

7 January 2020

Eyeopener

Markets driven by geopolitics

Geopolitics in the driving seat, but the influence weakens
 Zloty weakened but only temporarily
 Government bonds gain
 Today December flash CPI in Poland and important data in the US

After the end of 2019 that was positive for risk assets, the start of 2020 is a bit more challenging. The US assault on airport in Baghdad, which resulted in death of Iranian general caused that at the end of last week markets were focusing on risk of escalation of tension in the Middle East. In this environment the world equity markets corrected, emerging market currencies lost and core markets' bonds gained amid higher risk for safe assets. Moreover, on Friday afternoon the much weaker than expected US manufacturing ISM index was released (the production component disappointed most), which also was unsupportive for risk assets. On Monday there was market holiday in Poland, but abroad the day ended in optimistic moods after no information about escalation of potential conflict with Iran: equity markets closed in green, Brent oil price fell c.1.5% to \$68.3 and EM currencies were gaining.

Late last week, minutes from the December FOMC minutes were released. The current state of monetary policy was considered adequate, but some risks were highlighted, coming from international trade. On the December meeting rates were not changed and it was signalled that they will stay unchanged throughout 2020. The policy of increasing liquidity on the money market, including a possibility of an introduction of so-called standing repo facility, an addition of coupon bonds near maturity to the set of assets eligible for repo transactions, and a possibility of a change to the interest on excessive reserves.

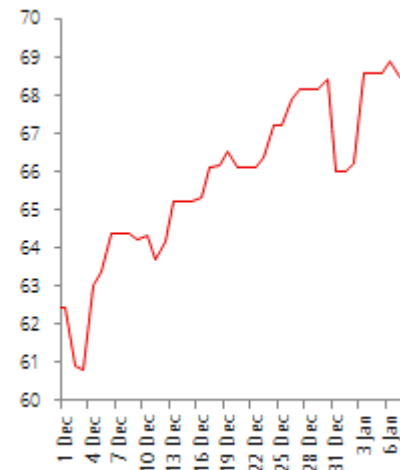
EURUSD reached almost 1.112 shortly after the start of Friday's session, but in the next hours euro was slowly regaining ground. At the end of the day the rate was close to opening level (1.117) and US data did not trigger a significant market reaction. On Monday euro strengthened even more and breached 1.120 and on Tuesday morning the market is opening near 1.119.

Both **EURPLN** and **USDPLN** were quite volatile on Friday. In the first part of the session, the zloty was under pressure of a sharp global mood deterioration after the US military action and exchange rates jumped to 4.257 and 3.825, respectively (both up by cPLN0.02). Later in the day, the Polish currency managed to recover nearly all losses. On Monday, amid lower liquidity in Poland and some better global market mood, the zloty gained with EURPLN falling to 4.232 and USDPLN to 3.783.

The domestic interest rate market followed core bonds at the end of the week but the daily scale of move was smaller than abroad. Polish IRS and bond curves shifted 3-4bp down while on the core market the move exceeded 5bp. During the first two days of 2020, the 10Y Bund recovered more than half of the losses suffered since late November.

In our view, the geopolitical factor could be key for the market, at least at the beginning of the week. However, if the tensions do not escalate and the economic activity data show that a shy improvement has continued in late 2019, the situation could stabilize. We will see important data from Germany and USA. In Poland, **today the stat office will release flash December CPI** and tomorrow the MPC will announce its decision about interest rates. We think inflation reached 3% y/y in the final month of 2019 and our estimate is above the consensus (2.8% y/y). This, however, should not affect the MPC rhetoric meaningfully. We expect the zloty to depreciate somewhat in early 2020 after its "traditional" December strengthening. The trigger for EURPLN rise could be deterioration of the global market mood after the US military action that should prevent the exchange rate from holding below the lower end of the multi-month 4.24-4.40 range for longer. The levels to watch in case of EURPLN are 4.29 and 4.31. We expect Polish yields to move further up next week with the 10Y bond yield touching 2.20% and possibly above. At the same time, the 10Y PL-DE spread could widen to 255bp since the Polish CPI might add pressure on bonds while core debt could benefit).

Price of Brent oil (USD)



Source: GUS, Bloomberg, Santander

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FX market

Today's opening			
EURPLN	4.2316	CZKPLN	0.1676
USDPLN	3.7831	HUFPLN*	1.2829
EURUSD	1.1186	RUBPLN	0.0612
CHFPLN	3.9021	NOKPLN	0.4300
GBPPLN	4.9770	DKKPLN	0.5662
USDCNY	6.9524	SEKPLN	0.4017

*for 100HUF

Last session in the FX market 06/01/2020

	min	max	open	close	fixing
EURPLN	4.234	4.251	4.245	4.234	4.2569
USDPLN	3.782	3.826	3.826	3.782	3.8213
EURUSD	1.116	1.121	1.117	1.120	-

Interest rate market 06/01/2020

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)	1.77	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.06	-4	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	1.72	0	-0.33	0
2L	1.75	0	1.61	0	-0.31	-1
3L	1.73	0	1.58	-1	-0.28	-1
4L	1.74	0	1.58	-1	-0.24	-1
5L	1.75	0	1.60	-1	-0.19	-1
8L	1.79	0	1.68	-2	-0.01	-1
10L	1.82	0	1.73	-2	0.11	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.53	3
T/N	1.56	0
SW	1.55	0
2W	1.59	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	1.68	0
6x9	1.68	0
9x12	1.65	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

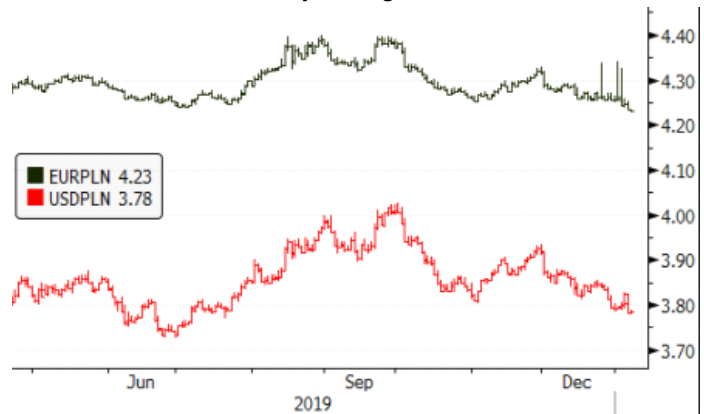
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.35	-3
France	19	-1	0.31	0
Hungary			2.23	0
Spain	40	0	0.68	1
Italy	129	0	1.65	2
Portugal	37	0	0.65	2
Ireland	23	-2	0.34	2
Germany	9	-1	-	-

* 10Y treasury bonds over 10Y Bunds

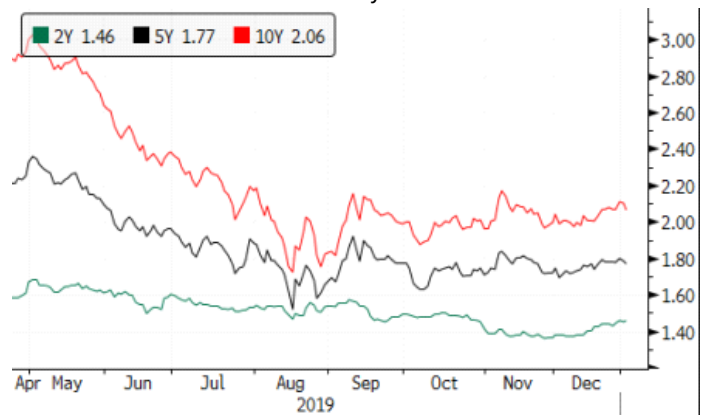
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

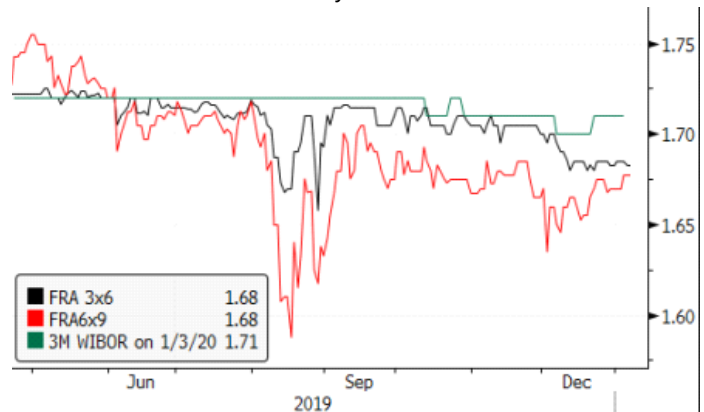
Zloty exchange rate



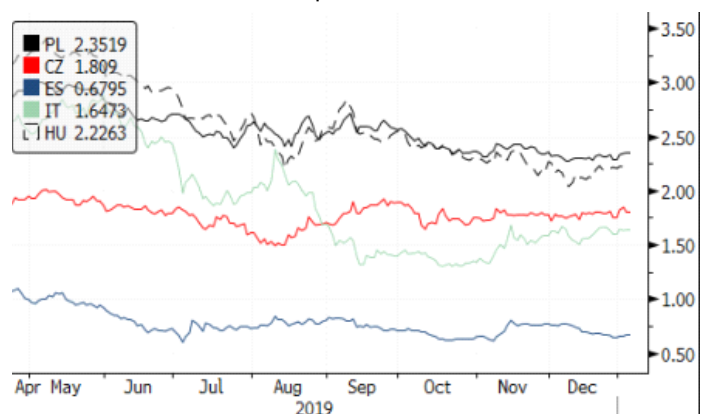
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (3 January)								
14:00	DE	HICP	Dec	% m/m	0.5	-	0.6	-0.8
16:00	US	ISM manufacturing	Dec	pts	49.0	-	47.2	48.1
20:00	US	FOMC Meeting Minutes						
MONDAY (6 January)								
	PL	Market holiday						
02:45	CN	Caixin China PMI Services	Dec	pts	53.2	-	52.5	53.5
09:55	DE	Markit Germany Services PMI	Dec	pts	52.0	-	52.9	52.0
10:00	EZ	Eurozone Services PMI	Dec	pts	52.4	-	52.8	52.4
TUESDAY (7 January)								
10:00	PL	Flash CPI		Dec	% y/y	2.8	3.0	2.6
11:00	EZ	Flash HICP	Dec	% y/y	1.3	-		1.0
11:00	EZ	Retail Sales	Nov	% m/m	0.5	-		-0.6
16:00	US	Durable Goods Orders	Nov	% m/m	-	-		-2.0
16:00	US	ISM services	Dec	pts	54.5	-		53.9
16:00	US	Factory Orders	Nov	% m/m	-0.7	-		0.3
WEDNESDAY (8 January)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	Factory Orders	Nov	% m/m	0.2	-		-0.4
09:00	HU	Industrial Production SA	Nov	% y/y	7.9	-		6.43
11:00	EZ	ESI	Dec	pct.	101.5	-		101.3
14:15	US	ADP report	Dec	k	165.0	-		66.9
THURSDAY (9 January)								
08:00	DE	Exports SA	Nov	% m/m	-0.7	-		1.5
08:00	DE	Industrial Production SA	Nov	% m/m	0.8	-		-1.7
11:00	EZ	Unemployment Rate	Nov	%	7.5	-		7.5
14:30	US	Initial Jobless Claims	week	k	220	-		222
FRIDAY (10 January)								
09:00	CZ	GDP SA	3Q	% y/y	2.5	-		2.5
09:00	CZ	Industrial Production	Nov	% y/y	-4.0	-		-3.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	166	-		266
14:30	US	Unemployment Rate	Dec	%	3.5	-		3.5

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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