

16 May 2019

Eyeopener

MPC not worried about higher inflation

Data from China and USA below forecasts
 Polish GDP surprised to the upside, CPI confirmed at flash level
 Zloty kept on losing, EURUSD down
 Polish bonds resume their strengthening
 Today Poland's core inflation and further US data

On Tuesday opening, European equity prices dropped and core market bonds strengthened after China released disappointing data on retail sales and industrial output. The dollar was gaining, which put downside pressure on CEE fx, but in the afternoon the moves abruptly reversed on reports that the USA considers delaying by six months the imposition of trade tariffs on European cars. The pound was under negative influence of pessimistic news about Brexit discussions. Flash 1Q GDPs in Europe were close to expectations and did not influence the market, April retail sales and output in the USA disappointed.

According to a flash estimate, **GDP growth in Poland in 1Q19** was 4.6% y/y, slightly above forecasts (Santander: 4.5%, market consensus 4.4%) vs 4.9% in 4Q18. Seasonally adjusted growth was 1.4% q/q. The Polish economy is so far quite resilient to the global economic slowdown, but we think GDP growth will decrease further in the coming quarters. **Final data on April CPI** confirmed the surprisingly strong rise to 2.2% y/y. Services inflation accelerated significantly (to 3.6% y/y from 2.7%). We estimate core inflation at 1.7% y/y, the highest level in more than six years. Core inflation release is scheduled for today, 14:00CET. Read more in our [Economic Comment](#).

The MPC kept interest rates unchanged, as expected, with the main rate at 1.50%. Neither the official statement nor rhetoric changed, with the NBP president's views still dominating. The recent rise of CPI, despite coming as a surprise to the Council, was downplayed and said not to be enough to change the views of the policymakers. Glapiński did not rule out the possibility that CPI may exceed 3.5% at the end of this year, but he expected it would subsequently decline. Moreover, the MPC views the recent rise of core inflation as a mere normalisation, and does not expect a further increase. The argument against a persistent increase of inflation is based on expectations for an economic slowdown. In our view, core inflation will continue its upward march, and so will headline CPI. However, we are still quite far away from a point when a serious discussion about monetary tightening could start - it is possible in 1H20 at the earliest, in our view, assuming that inflation exceeds 3% and economic growth does not decelerate sharply.

EURUSD reached the session low at slightly below 1.119 but at the end of the Polish trading hours the exchange rate returned above 1.12 amid market talking about the plans of the US president. Today, the US data could drive EURUSD.

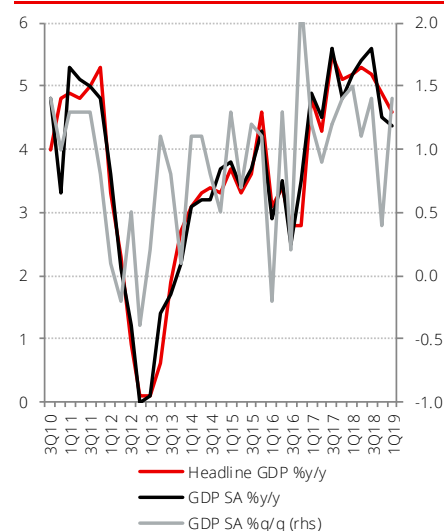
EURPLN broke Tuesday's maximum and reached almost 4.315, and USDPLN landed above 3.85 due to the negative mood on the equity market. The positive surprise by Polish GDP was too small to strengthen the zloty and only the late in the afternoon the zloty managed to gain (EURPLN slid to 4.302 and USDPLN to 3.385) thanks to the news from the US. We expect the zloty to stay under EURUSD influence today.

In the case of CEE currencies, the forint and the koruna had been decreasing since the morning. EURHUF topped 325, reaching the highest level since October 2018, despite 1Q19 GDP surprised strongly on the positive side. The Czech 1Q19 GDP growth was close to the expectations, thus EURCZK reaction was rather small. In the afternoon the forint, the koruna and the ruble gained, owing to the fast USD depreciation, as a reaction to the president Trump announcement.

On the domestic debt market IRS and yields decreased significantly after the Tuesday's stabilisation. The bond yield curve shifted down by 4-6bp in the belly and the long end. Yesterday the POLGB10Y yield slid more than US and German peers (4-5bp). During the day the POLGB10Y yield has even diving deeper (slightly below 2.80%), but rebounded in reaction to signals from the US.

We are pleased to announce that our research team has been recognized as **the best overall forecaster** and the second best exchange rate forecaster for Poland's economy by [Focus Economics](#) in their yearly Analyst Forecast Awards.

Economic growth in Poland



Source: GUS, Santander

Economic Analysis Department:

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

FX market

Today's opening

EURPLN	4.3005	CZKPLN	0.1673
USDPLN	3.8378	HUFPLN*	1.3244
EURUSD	1.1206	RUBPLN	0.0593
CHFPLN	3.8068	NOKPLN	0.4401
GBPPLN	4.9278	DKKPLN	0.5758
USDCNY	6.8778	SEKPLN	0.3995

*for 100HUF

Last session in the FX market 15/05/2019

	min	max	open	close	fixing
EURPLN	4.301	4.314	4.307	4.301	4.3128
USDPLN	3.835	3.856	3.842	3.838	3.8457
EURUSD	1.118	1.123	1.121	1.121	-

Interest rate market 15/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.62	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.20	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.83	-2	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	1.74	0	2.42	-2	-0.25	-1
2L	1.81	0	2.24	-4	-0.23	-1
3L	1.87	0	2.17	-5	-0.18	-1
4L	1.94	0	2.15	-5	-0.11	-1
5L	2.02	0	2.17	-5	-0.03	-2
8L	2.22	-1	2.26	-5	0.24	-2
10L	2.34	-1	2.33	-5	0.42	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.81	1
T/N	1.81	1
SW	1.63	1
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.72	0
9x12	1.73	0
3x9	1.79	0
6x12	1.80	0

Measures of fiscal risk

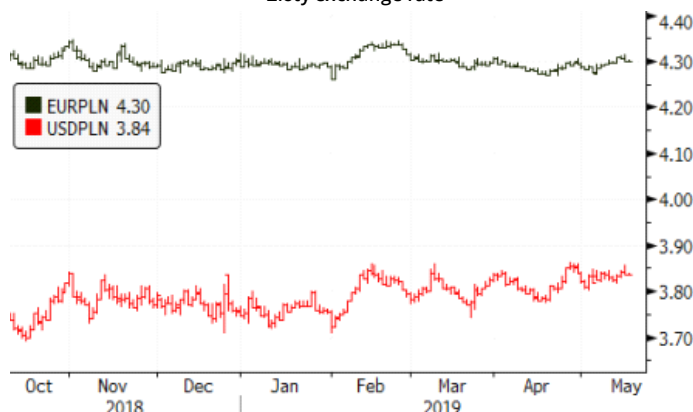
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.95	-1
France	30	0	0.40	0
Hungary			3.23	-3
Spain	58	1	1.06	1
Italy	212	6	2.88	3
Portugal	64	2	1.23	1
Ireland	33	0	0.60	-1
Germany	12	1	-	-

* 10Y treasury bonds over 10Y Bunds

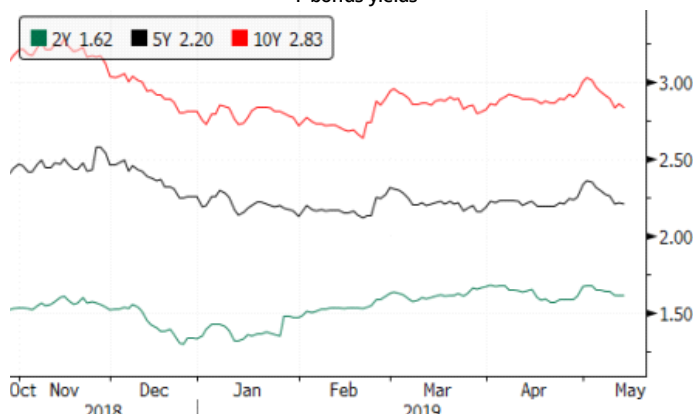
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



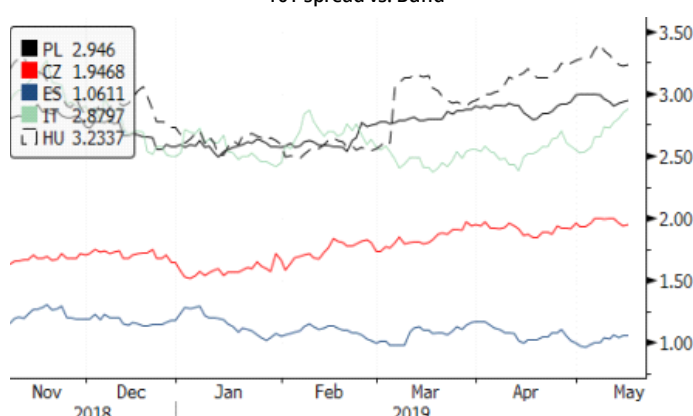
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (10 May)								
08:00	DE	Exports SA	Mar	% m/m	-0.4	-	1.5	-1.3
14:30	US	CPI	Apr	% m/m	0.4	-	0.3	0.4
MONDAY (13 May)								
09:00	CZ	CPI	Apr	% y/y	3.0	-	2.8	3.0
TUESDAY (14 May)								
08:00	DE	HICP	Apr	% m/m	1.0	-	1.0	1.0
11:00	EZ	Industrial Production SA	Mar	% m/m	-0.3	-	-0.3	-0.1
11:00	DE	ZEW Survey Current Situation	May	pts	6.3	-	8.2	5.5
14:00	PL	Current Account Balance	Mar	€mn	-1 233	-1 187	553	-342
14:00	PL	Exports	Mar	€mn	19 804	19 772	19 654	18 324
14:00	PL	Imports	Mar	€mn	20 885	20 733	19 065	18 691
WEDNESDAY (15 May)								
	PL	MPC decision		%	1.50	1.50	1.50	1,50
08:00	DE	GDP WDA	1Q	% y/y	0.7	0.7	0.7	0.6
09:00	CZ	GDP SA	1Q	% y/y	2.4	-	2.5	2.6
09:00	HU	GDP	1Q	% y/y	4.9	-	5.3	5.1
10:00	PL	CPI	Apr	% y/y	2.2	2.2	2.2	1.7
10:00	PL	GDP	1Q	% y/y	4.4	4.5	4.6	4.9
11:00	EZ	GDP SA	1Q	% y/y	1.2	-	1.2	1.2
14:30	US	Retail Sales Advance	Apr	% m/m	0.2	-	-0.2	1.7
15:15	US	Industrial Production	Apr	% m/m	0.0	-	-0.5	0.2
THURSDAY (16 May)								
14:00	PL	CPI Core	Apr	% y/y	1.7	1.7**		1.4
14:30	US	Initial Jobless Claims	week	k	220	-		228
14:30	US	Housing Starts	Apr	% m/m	6.2	-		-0.3
14:30	US	Index Philly Fed	May	pts	9.0	-		8.5
FRIDAY (17 May)								
11:00	EZ	HICP	Apr	% y/y	1.7	-		1.7
16:00	US	Michigan index	May	pts	97.9	-		97.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated **estimate after inflation data

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, ul. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.