

17 September 2018

Eyeopener

Week stuffed with Polish data

Polish core CPI up to 0.9%

Zloty and bonds stable despite higher core yields

Today Eurozone inflation

Euro zone international trade data released on Friday proved worse than expected, while the US releases surprised positively. In Poland, core inflation for August was out. The Russian central bank hiked rates (from 7.25% to 7.50%) which had a positive influence on the ruble. The dollar recovered some losses vs the euro thanks to strong data from the US, especially flash University of Michigan index. EURPLN moved in a tight range, while the short end and belly of the domestic yield curve decreased somewhat.

On Friday, EURUSD corrected Thursday's rise in response to better than expected US industrial production data, US consumer sentiment data (Michigan index) and US retail sales data (weaker data was neutralized by strong upward revision of July data). As a result, at the beginning of the day EURUSD was at 1.172 and ended at 1.162 (near Thursday's opening). Today we expect continuation of the dollar's strengthening which could be supported by weaker sentiment on global markets. EURUSD changes should not be large due to the lack of important data release.

On Friday EURPLN fluctuated near 4.305. The zloty's stabilization was supported by calmer atmosphere on equities and the lack of negative signals from global politics. The zloty did not react to the stronger dollar. Poland core inflation data (significant upward move), weaker than expected trade balance data in the Eurozone and stronger US data did not influence EURPLN anyway. Today we expect stabilization of the zloty due to the lack of publication of any important data.

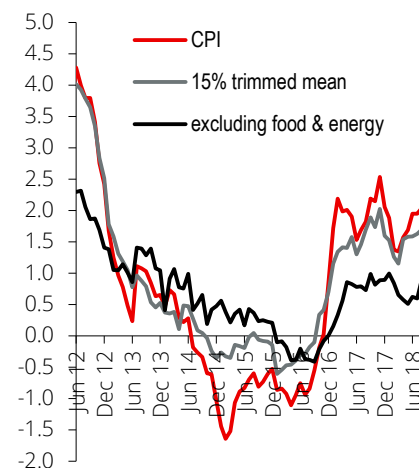
Domestic yields rose during the first half of the day (1-2bp) to correct the upward movement in the second half. As a result, the 2-5Y yield curve went slightly below the opening levels, whereas the 10Y curve returned to the starting point. Higher yields on the core markets (with German and U.S. 10Y benchmark at 0.45% and 3.0% respectively) had a neutral effect on the domestic market. On Monday, we expect the domestic debt market to be stable as there are no important data releases in the economic calendar.

Core CPI has finally shown some signs of life and accelerated to 0.9% y/y in August from 0.6% y/y in July, posting the highest monthly acceleration of y/y growth in 4.5 years. In our view, this is the beginning of the upward trend that will take core inflation to 1.3% y/y at the end of 2018 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. Other core inflation gauges also went up: inflation ex administered prices to 2.2% from 2.1% y/y, ex most volatile prices to 1.3% from 1.1% y/y and 15% trimmed mean to 1.7% from 1.6% y/y.

Moody's decided to keep Poland's rating unchanged. The credit rating of Poland's long-term debt in foreign currencies is A2 with a stable outlook.

This week will be dominated by Polish releases. We will get the whole set of readings about August economic activity plus business and consumer sentiment indicators for September. The second part of the hearing of Poland in the EU, regarding rule-of-law breaches is also on the agenda on Tuesday. There will not be many key data releases in major economies this week. Preliminary PMIs will be out on Friday. On Thursday the EU summit starts, devoted to Brexit issues.

CPI and core inflation, % y/y



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FX market

Today's opening

EURPLN	4.3041	CZKPLN	0.1691
USDPLN	3.7015	HUFPLN*	1.3238
EURUSD	1.1628	RUBPLN	0.0544
CHFPLN	3.8272	NOKPLN	0.4492
GBPPLN	4.8432	DKKPLN	0.5770
USDCNY	6.8699	SEKPLN	0.4093

*for 100HUF

Last session in the FX market 14/09/2018

	min	max	open	close	fixing
EURPLN	4.298	4.314	4.306	4.306	4.3093
USDPLN	3.667	3.708	3.687	3.704	3.6817
EURUSD	1.162	1.172	1.168	1.163	-

Interest rate market 14/09/2018

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	0	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	2.74	1	-0.25	0
2L	1.96	1	2.95	2	-0.15	0
3L	2.15	0	3.00	3	0.01	1
4L	2.33	0	3.01	3	0.17	1
5L	2.49	1	3.02	3	0.32	1
8L	2.80	1	3.03	3	0.72	1
10L	2.97	1	3.05	3	0.94	1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	2
T/N	1.55	0
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	1
6x12	1.87	1

Measures of fiscal risk

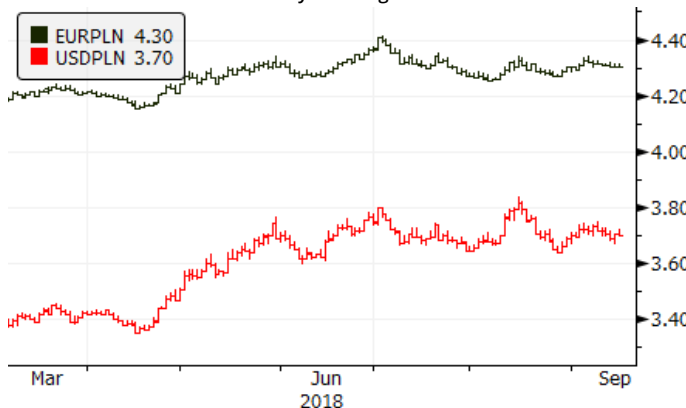
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.78 1
France	24 0	0.31 0
Hungary	116 1	3.15 1
Spain	60 -1	1.02 -1
Italy	230 -2	2.48 -5
Portugal	64 0	1.39 -1
Ireland	25 0	0.48 0
Germany	10 0	- -

* 10Y treasury bonds over 10Y Bunds

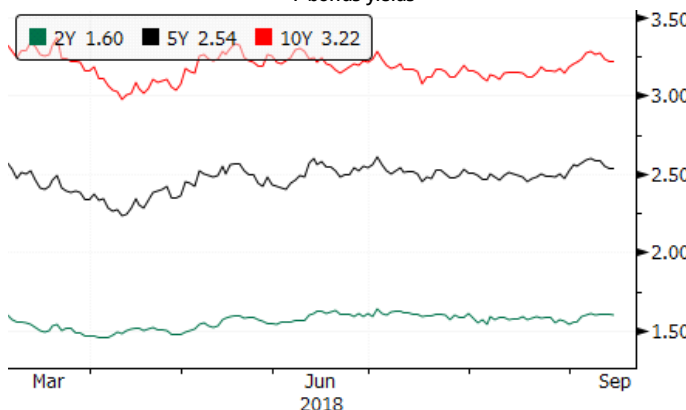
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

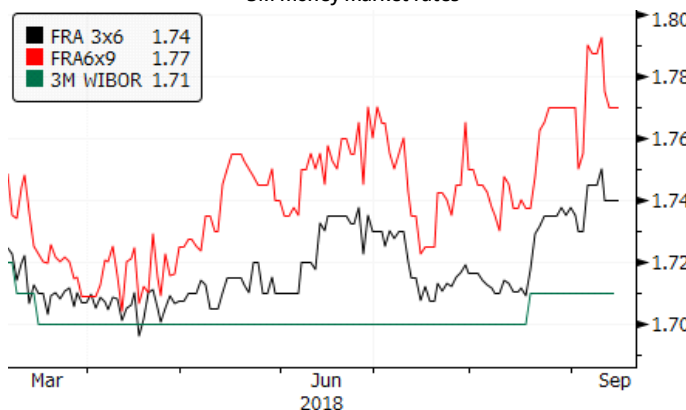
Zloty exchange rate



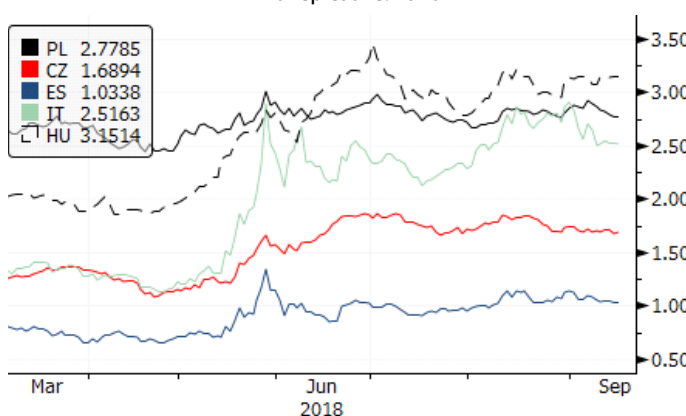
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL VALUE	LAST
TIME		INDICATOR	PERIOD		MARKET	SANTANDER		VALUE
CET								
FRIDAY (14 September)								
14:00	PL	CPI Core	Aug	% y/y	0.8	0.8	0.9	0.6
14:30	US	Retail Sales Advance	Aug	% m/m	0.6	-	0.1	0.5
15:15	US	Industrial Production	Aug	% m/m	0.4	-	0.4	0.1
16:00	US	Michigan Index	Sep	pts	96.2	-	100.8	96.2
PL		Rating Review Moody's						
MONDAY (17 September)								
11:00	EZ	HICP	Aug	% y/y	2.0		-	2.0
TUESDAY (18 September)								
10:00	PL	Employment in corporate sector	Aug	% y/y	3.5	3.4	-	3.5
10:00	PL	Average Gross Wages	Aug	% y/y	7.0	6.9	-	7.2
14:00	HU	Central Bank Rate Decision		%	0.9		-	0.9
WEDNESDAY (19 September)								
10:00	PL	Sold Industrial Output	Aug	% y/y	5.05	5.2	-	10.3
10:00	PL	Construction Output	Aug	% y/y	18.45	19.0	-	18.7
10:00	PL	PPI	Aug	% y/y	3.0	2.8	-	3.4
14:30	US	Housing Starts	Aug	% m/m	5.82		-	0.9
THURSDAY (20 September)								
14:30	US	Initial Jobless Claims	week	k	210.0		-	204.0
14:30	US	Index Philly Fed	Sep		16.0		-	11.9
16:00	US	Existing Home Sales	Aug	% m/m	0.75		-	-0.74
FRIDAY (21 September)								
09:30	DE	Germany Manufacturing PMI	Sep	pts	55.7		-	55.9
09:30	DE	Markit Germany Services PMI	Sep	pts	55.0		-	55.0
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	54.5		-	54.6
10:00	EZ	Eurozone Services PMI	Sep	pts	54.4		-	54.4
10:00	PL	Retail Sales Real	Aug	% y/y	7.0	6.4	-	7.1

Source: Santander Bank Polska, Bloomberg, Parkiet
* in case of the revision the data is updated

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