

13 December 2019

Eyeopener

Soft Brexit more likely after UK elections

Boris Johnson wins, soft Brexit more likely
 ECB leaves interest rates unchanged
 Dollar gains, bonds weaker after Trump tweet
 Zloty unchanged, Polish yields up
 Today Poland inflation and US retail sales

On Thursday the stock indices were gaining 1% after Donald Trump tweeted shortly after the start of the US session that the trade deal is very close. Later in the day media reported that the deal was actually signed, based on anonymous sources. These reports state that the US is to abandon its plans to hike tariffs on 15 December and China will buy US agriculture products worth USD50bn in 2020. Market interpreted the news very positively. The dollar gained temporarily to other G10 currencies with the dollar index up by 0.8%, while 10Y bond yields jumped to 1.90% after morning slump to 1.78%. EM currencies gained versus the greenback, especially the so-called high yielders: ZAR, RUB, TRY, BRL, MXN (by about 1.5%) and JPY (by 0.8%). Prices of energy commodities and industrial metals went up.

According to the latest news, **PM Boris Johnson's Conservative Party won** yesterday elections, getting 361/650 seats in the Parliament. It seems a big enough majority to deliver Brexit by the end of January. Already next week there may be votes in the British parliament on this. The act of leaving the EU will be the beginning of a transition period, which will last until the end of 2020. During this period a new detailed trade deal will be negotiated. As with the Brexit date, the ending date of the transition period may also be delayed. The pound gained significantly on the election results vs the euro and the dollar, core market yields jumped, stock markets also responded very positively.

Christine Lagarde debuted as a president of ECB. **Bank has not changed the interest rates** (deposit rate remains at -0.50%) and kept the pace of QE at EUR20bn/month. Lagarde said that she sees stabilization of economic slowdown and a slight pick-up in inflation. Risk coming from global trade remain however are less pronounced. Eurozone growth forecasts for 2020 were slightly lowered to 1.1%, while those for 2021 remained unchanged.

EURUSD was yesterday pretty volatile due to news regarding trade news and UK elections. The pair opened at 1.114 then fell to 1.11 after positive news regarding the trade deal. Late in the evening it quickly jumped to 1.12 (highest since mid-August) due to UK polls pointing to the Conservatives win. EURUSD left the consolidation range in which it traded since mid-October and currently there are higher chances of it trading higher. Option markets also price such a scenario as more plausible.

EURPLN was stable the whole day long even in face of positive information about the trade deal, which was contrasting with other EM currencies' attempts to gain. So far, there was no reaction of EURPLN to election results in the United Kingdom and information about the trade deal, even though the stock markets reacted positively. This means rising risk that the domestic currency will appreciate slowly due to negative domestic factors (CHF loans, slowing GDP growth).

As to the other regional currency, EURHUF fell by 0.35% to 329.3, EURCZK has not changed (25.52), while USDRUB fell 1.0% to 65.87

On the Polish fixed income market most of the day was quiet and only towards the end of the day the yields started to pick up following the rising US yield curve and the German one. 10Y swap rate rose 6bp to 1.77%, 10Y bond rose 3bp to 2.03% (10Y asset swap narrowed to 26bp). 10Y Bund yield rose from -0.31% to -0.27% yesterday, while today on the open it is already at -0.23% (after results of UK elections are already known). After the series of positive news which came out in the previous days, the yields might be rising still in the coming days.

Today detailed CPI release in Poland, retail sales in the USA

EUR/GBP



Source: Federal Reserve, Santander

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FX market

Today's opening

EURPLN	4.2867	CZKPLN	0.1679
USDPLN	3.8393	HUFPLN*	1.3014
EURUSD	1.1165	RUBPLN	0.0614
CHFPLN	3.8953	NOKPLN	0.4244
GBPPLN	5.1556	DKKPLN	0.5736
USDCNY	6.9854	SEKPLN	0.4101

*for 100HUF

Last session in the FX market 12/12/2019

	min	max	open	close	fixing
EURPLN	4.279	4.287	4.283	4.285	4.2846
USDPLN	3.840	3.863	3.862	3.857	3.8505
EURUSD	1.109	1.115	1.109	1.111	-

Interest rate market 12/12/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.39	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.76	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.03	5	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	1.76	2	-0.34	0
2L	1.72	2	1.68	3	-0.32	1
3L	1.68	4	1.67	4	-0.29	1
4L	1.69	5	1.68	5	-0.24	2
5L	1.71	6	1.70	6	-0.19	3
8L	1.74	7	1.77	8	0.00	3
10L	1.78	8	1.83	9	0.12	4

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-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	1.67	0
9x12	1.63	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			2.26	1
France	18	0	0.30	-1
Hungary			2.08	-2
Spain	42	0	0.71	-1
Italy	132	-2	1.58	8
Portugal	37	0	0.66	-1
Ireland	24	1	0.26	1
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

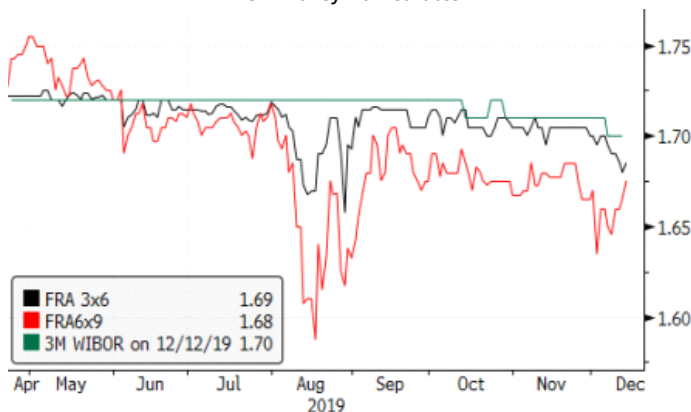
Zloty exchange rate



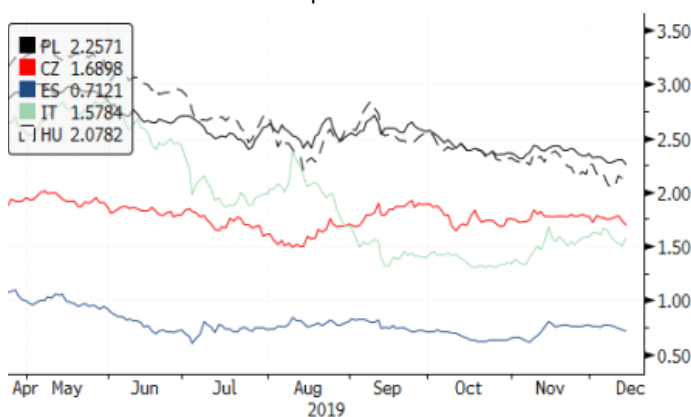
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (6 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.1	-	-0.6	-0.6
09:00	HU	Industrial Production SA	Oct	% y/y	6.7	-	6.4	9.0
14:30	US	Change in Nonfarm Payrolls	Nov	k	180	-	266	156
14:30	US	Unemployment Rate	Nov	%	3.6	-	3.5	3.6
16:00	US	Michigan index	Dec	pts	97.0	-	99.2	96.8
MONDAY (9 December)								
08:00	DE	Exports SA	Oct	% m/m	-0.3	-	1.2	1.5
09:00	CZ	Industrial Production	Oct	% y/y	-3.0	-	-3.0	4.9
TUESDAY (10 December)								
09:00	CZ	CPI	Nov	% y/y	2.9	-	3.1	2.7
09:00	HU	CPI	Nov	% y/y	3.4	-	3.4	2.9
11:00	DE	ZEW Survey Current Situation	Dec	pts	-22.0	-	-19.9	-24.7
WEDNESDAY (11 December)								
14:30	US	CPI	Nov	% m/m	0.2	-	0.3	0.4
20:00	US	FOMC decision		%	1.50-1.75	-	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	-0.8
11:00	EZ	Industrial Production SA	Oct	% m/m	-0.5	-	-0.5	-0.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Initial Jobless Claims		k	214	-	252	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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