

11 December 2019

Eyeopener

FOMC decision today

Volatility rises on the market
Zloty weaker and this may continue in the short term
Polish bond yields slightly up as UST weaken
Today US CPI and FOMC decision

Tuesday was much more interesting on the markets than Monday because stock indices both those of developed markets as well as emerging markets declined. The dollar index fell a bit, by 0.15% to 97.55, which helped a few emerging currencies to strengthen – biggest gains were seen in Hungarian forint and Czech koruna which after high inflation readings gained vs USD by 0.5% and 0.2% respectively. The weakest currency was the South African rand which lost 1% after worse than expected industrial production data. Bond yields in the US increased. Gold, silver and oil prices have not changed much, while palladium reached an all-time-high at \$1900/ounce. There were news that the forthcoming tariff increases due at 15 December 2019 are likely to be delayed. Also, US, Canada and Mexico signed a new trade deal USMCA, which will replace the current one – the NAFTA.

EURUSD, after initial drop to 1.105, rebounded and closed the day at 1.107. Volatility markets are still pointing to higher probability of move up than down. Today fluctuations should remain muted for the better part of the day, in expectation of FOMC decision in the evening. In our view, Fed will not change interest rates and key issue for markets will be changes in the central banks' forecasts of inflation, GDP and interest rates.

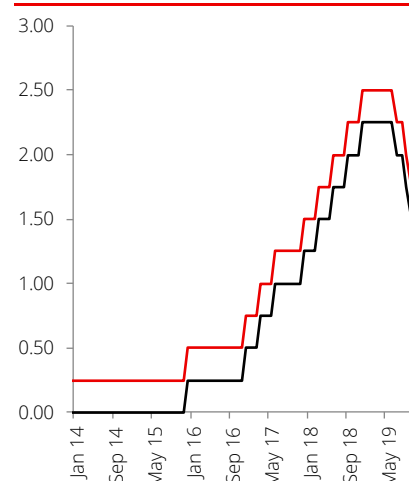
EURPLN was on the rise again, reaching 4.29. We think the trend may be maintained in the next session or two and we expect the zloty to get to 4.33 per euro. It would be favoured by climbing yields in the core markets. USDPLN closed the session at 3.873, CHFPLN at 3.924 and GBPPLN 5.10.

The other CEE currencies gained after higher-than-expected inflation in Hungary (3.4% y/y) and Czechia (3.1% y/y). In our view this strengthening is temporary and the upward tendency in core yields will undermine the CEE currencies. USDRUB did not change much and ended the day at 66.63.

On the domestic interest rate market, rates went up by 1bp on the swap curve and by 2-3bp on the bond curve. Higher rates were supported by rising US yields (also by 1-2bp), while the German curve did not change much. Polish 10Y asset swap spread widened by 1bp to 28bp. Similarly, the spread to Bund widened by 1bp to 229bp. In the upcoming days much will depend on the data (US inflation on Wednesday), new Fed economic forecasts (also on Wednesday), election in the United Kingdom (Thursday) and inflation in Poland (Friday). Thus, there is a high probability we will get to see elevated volatility on the core and domestic market. We are expecting Polish 10Y yields to rise to 2.05% at the end of the week.

Today we will get to see US inflation and results of the FOMC meeting.

Upper and lower end of the Fed funds rate (%)



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2908	CZKPLN	0.1682
USDPLN	3.8712	HUFPLN*	1.2967
EURUSD	1.1084	RUBPLN	0.0609
CHFPLN	3.9293	NOKPLN	0.4218
GBPPLN	5.0814	DKKPLN	0.5742
USDCNY	7.0383	SEKPLN	0.4075

*for 100HUF

Last session in the FX market 10/12/2019

	min	max	open	close	fixing
EURPLN	4.286	4.291	4.286	4.289	4.288
USDPLN	3.865	3.877	3.877	3.869	3.8711
EURUSD	1.106	1.110	1.106	1.109	-

Interest rate market 10/12/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.38	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.73	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	0	1.74	1	-0.34	0
2L	1.70	2	1.65	2	-0.33	0
3L	1.66	1	1.63	1	-0.30	-1
4L	1.65	1	1.64	1	-0.25	-1
5L	1.66	1	1.65	1	-0.20	-2
8L	1.69	0	1.71	1	-0.02	-1
10L	1.71	0	1.77	1	0.10	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.58	1
T/N	1.58	-1
SW	1.58	0
2W	1.60	0
1M	1.63	0
3M	1.70	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	0
3x6	1.69	0
6x9	1.66	2
9x12	1.63	2
3x9	1.77	0
6x12	1.75	1

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.30 4
France	18 1	0.31 0
Hungary		2.08 6
Spain	41 -1	0.76 0
Italy	134 -3	1.55 -3
Portugal	38 -1	0.69 1
Ireland	25 -1	0.31 -1
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

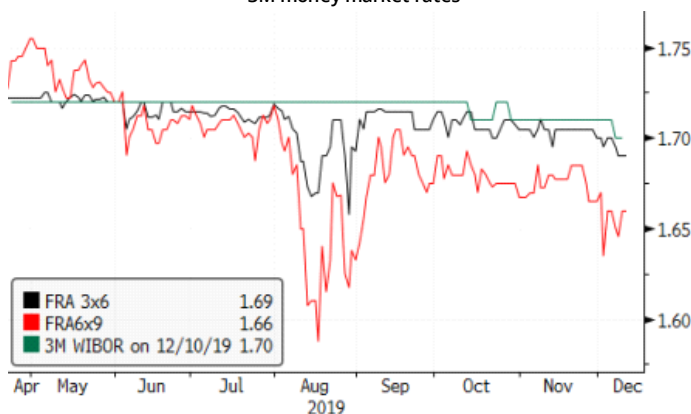
Zloty exchange rate



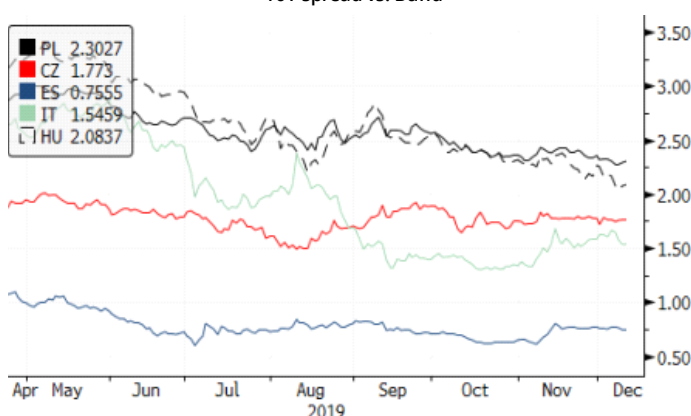
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (6 December)							
08:00	DE	Industrial Production SA	Oct	% m/m	0.1	-	-0.6
09:00	HU	Industrial Production SA	Oct	% y/y	6.7	-	6.4
14:30	US	Change in Nonfarm Payrolls	Nov	k	180	-	266
14:30	US	Unemployment Rate	Nov	%	3.6	-	3.5
16:00	US	Michigan index	Dec	pts	97.0	-	99.2
MONDAY (9 December)							
08:00	DE	Exports SA	Oct	% m/m	-0.3	-	1.2
09:00	CZ	Industrial Production	Oct	% y/y	-3.0	-	-3.0
TUESDAY (10 December)							
09:00	CZ	CPI	Nov	% y/y	2.9	-	3.1
09:00	HU	CPI	Nov	% y/y	3.4	-	3.4
11:00	DE	ZEW Survey Current Situation	Dec	pts	-22.0	-	-19.9
WEDNESDAY (11 December)							
14:30	US	CPI	Nov	% m/m	0.2	-	0.4
20:00	US	FOMC decision		%	1.50-1.75	-	1.50-1.75
THURSDAY (12 December)							
	UK	General elections					
08:00	DE	HICP	Nov	% m/m	-0.8	-	-0.8
11:00	EZ	Industrial Production SA	Oct	% m/m	-0.2	-	0.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0
14:30	US	Initial Jobless Claims		k	215	-	203
FRIDAY (13 December)							
10:00	PL	CPI	Nov	% y/y	-	2.6	2.6
14:30	US	Retail Sales Advance	Nov	% m/m	0.4	-	0.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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