

17 September 2020

Eyeopener

FOMC to keep rates on hold until 2023

Fed declares that interest rates will be stable for long
Core inflation in Poland started falling
EURPLN and EURUSD closer to important levels
Polish bond yields higher
Today, data from Polish labour market, numerous US publications

Since the beginning of the Wednesday's session, the global market sentiment was slightly positive but in the afternoon some correction of this optimism took place after the next below-consensus US data. After the Tuesday's release of the industrial output, yesterday it appeared that in August retail sales rose less than expected and July figure was revised down. However, the market reaction to this data was muted and trading remained within the Tuesday's ranges. OECD revised its world GDP forecasts for this and next year. For 2020, OECD forecasts the global GDP will contract 4.5% vs -6.0% expected in June. For the US, the growth forecast was revised to -3.8% from -7.3% and Germany to -5.4% from -6.6%. For 2021, Organization expects global GDP to grow 5% (vs 5.2% previously) with the US growing 4% (vs 4.1%) and Germany 4.6% (vs 5.8%).

The US Fed kept interest rates unchanged and signalled that these may remain close to zero until end of 2023. The post-meeting statement read that the rates will stay flat until employment achieves maximum and inflation rises not only to 2%, but will be "moderately" above this level "for some time". This is a practical implementation of the new FOMC strategy announced in August by Jay Powell. Still, the practical meaning of these statements and the preferred way to achieve them were not clearly explained at the press conference and this triggered some market volatility – stock markets, after initial rises, fell, while the dollar gained. New economic forecasts released by the Fed assumed that conditions to hike rates will not be met until 2023.

Poland's **core inflation** excluding food and energy prices declined in August to 4.0% y/y from 4.3%, most likely marking a turning point in an upward trend that lasted since late 2018. The August reading is slightly lower than our estimate. Other inflation trend measures were either a notch lower than previously (CPI ex administered prices, 15% trimmed mean) or remained in place (CPI ex most volatile items). We expect core inflation to enter a downward trend now that will take it below 3% still this year and possibly even below 1% around mid-2021 due to post-pandemic weakness of domestic demand.

EURUSD was hovering around 1.184 and remained within the last Thursday's trading range (ECB day) for the fourth session in a row. In the evening, the dollar gained somewhat vs the euro amid profit taking after the dovish message from the FOMC. EURUSD neared 1.175, the lower end of the consolidation in which it has been holding since August and we think this level could be successfully tested.

EURPLN eased slightly to 4.445 from 4.45 remaining within the Tuesday's trading range and USDPLN fell to 3.74 from 3.76. Dollar's appreciation after the FOMC meeting pushed EURPLN back to 4.45. We think the exchange rate could approach the upper end of the 4.425-4.47 range in which it has been holding since first Friday of September and this resistance could be tested soon.

Among **other CEE currencies**, the ruble remained stable and Czech koruna regained a half of the Tuesday loss. The forint was the worst performer this time, EURHUF rose for some time above 359 after oscillating for a couple of days around 357.

On the **domestic interest rate market** yields and IRS declined by 1-3bp taking advantage of the strengthening on the core markets and euro zone periphery. As a result the 5Y benchmark has already covered all the August loss and the 10Y one almost a half. German 10Y yield was moving just above the -0.50% support, which has blocked Bund's strengthening since the middle of August.

Fed forecasts

	GDP (% y/y)			PCE (% y/y)		
	2020	2021	2022	2020	2021	2022
September	-3.7	4.0	3.0	1.2	1.7	1.8
June	-6.5	5.0	3.5	0.8	1.6	1.7
	Fed interest rate			Unemployment		
	2020	2021	2022	2020	2021	2022
September	0.1	0.1	0.1	7.6	5.5	4.6
June	0.1	0.1	0.1	9.3	6.5	5.5

Source: US Federal Reserve, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.4549	CZKPLN	0.1648
USDPLN	3.7897	HUFPLN*	1.2268
EURUSD	1.1759	RUBPLN	0.0504
CHFPLN	4.1449	NOKPLN	0.4168
GBPPLN	4.8974	DKKPLN	0.5971
USDCNY	6.7727	SEKPLN	0.4274

*for 100HUF

Last session in the FX market

16/09/2020

	min	max	open	close	fixing
EURPLN	4.443	4.455	4.452	4.447	4.453
USDPLN	3.741	3.765	3.758	3.758	3.753
EURUSD	1.181	1.188	1.185	1.183	-

Interest rate market 16/09/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.08	2
PS0425 (5Y)	0.69	-1
DS1030 (10Y)	1.37	0

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.20	0	-0.51
2L	0.26	-1	-0.47
3L	0.35	-1	-0.46
4L	0.48	-1	-0.44
5L	0.61	-2	-0.41
8L	0.92	-2	-0.30
10L	1.06	-2	-0.21

WIBOR rates

Term	%	Change (bps)
O/N	0.08	0
T/N	0.08	0
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.23	0
6M	0.26	0
1Y	0.27	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	0
3x6	0.20	1
6x9	0.17	0
9x12	0.18	0
3x9	0.23	0
6x12	0.21	-3

Measures of fiscal risk

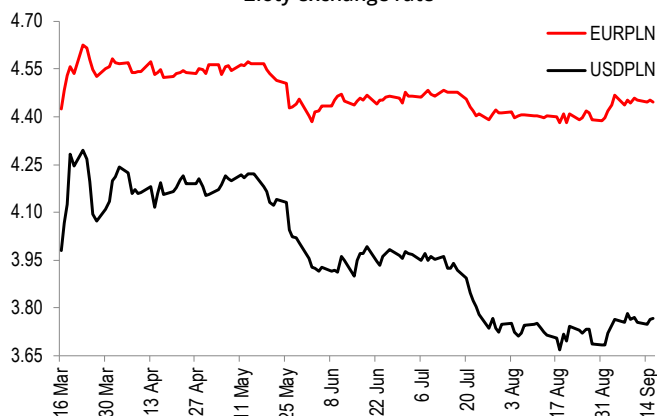
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	56	185
France	9	26
Hungary	63	294
Spain	52	75
Italy	92	145
Portugal	33	78
Ireland	16	35
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

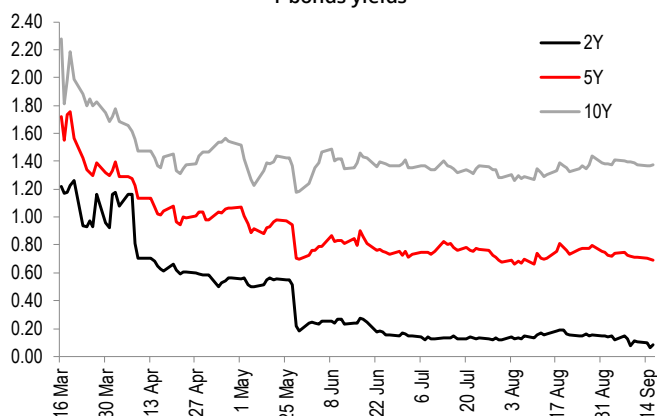
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

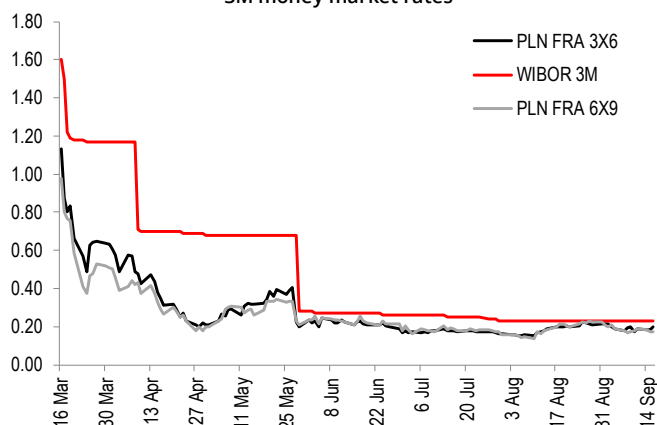
Zloty exchange rate



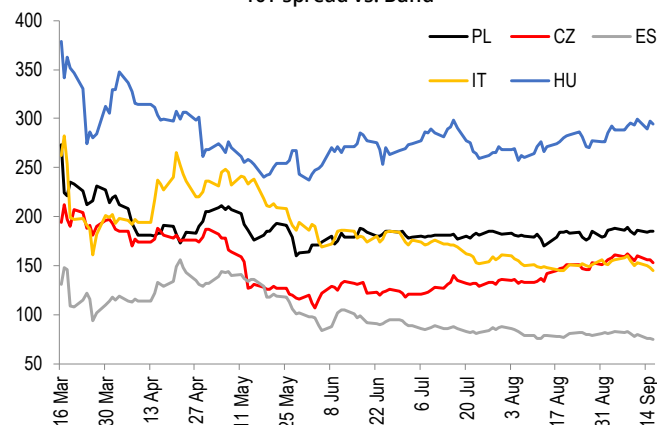
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST	
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (11 September)								
	PL	Rating review by Moody's						
08:00	DE	HICP	Aug	% m/m	-0.2	-	-0.2	-0.2
14:30	US	CPI	Aug	% m/m	0.3	-	0.4	0.6
MONDAY (14 September)								
11:00	EZ	Industrial Production SA	Jul	% m/m	4.2	-	4.1	9.5
14:00	PL	Current Account Balance	Jul	€mn	2 777	1 573	1 620	2 842
14:00	PL	Trade Balance	Jul	€mn	2 134	1 642	998	2 666
14:00	PL	Exports	Jul	€mn	19 830	19 487	19 563	18 689
14:00	PL	Imports	Jul	€mn	17 291	17 845	18 565	16 023
TUESDAY (15 September)								
	PL	MPC decision		%	0.10	0.10	0.10	0.10
10:00	PL	CPI	Aug	% y/y	2.9	2.9	2.9	2.9
11:00	DE	ZEW Survey Current Situation	Sep	pts	-72.5	-	-66.2	-81.3
15:15	US	Industrial Production	Aug	% m/m	1.0	-	0.4	3.5
WEDNESDAY (16 September)								
14:00	PL	CPI Core	Aug	% y/y	4.1	4.1	4.0	4.3
14:30	US	Retail Sales Advance	Aug	% m/m	1.0	-	0.6	0.9
20:00	US	FOMC decision		%	0.25	-	0.25	0.25
THURSDAY (17 September)								
10:00	PL	Employment in corporate sector	Aug	% y/y	-1.35	-1.6		-2.3
10:00	PL	Average Gross Wages	Aug	% y/y	4.1	4.1		3.8
11:00	EZ	HICP	Aug	% y/y	-0.2	-		-0.2
14:30	US	Initial jobless claims	week	k	850	-		884
14:30	US	Building permits	Aug	k	1 517	-		1 483
14:30	US	House starts	Aug	k	1 483	-		1496
14:30	US	Philly Fed index	Sep	pts	15.0	-		17.2
FRIDAY (18 September)								
10:00	PL	Industrial output	Aug	% y/y	3.4	2.9		1.1
10:00	PL	PPI	Aug	% y/y	-1.0	-1.2		-0.6
16:00	US	Flash Michigan index	Sep	pts	76.0	-		74.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17. 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.