

14 September 2018

# Eyeopener

## Major rise in core inflation?

ECB did not change its rhetoric, US inflation below forecasts  
 EM currencies gain after rate hike in Turkey  
 Polish bonds slightly stronger  
 Today core inflation, Moody's reviewing Poland's rating, US data

Yesterday three central banks held meetings. Bank of England did not surprise with the ECB and the central bank of Turkey having the biggest impact on the market. The ECB did not change interest rates and confirmed it intends to end the bond purchase program until the end of the year. This rhetoric has been received by the market as rather hawkish given recent encouraging European data and concerns about impact of trade wars on the global growth. New CPI and GDP forecasts did not differ much vs June estimates and the tone of the statement has not changed much vs the last meeting. The euro gained vs the dollar yesterday not only thanks to the ECB rhetoric but also after the lower-than-expected US CPI data. Next to EURUSD rise, the EM currencies were supported by the Turkish central bank decision to hike rates to 24% from 17.75%. The lira gained after this was announced and supported its EM peers, including the zloty.

**EURUSD** increased yesterday for a fourth day in a row, reaching 1.17, supported by EBC's rhetoric and US inflation data. Today we will get to know another US data. Since the beginning of the week EURUSD is going up and if US data is positive, it could be an impulse to gain profits from last days euro appreciation.

**EURPLN** increased at the beginning of the session almost to 4.32 but after Turkey central Bank's decision, the zloty began to rebound. During the EBC press conference, this trend accelerated bringing EURPLN down below 4.30. USDPLN declined temporarily below 3.68 from 3.715. Other CEE currencies gained as well.

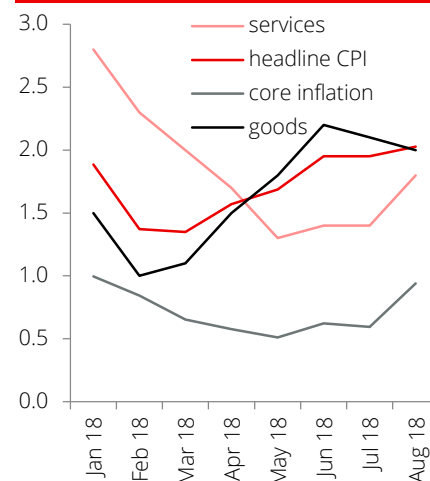
**On domestic interest rate market**, there were big fluctuations on Thursday. Yields began to climb on the mid and long end and after US data dropped significantly. Bonds were not able to keep profits till end of the day which was supported by hawkish EBC's rhetoric. Performance of Polish debt was better than performance of German or US debt.

**July's current account deficit**, at EUR 809 million, was higher than expected (EUR 659 million). The trade balance, at a deficit of EUR 432 million, was some EUR 80 million below consensus. The deviation from forecasts was caused by stronger-than-expected imports. Imports grew 11.6% y/y, the fastest pace since February, and higher than the 1H18 average of 8.2%, but supported by working day differences. Exports grew 9.8% y/y (we thought they would grow around 10%). We expect to see a slowdown in both in the months to come on deteriorating business sentiment (in August, new orders from abroad in the PMI survey suddenly collapsed to the weakest level in four years). Still, we expect imports to outpace exports thanks to strong support from domestic demand. The 12M moving sum of the C/A balance decreased from 0 to -0.1% of GDP, and the gap may widen to -0.6% at the end of the year. The NBP's comments on the trade data stresses some possibly one-off items boosting exports (helicopters and subway carriages), while on the imports side, the largest growth was recorded among various energy commodities as well as passenger cars.

**The final print of August CPI** confirmed what we saw in the flash publication: inflation stayed at 2% y/y. However, its breakdown changed markedly. In August, services prices rebounded to 1.8% y/y from 1.4% y/y after their 1H18 descent from 2.8% to 1.4%, despite the tight labour market generating substantial wage pressure. Vegetable prices fell less than usual in August, reflecting the impact of the drought. We estimate that core CPI accelerated to 0.9% y/y in August from 0.6% y/y in July; we expect that this will be the beginning of an upward trend that could take core inflation to 1.3% y/y at the end of this year and around 2.5% at the end of 2019. At the same time, headline CPI could ease somewhat to 1.7% y/y in December due to the base effect in food and fuel prices, in our view.

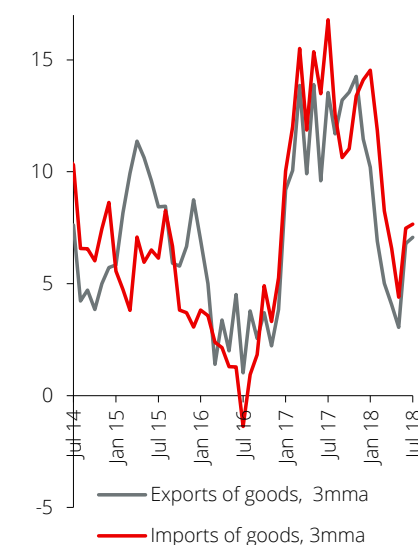
**Today Moody's is to review Polish rating** (A2/stable). We do not think this is the time for changes of the credit grade or its outlook..

Inflation measures, % y/y



Source: GUS, Santander Bank Polska

Foreign trade turnover, % y/y



Source: NBP, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.3009	CZKPLN	0.1686
USDPLN	3.6741	HUFPLN*	1.3278
EURUSD	1.1706	RUBPLN	0.0538
CHFPLN	3.8068	NOKPLN	0.4473
GBPPLN	4.8195	DKKPLN	0.5766
USDCNY	6.8528	SEKPLN	0.4105

\*for 100HUF

### Last session in the FX market 13/09/2018

	min	max	open	close	fixing
EURPLN	4.299	4.319	4.312	4.306	4.3126
USDPLN	3.676	3.717	3.708	3.687	3.713
EURUSD	1.161	1.170	1.163	1.168	-

## Interest rate market 13/09/2018

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.60	0	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.54	0	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.22	-1	6 wrz 18	WS0428	3.249

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.73	0	-0.25	0
2L	1.95	-1	2.93	0	-0.15	0
3L	2.15	0	2.98	0	0.00	0
4L	2.33	0	2.99	0	0.16	0
5L	2.48	0	2.98	-1	0.32	1
8L	2.79	0	3.00	0	0.71	1
10L	2.96	0	3.02	0	0.93	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.53	0
T/N	1.55	2
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.74	0
6x9	1.77	0
9x12	1.81	0
3x9	1.83	0
6x12	1.86	0

## Measures of fiscal risk

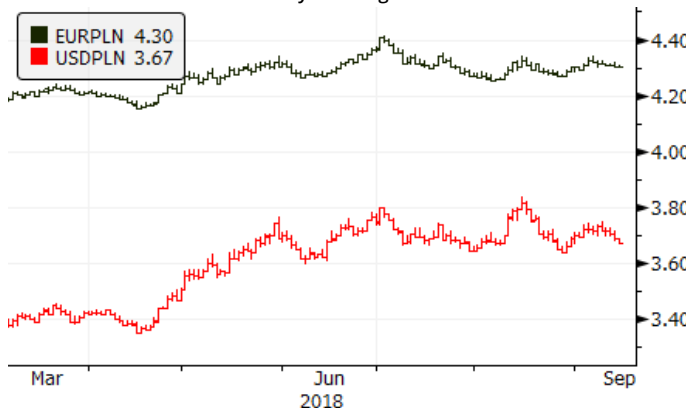
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.79 -2
France	24 -1	0.31 0
Hungary	116 1	3.13 -1
Spain	62 -1	1.04 0
Italy	232 -4	2.53 0
Portugal	64 0	1.43 0
Ireland	25 0	0.48 0
Germany	10 0	- -

\* 10Y treasury bonds over 10Y Bunds

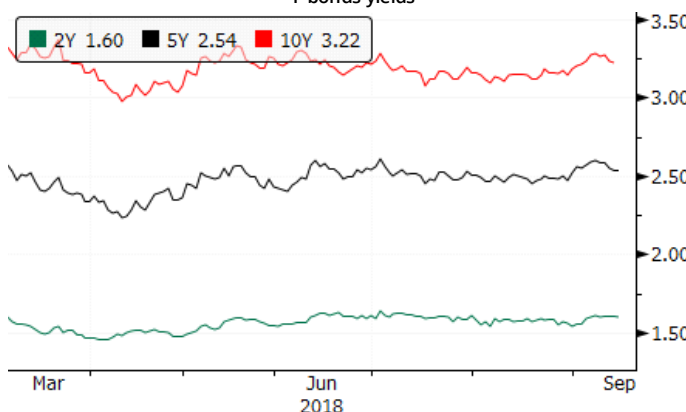
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

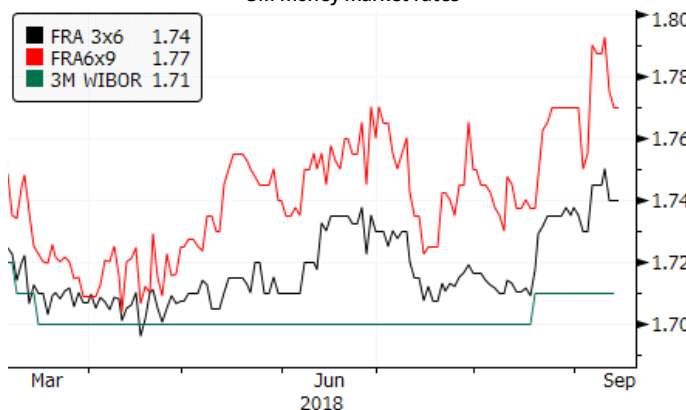
## Zloty exchange rate



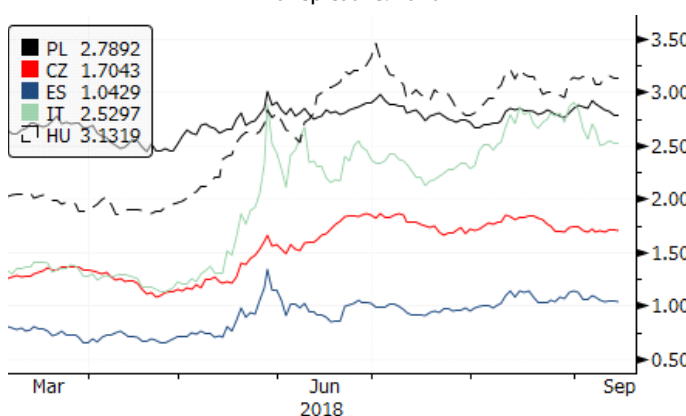
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Time CET	Country	Indicator	Period	Forecast		Actual value	Last value	
				Market	Santander			
Friday (7 September)								
08:00	DE	Export	Jul	% m/m	0.2	-0.9	0.1	
08:00	DE	Industrial Production	Jul	% m/m	0.2	-	-1.1	-0.9
11:00	EZ	GDP SA	2Q	% y/y	2.2	-	2.1	2.2
14:30	US	Change in Nonfarm Payrolls	Aug	k	192	-	201	157
14:30	US	Unemployment rate	Aug	%	3.8	-	3.9	3.9
Monday (10 September)								
09:00	CZ	CPI	Aug	% y/y	2.4	-	2.5	2.3
Tuesday (11 September)								
09:00	HU	CPI	Aug	% y/y	3.3	-	3.4	3.4
11:00	DE	ZEW Survey Current Situation	Sep-18	pts	71.6	-	76.0	72.6
Wednesday (12 September)								
11:00	EZ	Industrial Production	Jul	% m/m	-0.5	-	-0.8	-0.8
Thursday (13 September)								
08:00	DE	HICP	Aug	% m/m	0.0	-	0.0	0.0
10:00	PL	CPI	Aug	% y/y	2.0	2.0	2.0	2.0
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0,0	0.0
14:00	PL	Current Account Balance	Jul	€mn	-659	-418	-809	-240
14:00	PL	Trade Balance	Jul	€mn	-356	-255	-432	-413
14:00	PL	Exports	Jul	€mn	17059	17160	17115	18071
14:00	PL	Imports	Jul	€mn	17457	17415	17547	18484
14:30	US	CPI	Aug	% m/m	0.3	-	0,2	0.2
14:30	US	Initial Jobless Claims		k	210	-	204	213
Friday (14 September)								
14:00	PL	CPI Core	Aug	% y/y	0.8	0.9**	-	0.6
14:30	US	Retail Sales Advance	Aug	% m/m	0.4	-	-	0.5
15:15	US	Industrial Production	Aug	% m/m	0.3	-	-	0.1
16:00	US	Michigan Index	Sep	pts	96.6	-	-	96.2
PL	Rating Review by Moody's							

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

\*\* estimate after the inflation data

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