

17 May 2019

Eyeopener

Core inflation rise

Market sentiment got better, most of US data above expectations

The zloty gave up gains, the dollar stronger vs the euro

Profit taking on bond markets

Today euro zone inflation, flash US Michigan index

Yesterday, the market was still under the impact of media reports that the US president could delay introduction of tariffs on European cars. As a result, stock indexes rebounded which weighed on bonds, mainly on Treasuries. Most of the data released yesterday in the US surprised to the upside and the majority of the companies reported better earnings than expected. This fitted into the upside trend of stock prices, helped yields rise and provided additional support for the dollar. In the background, we saw some signs that tensions in the US-China trade talks are still high (Donald Trump issued an order to limit the ability of the China telecommunication companies to sell electronic devices, while a compromise in trade negotiations has still not been excluded by the US administration).

Yesterday the EU court announced a **positive verdict for Poland regarding the tax to be imposed on the sales in large stores**. The retailer tax was questioned by the European Commission as being against the rules of state aid. The verdict is not final and the EC may appeal in the next two months. The Ministry of Finance reminded that due to the lawsuit the tax is suspended until the end of 2019. It was estimated that revenues from this tax would amount to PLN1.6bn per year.

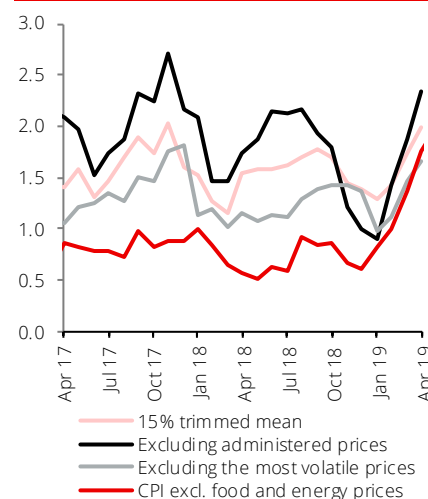
Poland **April core inflation** (CPI excluding food and energy) rose to 1.7% y/y from 1.4% y/y, its highest for more than six years. The monthly rise of the main core inflation measure by 1.0% is the biggest change for April since the data are available (2001), usually prices rose by no more than 0.6% in this month. Interestingly, the same applies to the three other core inflation measures published by the NBP although their y/y changes are still below levels seen in late 2017. In our view, core CPI will rise later in the year and at the end of 2019 inflation excluding food and energy prices will be above 2.5% y/y.

EURUSD fell to 1.117 from 1.121 in reaction to the US data. So far, the current week high-low spread is the lowest since early April. In our view, today's European and US data are unlikely to trigger any meaningful changes before the weekend.

In the morning trade, **EURPLN** fell to 4.29, but then erased gains and returned to c4.30 in the evening, owing to the USD appreciation. USDPLN was following the EURPLN's path – after the morning drop to 3.825, it returned above 3.84. Other CEE currencies were marching the same way. Despite the European stock markets rebound, the zloty could not keep the morning gains. We believe that zloty stays close to the 4.30 until the end of the week.

Yesterday on the **domestic debt market** we saw some solid profit taking, after the significant slide of yields in the previous days. The domestic yield curve was shifted up by 3-5bp, while IRS curve by 5-6bp in 5-10Y segment. The Polish 10Y bonds performed worse than US (USGG10Y +3bp) and German (GDBR10Y 0bp) peers.

Core inflation measures, % y/y



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FX market

Today's opening

EURPLN	4.3050	CZKPLN	0.1673
USDPLN	3.8505	HUFPLN*	1.3263
EURUSD	1.1180	RUBPLN	0.0595
CHFPLN	3.8157	NOKPLN	0.4393
GBPPLN	4.9225	DKKPLN	0.5764
USDCNY	6.9068	SEKPLN	0.3993

*for 100HUF

Last session in the FX market 16/05/2019

	min	max	open	close	fixing
EURPLN	4.292	4.304	4.301	4.300	4.2929
USDPLN	3.824	3.851	3.838	3.847	3.8259
EURUSD	1.117	1.122	1.121	1.118	-

Interest rate market 16/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.65	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.23	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.87	4	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	1	2.44	2	-0.25	0
2L	1.84	3	2.27	3	-0.23	0
3L	1.91	4	2.20	4	-0.18	0
4L	1.98	4	2.19	4	-0.11	0
5L	2.06	4	2.20	4	-0.02	1
8L	2.27	4	2.29	3	0.26	2
10L	2.39	6	2.36	3	0.44	2

WIBOR rates

Term	%	Change (bps)
O/N	1.78	-3
T/N	1.70	-11
SW	1.60	-3
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	1.74	1
9x12	1.76	3
3x9	1.79	0
6x12	1.82	1

Measures of fiscal risk

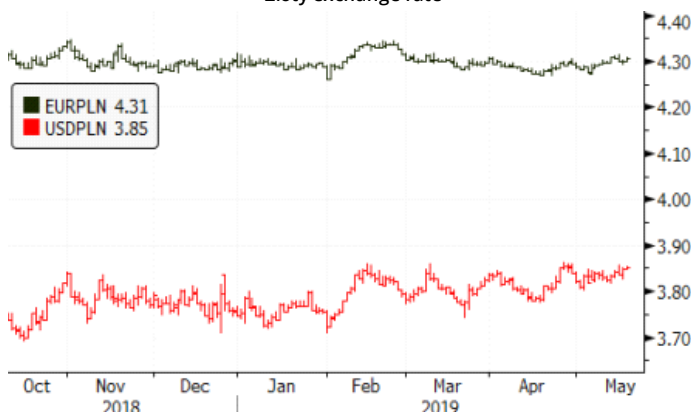
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.98 5
France	30 0	0.39 0
Hungary		3.28 2
Spain	58 -2	1.01 1
Italy	217 -6	2.80 2
Portugal	65 -1	1.18 1
Ireland	33 -1	0.58 0
Germany	12 1	- -

* 10Y treasury bonds over 10Y Bunds

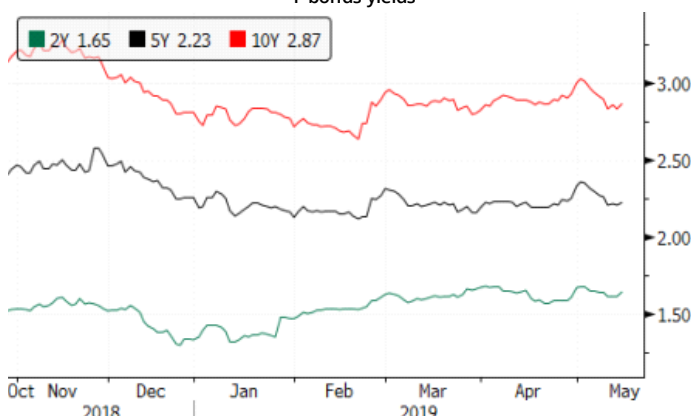
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



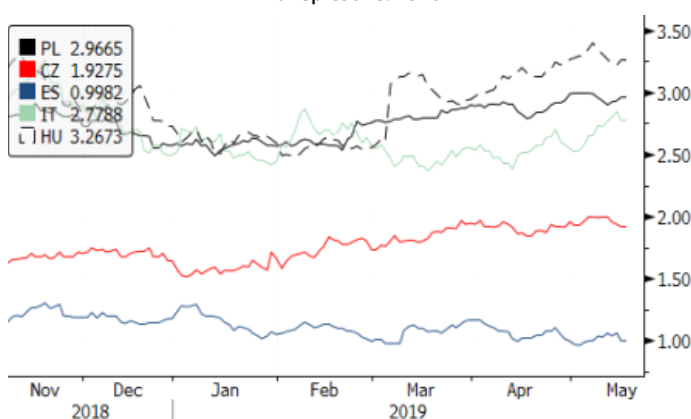
T-bonds yields



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**	1.7	1.4
14:30	US	Initial Jobless Claims	week	k	220	-	212	228
14:30	US	Housing Starts	Apr	% m/m	6.2	-	5.7	1.7
14:30	US	Index Philly Fed	May	pts	9.0	-	16.6	8.5
FRIDAY (17 May)								
11:00	EZ	HICP	Apr	% y/y	1.7	-		1.7
16:00	US	Flash Michigan index	May	pts	97.1	-		97.2

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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