	US	FOMC decision		%	2.0	-		2.0
THURSDAY (31 October)								
08:00	DE	Retail Sales	Sep	% m/m	0.2	-		-0.1
10:00	PL	CPI	Oct	% y/y	2.5	2.5		2.6
11:00	EZ	Flash HICP	Oct	% y/y	0.7	-		0.9
11:00	EZ	GDP SA	3Q	% y/y	1.1	-		1.2
11:00	EZ	Unemployment Rate	Sep	%	7.4	-		7.4
13:30	US	Initial Jobless Claims	week	k	215	-		212
13:30	US	Personal Spending	Sep	% m/m	0.3	-		0.1
13:30	US	Personal Income	Sep	% m/m	0.3	-		0.4
13:30	US	PCE Deflator SA	Sep	% m/m	0.0	-		0.0
FRIDAY (1 November)								
	PL	Market holiday						
13:30	US	Change in Nonfarm Payrolls	Oct	k	95	-		136
13:30	US	Unemployment Rate	Oct	%	3.6	-		3.5
15:00	US	ISM manufacturing	Oct	pts	49.0	-		47.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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