

24 January 2020

Eyeopener

MPC voted both to hike, and to cut

ECB more dovish than expected

In January, the MPC voted both to hike and to cut rates

Zloty and other CEE currencies weaker, dollar appreciated

Polish bond yields down, but less than abroad

Today flash PMIs for industry and services in euro zone, Polish M3 money supply

Recently the market behaviour was influenced by news from China. Quarantine placed on 2 Chinese cities in order to stop the spreading of the new virus together with mixed quarterly earnings from the US corporates pushed the stocks lower. On top of that, despite the ECB communique after the meeting stating that the risks to the European growth have diminished somewhat, investors apparently were expecting a more optimistic stance. As a result, the stock indices fell, core markets bonds as well as USD, CHF and JPY gained. ECB announced the beginning of the central bank's strategy review, due to end by the end of the 2020.

Poland retail sales expanded by 5.7% y/y in December, in line with our expectations and slightly below the market consensus. We see some minor slowdown in retail sales and consumption to come, but private consumption will remain the main growth driver given rising social benefits. The implications from January consumer survey data are similar – in general, the sentiment is going down gradually, but the indicators regarding openness to larger expenditures remain robust. Find more in our yesterday's [Economic comment](#).

Minute from the last **MPC meeting** released yesterday by NBP showed that in January the Council voted on both a 25bp rate cut and a 15bp rate hike. The motion to cut rates keeps appearing since September, but at the previous meetings there was only one supporter, Eryk Łon. The last rate hike motion was filed in July 2019 and found support of two members, Eugeniusz Gatnar and Kamil Zubelewicz. The January motion might have had more supporters, but we still doubt – even with inflation going higher – that in this term the MPC could raise rates. The January minutes also include information that the members that fear inflation would stay permanently elevated after getting above the tolerance band are convinced that the current economic slowdown will not be deep. We think this means that the voices that rates need to be higher will be getting quieter as GDP growth goes down. Discussing the sudden rise of inflation shown in the December flash reading, most members thought it bears no implications for the path of CPI in the monetary policy horizon, a rate hike would not prevent higher inflation this year while it could deepen the ongoing slowdown. The Council remains of the view that the stabilisation of rates in the coming quarters is the optimal strategy.

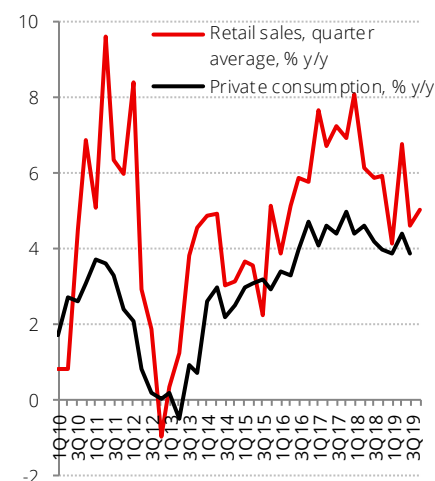
EURUSD has long oscillated between Wednesday's minimum and maximum levels and only the ECB press conference increased the volatility. Market took the ECB rhetoric as more dovish than expected and at the end of the day EURUSD closed at 1.104, a new January minimum.

EURPLN rose to nearly 4.25 and USDPLN above 3.84 amid weaker global market mood and stronger dollar. We see room for weaker zloty in the coming days with EURPLN climbing towards 4.27.

The other CEE currencies followed suit. EURHUF reached its fresh all-time-high at c337.5, EURCZK rose for the third day in a row while stronger dollar and lower oil price weighed on the ruble.

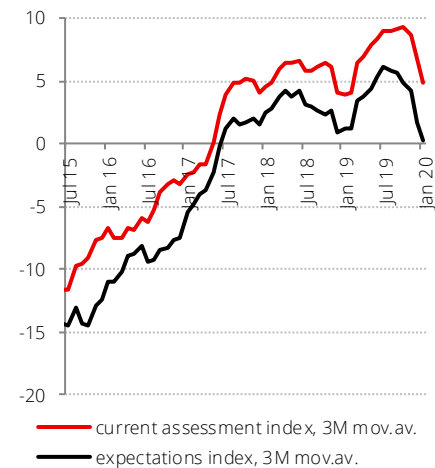
On the **domestic interest rate market** yields and IRS fell but the latter showed bigger response to the strengthening on the core markets. As a result, the asset swap spread rose by c2bp for 5Y and 10Y while the 10Y PL-DE yield spread widened by 3bp to c255bp.

Retail sales and consumption, % y/y



Source: GUS, Santander

Consumer confidence indicators, pts



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2448	CZKPLN	0.1687
USDPLN	3.8434	HUFPLN*	1.2605
EURUSD	1.1044	RUBPLN	0.0621
CHFPLN	3.9608	NOKPLN	0.4272
GBPPLN	5.0423	DKKPLN	0.5680
USDCNY	6.9170	SEKPLN	0.4029

*for 100HUF

Last session in the FX market 23/01/2020

	min	max	open	close	fixing
EURPLN	4.238	4.249	4.240	4.247	4.2463
USDPLN	3.819	3.849	3.825	3.843	3.8308
EURUSD	1.104	1.111	1.109	1.105	-

Interest rate market 23/01/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
DS1021 (2L)	1.52	-3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.93	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.25	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	1.68	-2	-0.33	0
2L	1.85	-1	1.57	-3	-0.31	-1
3L	1.88	-1	1.53	-4	-0.29	-2
4L	1.91	-1	1.53	-4	-0.25	-2
5L	1.93	-2	1.54	-4	-0.21	-3
8L	1.97	-2	1.61	-5	-0.05	-4
10L	2.00	-2	1.67	-5	0.06	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-9
T/N	1.51	0
SW	1.54	0
2W	1.58	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	1.72	-1
6x9	1.74	-1
9x12	1.76	0
3x9	1.81	-1
6x12	1.84	-1

Measures of fiscal risk

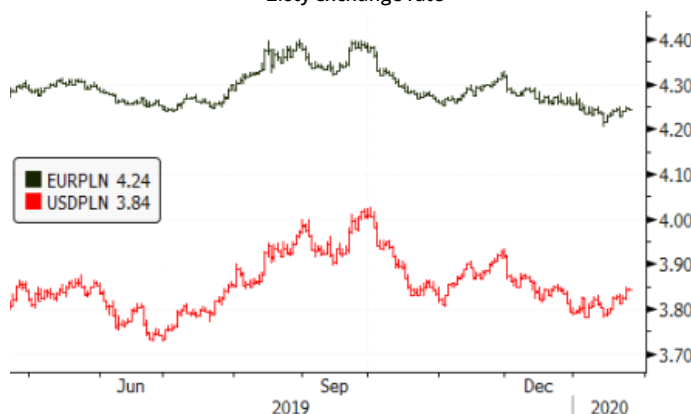
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.55	-2
France	18	0	0.25	0
Hungary			2.44	-7
Spain	42	-2	0.67	0
Italy	127	-5	1.56	0
Portugal	38	-2	0.71	0
Ireland	23	0	0.24	-6
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

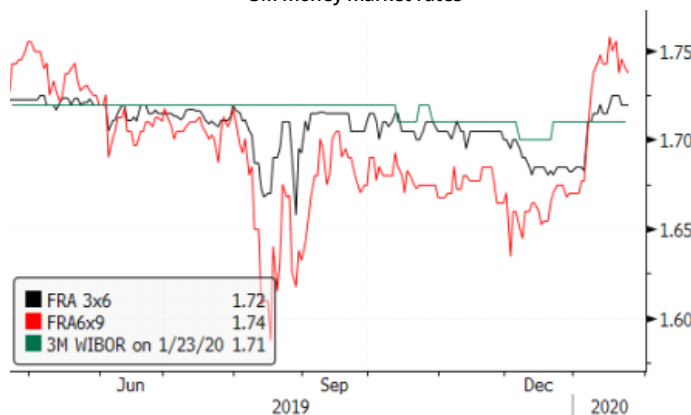
Zloty exchange rate



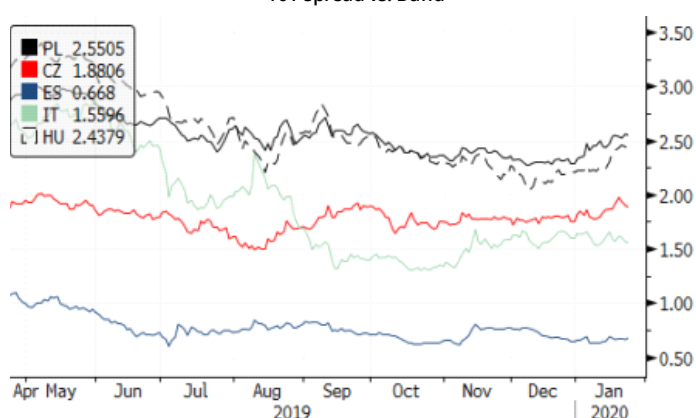
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (17 January)								
11:00	EZ	HICP	Dec	% y/y	1.3	-	1.3	1.0
14:30	US	Housing Starts	Dec	% m/m	1.1	-	16.9	2.6
15:15	US	Industrial Production	Dec	% m/m	-0.2	-	-0.3	0.8
16:00	US	Michigan index	Jan	pts	99.3	-	99.1	99.3
TUESDAY (21 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	2.6	2.6	2.6	2.6
10:00	PL	Construction Output	Dec	% y/y	1.3	-1.6	-3.3	-4.7
10:00	PL	Average Gross Wages	Dec	% y/y	6.1	5.6	6.2	5.3
11:00	DE	ZEW Survey Current Situation	Jan	pts	-13.5	-	-9.5	-19.9
WEDNESDAY (22 January)								
10:00	PL	Sold Industrial Output	Dec	% y/y	6.1	4.8	3.8	1.4
10:00	PL	PPI	Dec	% y/y	0.9	1.0	1.0	-0.1
16:00	US	Existing Home Sales	Dec	% m/m	1.5	-	3.6	-1.7
THURSDAY (23 January)								
10:00	PL	Retail Sales Real	Dec	% y/y	6.6	5.7	5.7	5.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Initial Jobless Claims	week	k	218	-	211	205
FRIDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	44.2	-		43.7
09:30	DE	Markit Germany Services PMI	Jan	pts	52.9	-		52.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	46.7	-		46.3
10:00	EZ	Eurozone Services PMI	Jan	pts	52.8	-		52.8
14:00	PL	Money Supply M3	Dec	% y/y	9.3	8.9		9.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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