

2 October 2018

# Eyeopener

## CPI down, euro weaker due to Italian budget

Tension surrounding Italian budget weighed on euro and market sentiment

Polish CPI lower than expected in September

Eurozone PMIs continue to worsen

Zloty slightly weaker, yields down after weaker macro data

The beginning of the week brought better sentiment thanks to former NAFTA countries announcing a new agreement (USMCA). European PMI data were weaker than expectations. Domestic PMI and CPI data for September surprised negatively. Yields on core and domestic markets decreased, the dollar got somewhat stronger and the zloty stayed relatively stable. However an argument between European Commission and Italian government about too big planned budget deficit for 2019 maintained negative environment for the euro and later in the day it disturbed overall market sentiment. The behaviour of Italy was also criticized by Eurozone finance ministers. Oil prices increased about two dollars (to US\$8/bbl for Brent) due to worries about oil supply.

**CPI inflation** dropped to 1.8% y/y in September after holding for three months at 2% y/y. This was a downside surprise. We estimate that core inflation stayed at 0.9% y/y or possibly decreased to 0.8%, instead of rising to 1% as we had previously thought. Without a clear upward trend in core inflation, the headline CPI growth may end the year below 2%.

The National Bank of Poland revised on Friday its **quarterly balance of payments data**. The revision went back to 2016, where the current account deficit was raised to 0.5% of GDP from 0.3%, mostly due to a weaker primary income balance. In 2017, the headline current account deficit was not revised markedly, yet its breakdown changed significantly: goods exports rose €3.1 billion, goods imports increased €2.5 billion, services exports fell €0.4 billion, and services imports rose €0.2 billion. The most recent data from 2018 were also subject to notable revisions: the 1Q18 current account balance improved to €583 million from €388 million (goods exports +€0.9 billion, goods imports +€0.6 billion, services exports +€0.7 billion, services imports +€0.2 billion, and incomes +€0.2 billion). This revision brings an adjustment in our forecast for the current account deficit in 2018 down to 0.3% of GDP from 0.6%. Interestingly, the revision brought a major change in the growth rate of services exports – previous data suggested a major slowdown to about 5% y/y, while the revised number shows a double-digit growth rate.

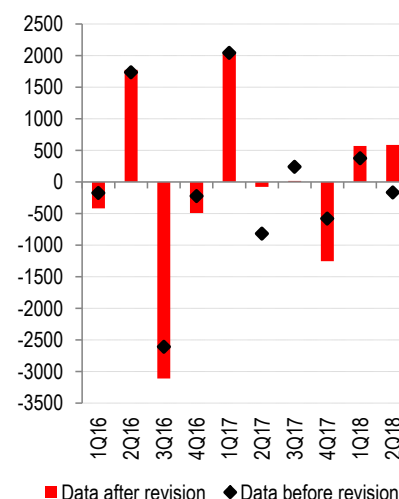
On Monday, **EURUSD** oscillated slightly in an attempt to go below 1.1580. The dollar tried to strengthen despite the information about an agreement, USMCA, between the former NAFTA countries, which supported risky assets. Later, the mood soured as Donald Trump criticized the trade practice of Brazil and India. The news that the IMF intends to reduce the growth projections and the final PMI release did not affect EURUSD. As a result, EURUSD ended the day at 1.1580 vs. 1.1620 at the opening of the Asian market. This morning the rate moved rapidly to 1.1540 after the head of the Italian budget committee said that many of the fiscal problems could have been avoided if Italy had had its own currency (instead of the euro).

At the beginning of the week, **EURPLN** fluctuated between 4.2750 and 4.2850 being relatively insensitive to the domestic data releases (CPI and PMI readings below consensus) and finished the day at the opening level, i.e. 4.2800. Today there are no important data releases in the economic calendar, which should keep the zloty stable. However, tense situation around Italian budget has redirected the demand from risky assets to safer ones and EURPLN increased to 4.29 in the morning.

In case of the **other CEE currencies**, the Czech koruna lost vs the euro (despite the surplus in the state budget in September) with EURCZK rising to 25.79, its highest since in July. The ruble gained vs the dollar thanks to rising oil prices (USDRUB fell to 65.35, its lowest since early August). EURHUF reached its 10-day low at 322.95 benefiting from the general improvement of mood on the global market.

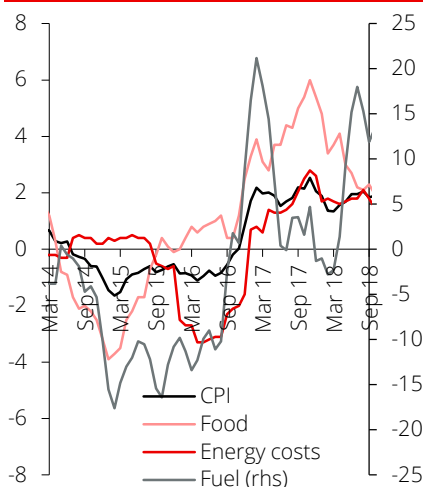
**Polish bonds** were gaining during the yesterday's session, benefiting from Friday's robust budget data, lower yields abroad and below-consensus Polish September PMI and flash CPI. As a result, Polish bond curve moved 3bp down in the belly and long end and held stable on the front end. This led to 1-2bp drop of the asset swap spreads. Today we expect continuation of the yield's drop amid lack of domestic data releases and continued impact of Monday's Polish releases. The risk for this scenario is the sell-off of the Italian debt.

Current account balance (€mn)



Source: NBP, Santander Bank Polska

Selected CPI inflation components, %/y



Source: Stats Office, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2888	CZKPLN	0.1662
USDPLN	3.7163	HUFPLN*	1.3260
EURUSD	1.1541	RUBPLN	0.0571
CHFPLN	3.7725	NOKPLN	0.4543
GBPPLN	4.8351	DKKPLN	0.5752
USDCNY	6.8689	SEKPLN	0.4133

\*for 100HUF

### Last session in the FX market 01/10/2018

	min	max	open	close	fixing
EURPLN	4.271	4.286	4.280	4.284	4.2795
USDPLN	3.678	3.704	3.689	3.703	3.6867
EURUSD	1.156	1.163	1.160	1.157	-

## Interest rate market 01/10/2018

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	0	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.52	-2	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.21	-3	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	1.78	-1	2.78	0	-0.24	0
2L	1.98	0	2.99	1	-0.09	2
3L	2.17	-1	3.05	1	0.07	0
4L	2.35	-1	3.07	1	0.24	0
5L	2.51	-1	3.07	2	0.40	1
8L	2.82	-1	3.10	2	0.80	2
10L	2.99	-1	3.13	2	1.00	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-5
SW	1.59	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

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

Term	%	Change (bps)
1x4	1.73	0
3x6	1.74	-1
6x9	1.77	0
9x12	1.82	0
3x9	1.84	0
6x12	1.89	0

## Measures of fiscal risk

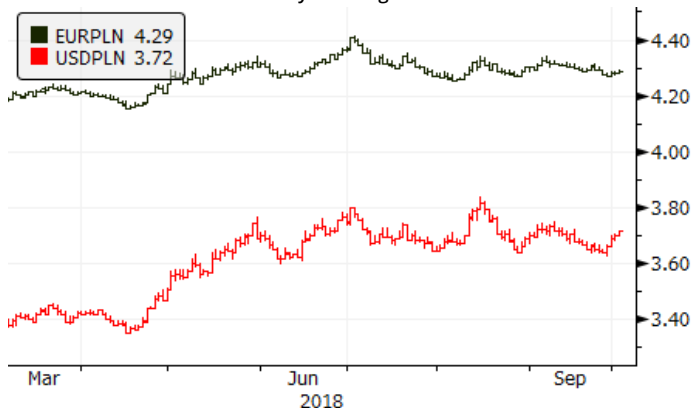
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.76 0
France	25 1	0.37 1
Hungary	116 1	3.12 5
Spain	65 4	1.09 3
Italy	221 8	2.92 9
Portugal	64 0	1.45 5
Ireland	25 0	0.55 4
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

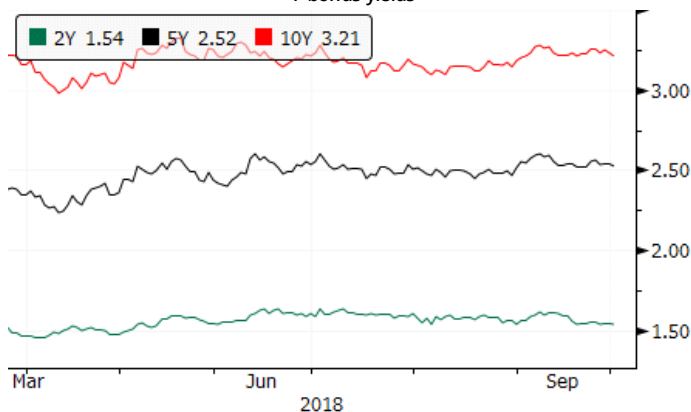
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

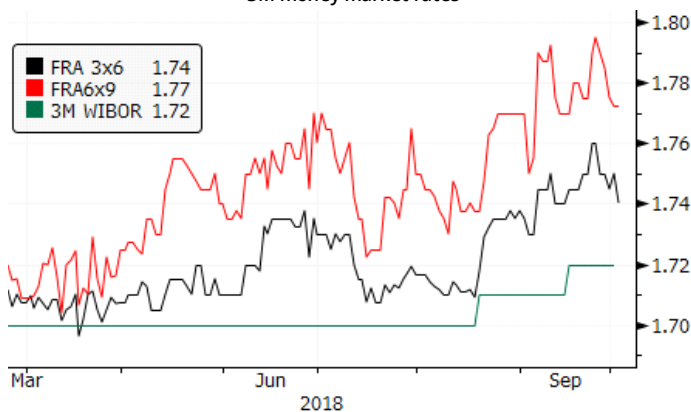
## Zloty exchange rate



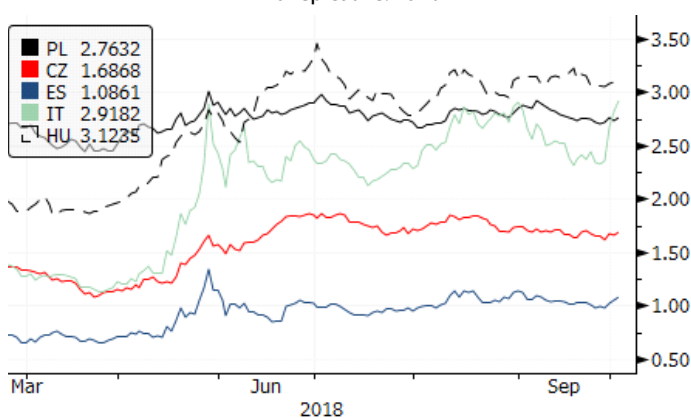
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (28 September)								
11:00	EZ	Flash HICP	Sep	% y/y	2.0	-	2.1	2.0
14:30	US	Personal spending	Aug	% m/m	0.3	-	0.3	0.4
14:30	US	Personal income	Aug	% m/m	0.4	-	0.3	0.3
14:30	US	PCE	Aug	% m/m	0.1	-	0.1	0.1
16:00	US	Michigan index	Sep	pt	100	-	100.1	100.8
MONDAY (1 October)								
9:00	PL	PMI – manufacturing	Sep	pts	51.5	51.2	50.4	51.4
9:55	DE	PMI – manufacturing	Sep	pts	53.7	-	53.7	53.7
10:00	EZ	PMI – manufacturing	Sep	pts	53.3	-	53.2	53.3
10:00	PL	Flash CPI	Sep	% y/y	1.9	2.0	1.8	2.0
16:00	US	ISM – manufacturing	Sep	pts	60.1	-	59.8	61.3
TUESDAY (2 October)								
9:00	CZ	GDP	Q2	% y/y	2.4	-	2.4	2.4
WEDNESDAY (3 October)								
	PL	MPC decision		%	1.50	1.50		1.50
9:55	DE	PMI – services	Sep	pts	56.5	-		56.5
10:00	EZ	PMI – services	Sep	pts	54.7	-		54.7
14:15	US	ADP report	Sep	k	185	-		163
16:00	US	ISM – services	Sep	pts	58.0	-		58.5
THURSDAY (4 October)								
14:30	US	Initial jobless claims	week	k	-	-		214
16:00	US	Industrial orders	Aug	% m/m	1.0	-		-0.8
FRIDAY (5 October)								
8:00	DE	Industrial orders	Aug	% m/m	0.0	-		-0.9
14:30	US	Non-farm payrolls	Sep	k	190	-		201
14:30	US	Unemployment rate	Sep	%	3.8	-		3.9

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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