

31 October 2019

Eyeopener

Fed cut rates, signals a break

US rate cut supported the markets
Most of Polish ESI indicators fell
FX markets stable, zloty strengthened
Today flash inflation in Poland and the euro zone

On Wednesday, market were expecting the evening FOMC decision and remained stable for the better part of the day: stock markets moved by 0.5% versus the previous days, core yields were going down slightly, Polish yields were stable. EM currencies gained a bit (about 0.2%), while the dollar index did not change. Gold prices went up by 0.3% and oil down by 1.7%. Information that the summit in Chile has been called off did not cause a market reaction, as China and the USA, who were expected to confirm the tentative trade deal during the meeting, reassured that this is not a sign of worse climate of talks.

FOMC decided to cut the Fed interest rates third time this year by 25bp to the range of 1.5-1.75% and signalled that easing would be suspended for now. Esther George from Kansas City and Eric Rosengren from Boston were against the cut. The post-decision statement was similar to the one from mid-September – the economic activity was perceived as “rising at a moderate rate” while the labour market as “solid”. Inflation remains below 2% and only in case of exports and investments the Committee said they “remain weak”. From the market perspective, the key information was that only in case of a noticeable rise of inflation the FOMC would consider a rate hike. We think that this was the reason for the weaker dollar, stronger bonds and equities. Furthermore, the Fed started the bond purchases program that will last at least until January 2020. However, Fed's Powell stressed that this activity is purely a technical facility and does not mean a change in the monetary policy bias. Particularly, these purchases are not large and are not aimed at easing financing conditions in the broad economy. The program is expected to influence the short-term bonds, not the long-term ones.

European Commission's **ESI indicators for Poland** showed a deterioration in October. The main indicator dropped from 102.1 to 100.2, its lowest since December 2016, and was only slightly above the long-term average (99.8). The sub-indicators for services, construction, retail trade and consumer sector have decreased, while manufacturing improved slightly, mainly due to better expectations re future prices and output. The index of consumer confidence has started deteriorating, following worse sentiment in other sectors. The consumer confidence indicators by GUS also worsened in October. ESI indices herald further slowdown of economic growth in Poland in 4Q19.

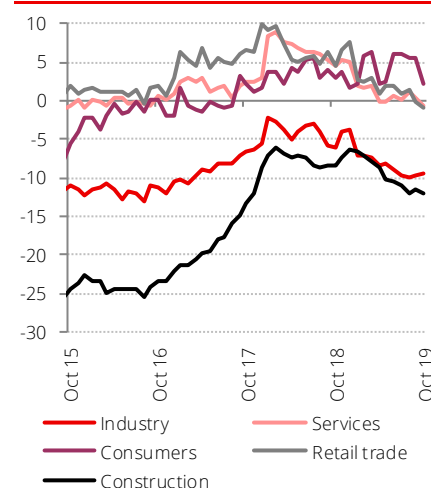
EURUSD remained stable on Wednesday, similarly to other currencies. The pair opened at 1.111, then rose to an intraday high of 1.113 only to trade lower again post Fed decision to 1.1105. After the Fed decision, during Asian session, the dollar lost 0.4% vs the euro and on Thursday morning EURUSD opens at 1.116. We think the rise might extend today to 1.12. 1yr FX options are pricing a higher probability of a move higher than lower.

EURPLN decreased yesterday by 0.2% and is already 0.4% lower on a weekly basis. On Wednesday EURPLN briefly traded below 4.26 and on Thursday opens below 4.26 as well. There are chances that today on end-of-month flows the pair might reach 4.24-4.25 level. USDPLN also traded lower to 3.83 on Wednesday, while on Thursday opens at 3.81. CHFPLN closed at 3.87 while GBPPLN at 4.93. As to the **other regional currencies** Hungarian forint remained stable at 329.4, EURCZK traded lower to 25.5 after CNB's Tomáš Holub said he sees equal chances of him voting for a hike or for a cut on the next CNB's meeting. Other CNB official Oldřich Dedek said that he sees no reasons why the koruna should be weakening, and the discussion about rate cuts is „very remote”. Russian ruble lost 0.2% due to lower oil prices.

On the domestic **interest rate market**, bonds were stable while swaps went down, especially at the longer end: by 3bp. As a result, 10Y asset swap spread narrowed by 3bp to 17bp. Core yields went down only slightly – the German curve horizontally by 1bp (10Y Bund reached -0.355%), while the US curve went down by 2-3bp and 10Y UST ended the day at 1.80%. 10Y Polish bond spread to Bund widened by 1bp to 236bp.

Today Polish flash CPI for October. In our view it was the second month in a row with headline print going down (to 2.5% y/y) due to food and fuel prices, while core inflation kept rising, to 2.6% y/y.

ESI business sentiment indicators for Poland



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.2607	CZKPLN	0.1669
USDPLN	3.8166	HUFPLN*	1.2929
EURUSD	1.1163	RUBPLN	0.0598
CHFPLN	3.8658	NOKPLN	0.4158
GBPPLN	4.9325	DKKPLN	0.5703
USDCNY	7.0401	SEKPLN	0.3961

*for 100HUF

Last session in the FX market 30/10/2019

	min	max	open	close	fixing
EURPLN	4.258	4.271	4.268	4.262	4.2655
USDPLN	3.827	3.844	3.842	3.833	3.8388
EURUSD	1.110	1.113	1.111	1.112	-

Interest rate market 30/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.45	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.75	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	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	1.75	-2	-0.35	0
2L	1.75	1	1.64	-3	-0.35	0
3L	1.75	2	1.61	-3	-0.32	0
4L	1.76	1	1.59	-3	-0.28	0
5L	1.79	2	1.59	-4	-0.23	0
8L	1.83	4	1.66	-4	-0.06	-1
10L	1.85	3	1.71	-4	0.07	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-1
T/N	1.61	-3
SW	1.59	0
2W	1.60	0
1M	1.63	0
3M	1.71	0
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

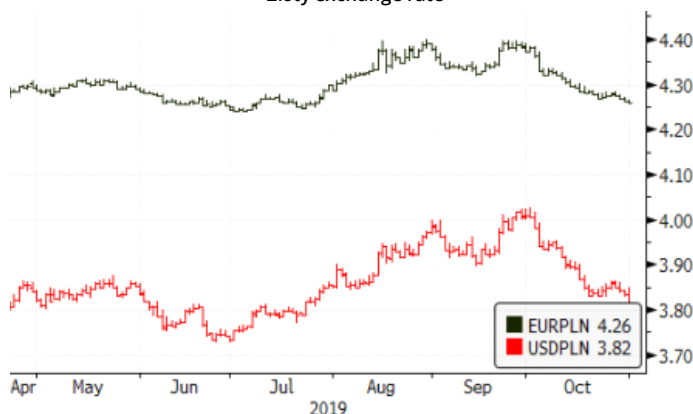
Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.37	1
France	19	0	0.30	0
Hungary			2.31	3
Spain	36	0	0.64	0
Italy	113	1	1.35	1
Portugal	36	1	0.57	-1
Ireland	29	0	0.40	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

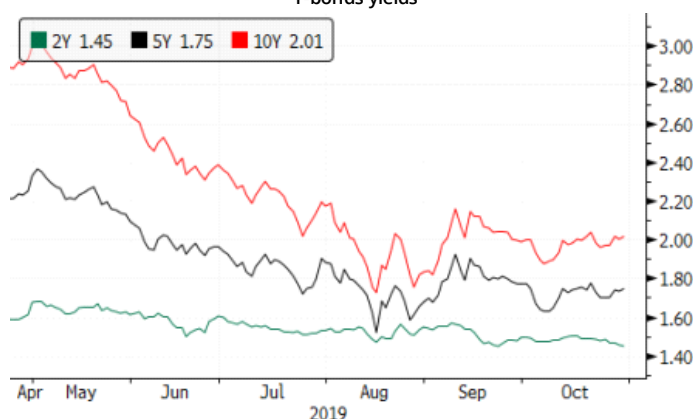
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

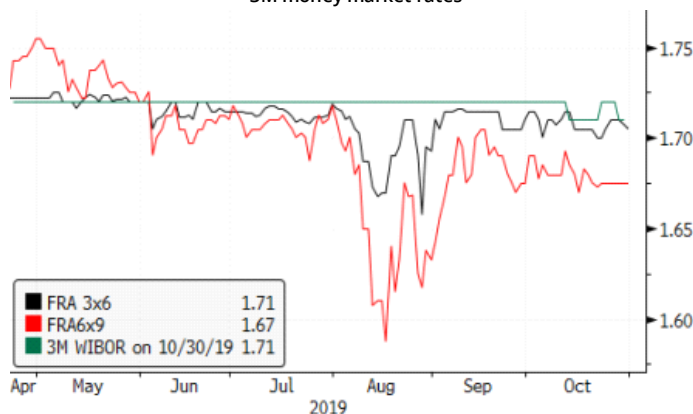
Zloty exchange rate



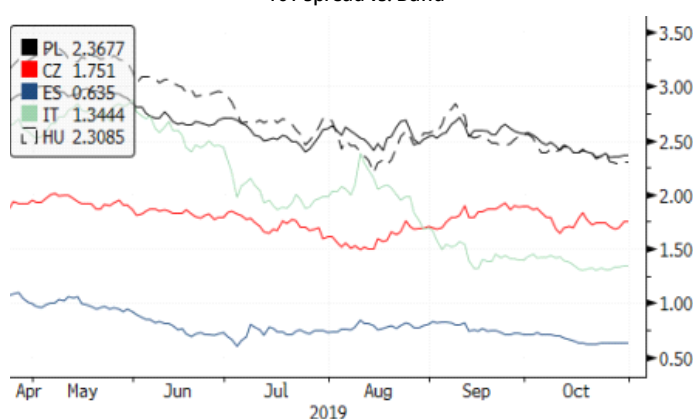
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (25 October)							
10:00	DE	IFO Business Climate	Oct	pts	94.5	-	94.6
16:00	US	Michigan index	Oct	pts	96.0	-	95.5
MONDAY (28 October)							
No major releases							
TUESDAY (29 October)							
15:00	US	Consumer Conference Board	Oct	pts	127.8	-	125.9
15:00	US	Pending Home Sales	Sep	% m/m	1.0	-	1.5
WEDNESDAY (30 October)							
11:00	EZ	ESI	Oct	pct.	101.1	-	100.8
13:15	US	ADP report	Oct	k	110	-	125
13:30	US	GDP Annualized	3Q	% q/q	1.6	-	1.9
14:00	DE	HICP	Oct	% m/m	0.0	-	0.1
19:00	US	FOMC decision		%	1.75	-	1.75
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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