

8 November 2018

Eyeopener

Energy prices boosted inflation projection

New NBP projection shows higher inflation, lower GDP growth
MPC did not change the rhetoric, still sees no reason to change rates
Zloty and euro gained after better German data, US election results
Polish yields higher in reaction to new NBP projection
FOMC decision today

The Germany industrial production data for September (it proved to be better than expected, with an upward revision of the August data) and the eurozone retail sales data (a downward surprise) was released on Tuesday. Together with election results in the USA where the Democrats won a majority of seats in the House of Representatives, it triggered the dollar depreciation and zloty appreciation. Meanwhile, on bond market yields increased in Europe and fell in the USA. The domestic market lost after the release of new central bank's projections. The data on the German export released this morning was disappointing again and may negatively impact the euro at the start of the session.

The Monetary Policy Council kept interest rates unchanged with the main policy rate at 1.50%. In the new economic projections prepared by NBP, the inflation path has been revised significantly up for 2019. GDP forecasts have been revised up again for 2018 and down again for 2019 and 2020. The statement underlined that the inflation rise above the target will be driven by factors beyond impact of the monetary policy (energy prices) and the NBP Governor said that assumptions for electricity price hike were conservative (exaggerated) and may not materialise. As a result, the MPC still views the current level of the interest rates as "conducive to keeping the Polish economy on a sustainable growth path", and according to Adam Glapiński, the NBP projection did not provide new reasons for a shift in monetary policy. We still expect interest rates to stay flat at least until 4Q19.

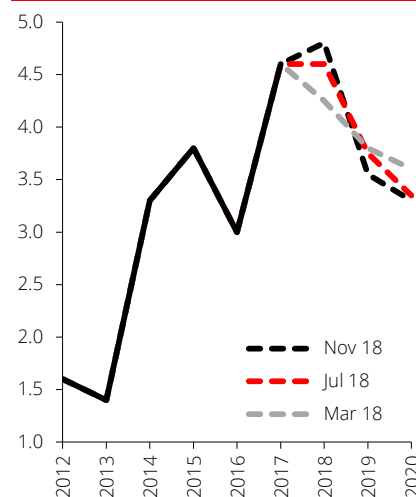
Wednesday saw **EURUSD** rising in response to mid-term election to the US Congress. An additional support was provided by surprisingly positive data on the German industrial production. During the session, EURUSD moved from 1.1430 to 1.1470, hitting 1.1490 in the meantime. The upside move has reversed in the afternoon (as a result, EURUSD was brought back close to the morning level), when investors' attention was drawn by today's FOMC meeting. It cannot be ruled out that the Fed decision will support further dollar appreciation.

EURPLN was decreasing all day. The source of the zloty's appreciation was the return of positive sentiment to risk assets in reaction to the US election results. EURPLN fell from 4.3050 in the morning to 4.2880 in the afternoon. These changes were accompanied by a drop of USDPLN from 3.7660 to 3.74. The MPC decision and the press conference did not influence the zloty. Today we expect some rebound after the Wednesday decline of EURPLN (among others due to stronger dollar).

As regards **other CEE currencies**, EURHUF declined from 321.90 to 321.40 and did not react to weaker reading of retail sales and central bank's minutes suggesting the need to monitor impact of commodity prices on inflation. EURCZK was hovering around 25.86 and did not react to comments of the Czech central bank governor, who said that rates in the Czech Republic could reach 2.50%. USDRUB was falling initially thanks to results of US election and rising oil prices. However, eventually oil prices fell making the ruble erase its gains. The better-than-expected data on car sales did not affect the ruble.

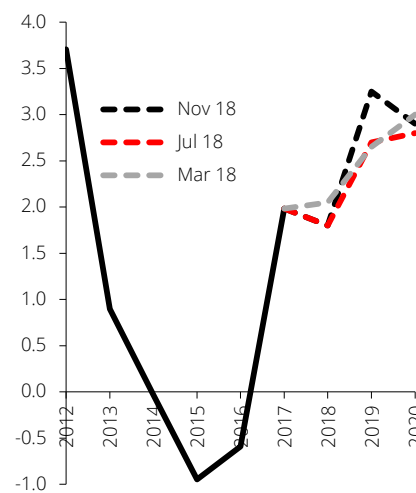
Polish bond yields started the day with some declines, but in the second half of the day they went up. The strongest change was seen at the start of the MPC press conference, when main figures from the new, higher NBP inflation projection were published. As a result the domestic yield curve went up by 2-5 bp, mostly on the long end and the middle. IRS curve rose by 3 bp. At the same time US yields went down and German yields increased somewhat.

Central bank's GDP growth forecasts (central path)



Source: NBP, Santander Bank Polska

Central bank's CPI forecasts (central path)



Source: NBP, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2920	CZKPLN	0.1659
USDPLN	3.7543	HUFPLN*	1.3352
EURUSD	1.1432	RUBPLN	0.0567
CHFPLN	3.7480	NOKPLN	0.4505
GBPPLN	4.9277	DKKPLN	0.5754
USDCNY	6.9288	SEKPLN	0.4168

*for 100HUF

Last session in the FX market 07/11/2018

	min	max	open	close	fixing
EURPLN	4.286	4.307	4.304	4.288	4.2972
USDPLN	3.730	3.778	3.771	3.740	3.7398
EURUSD	1.140	1.150	1.141	1.146	-

Interest rate market 07/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.55	3	26 paź 18	OK0720	1.456
DS1023 (5L)	2.47	4	26 paź 18	PS0424	2.604
WS0428 (10L)	3.22	5	26 paź 18	WS0428	3.179

IRS on the interbank market**

Rates on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	1	2.94	1	-0.24	0
2L	2.03	3	3.12	0	-0.12	1
3L	2.24	3	3.16	0	0.05	1
4L	2.41	3	3.17	0	0.22	1
5L	2.54	3	3.18	-1	0.38	2
8L	2.79	2	3.22	-2	0.78	1
10L	2.93	2	3.25	-2	0.99	1

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.57	0
SW	1.56	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	1.75	1
6x9	1.81	2
9x12	1.90	3
3x9	1.83	1
6x12	1.92	3

Measures of fiscal risk

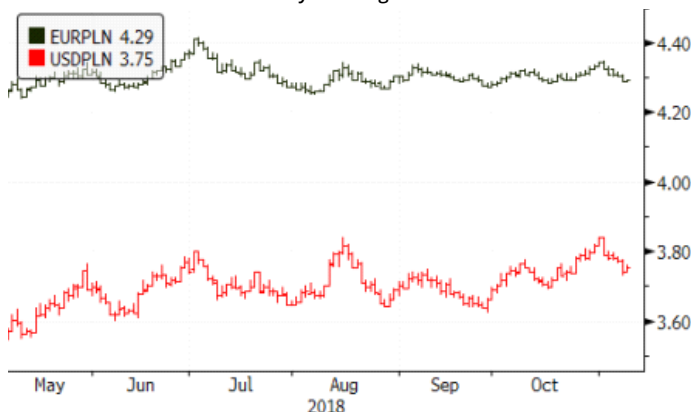
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.76 3
France	25 1	0.37 0
Hungary	116 1	3.09 -2
Spain	65 4	1.15 0
Italy	221 8	2.91 2
Portugal	64 0	1.47 -1
Ireland	25 0	0.56 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

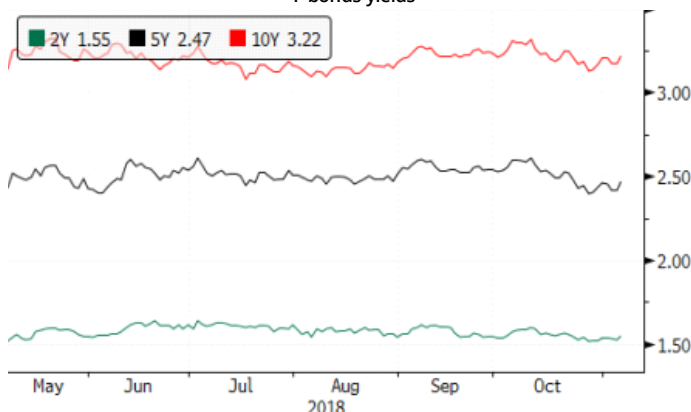
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

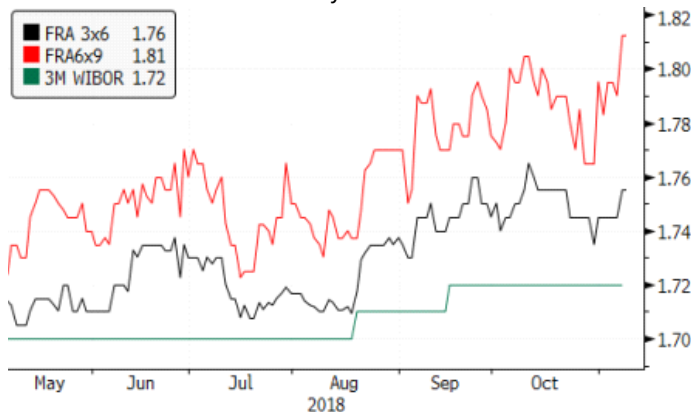
Zloty exchange rate



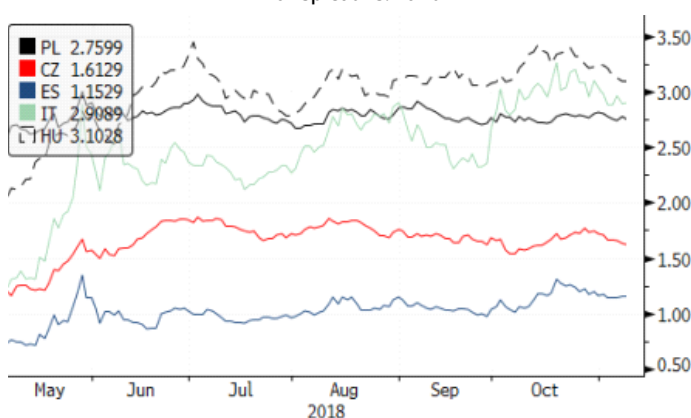
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (2 November)								
09:00	PL	Poland Manufacturing PMI	Oct	pts	50.2	49.9	50.4	50.5
09:55	DE	Germany Manufacturing PMI	Oct	pts	52.3	-	52.2	52.3
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	52.1	-	52.0	52.1
13:30	US	Change in Nonfarm Payrolls	Oct	k	190	-	250	118
13:30	US	Unemployment Rate	Oct	%	3.7	-	3.7	3.7
15:00	US	Durable Goods Orders	Sep	% m/m	-1.5	-	0.7	0.8
15:00	US	Factory Orders	Sep	% m/m	0.3	-	0.7	2.6
MONDAY (5 November)								
02:45	CN	Caixin China PMI Services	Oct	pts	52.8	-	50.8	53.1
16:00	US	ISM services	Oct	pts	59.4	-	60.3	61.6
TUESDAY (6 November)								
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	0.3	2.0
09:00	CZ	Industrial Production	Sep	% y/y	-0.2	-	-0.9	1.9
09:55	DE	Markit Germany Services PMI	Oct	pts	53.6	-	54.7	53.6
10:00	EZ	Eurozone Services PMI	Oct	pts	53.3	-	53.7	53.3
WEDNESDAY (7 November)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
08:00	DE	Industrial Production SA	Sep	% m/m	0.0	-	0.2	0.1
11:00	EZ	Retail Sales	Sep	% m/m	0.1	-	0.0	-0.2
THURSDAY (8 November)								
08:00	DE	Exports SA	Sep	% m/m	0.3	-		-0.1
09:00	HU	CPI	Oct	% y/y	3.7	-		3.6
14:30	US	Initial Jobless Claims	week	k	-	-		214
20:00	US	FOMC decision		%	2.25	-		2.25
FRIDAY (9 November)								
09:00	CZ	CPI	Oct	% y/y	2.4	-		2.3
16:00	US	Flash Michigan index	Nov	pts	97.9	-		99.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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