

3 December 2018

Eyeopener

Vanishing inflation

Cease-fire in USA-China trade war lifted market sentiment
Polish bonds stronger and PLN weaker after surprisingly low inflation
Strong 3Q GDP growth with accelerating investments
Today PMI in Poland and Europe

During the Friday session core market yields fell, continuing the movement initiated in reaction to the earlier dovish comments of Fed chairman. The move was also supported by disappointing data about retail sales in Germany, poor stock markets performance and concerns about the outcome of USA-China trade talks during G-20 summit. The information positively impacted the dollar, while the zloty was slightly weaker. The two countries agreed to defer the implementation of higher trade tariffs by USA and to intensify trade talks, therefore optimistic moods are observed during this week's market opening. John Williams, FOMC member, also contributed to positive moods, indicating that the USA's problem is persistently low inflation and not a too-high inflation which suggests a bias towards dovish monetary policy. On Friday, the ruble was losing in reaction to suggestions that the military actions on the Ukrainian-Russian border may be a threat for one of the key gas pipelines, and may thus disturb gas supplies to Germany.

Flash CPI surprised to the downside again, showing 1.2% y/y. The surprise is mostly to blame on food prices, but core inflation also fell, to 0.7% y/y, reaching the lowest level since July. Data on **3Q18 GDP** confirmed that growth at 5.1% y/y was achieved thanks to a major acceleration in investment and positive contribution of inventories. In the upcoming quarters, we are expecting some slowdown in economic activity. The data is likely to support views of the MPC majority that no rate changes are necessary, given low supply of strong signals of rising inflationary pressure despite fast economic growth. More in our Friday's [Economic comment](#).

Polish PMI reached 49.5 in November, falling below neutral 50 mark for the first time since September 2014. Survey showed deterioration in new orders, production and employment. New export orders were in decline fourth month in a row, although the pace of slide slightly slowed. Cost inflation remained elevated and price increases were reported to be highest in four months. The PMI reading seems to signal clearly that worsening of business climate abroad is passing through to domestic manufacturing, however it should be noted that other business surveys were not as pessimistic. We think that Polish economy finally started slowing, after five quarters of exceptionally strong GDP growth, but the slowdown process will be rather mild - from current c.5% growth to around 4% in 2019.

"Gazeta Prawna" Daily wrote that the **government is aiming to show the best possible budget performance** (politicians do not exclude even showing surplus at the end of December!) not intending to use the option to unweight the next year's budget e.g. by front-loading VAT returns or shifting spending to FY2018. Such action would supposedly lower the risk of negative assessment by the European Commission of the pace of fiscal consolidation.

EURUSD was going down on Friday amid sell-off on the stock market, weak German data and worries before the Trump-Xi Jinping meeting at the G20 summit. As a result, the exchange rate fell to 1.132 from 1.14. The outcome of the presidents' meeting could make EURUSD climb back to 1.14. This should favour EM currencies, including the zloty, at the opening of the week.

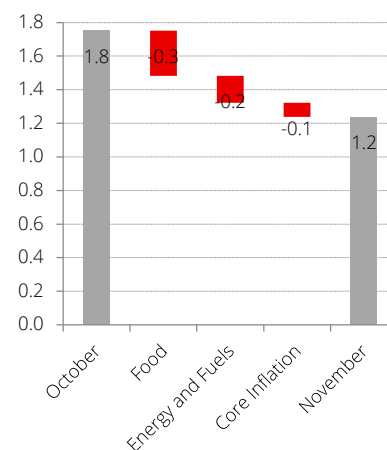
EURPLN rose to 4.292 from 4.286 due to the Polish inflation data and stronger dollar. USDPLN was somewhat more volatile as it increased to 3.789 from 3.764 while today in the morning is back close to Friday's opening levels.

In case of **other regional currencies** EURCZK was fairly stable, hovering near 25.96, despite better-than-expected Czech GDP data. EURHUF rose in the afternoon (from 323.6 to 324), following stock market sell-off. USDRUB rose from 66.20 to 67.10, pushed by declining crude oil price and rising tension in Ukraine-Russia relations.

Yields of Polish bonds and IRS rates fell on Friday by 3-9bp (more on the long end of the curve). The moves came in reaction to much lower-than-expected Polish inflation reading. Debt strengthening was also supported by situation in core bonds market, where yields also decreased, but not as much (amid disappointing German data and stock market sell-off). Today we expect to see a slight rebound of yields amid profit taking and a slight rebound of domestic PMI expected by us.

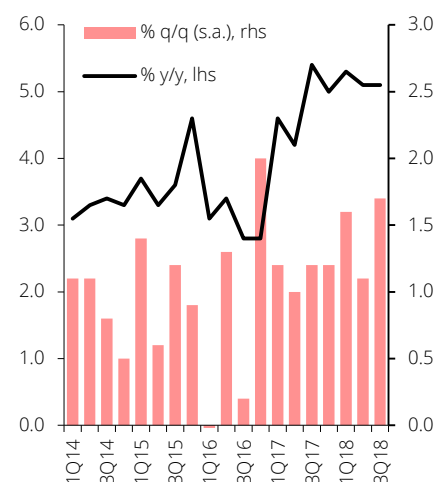
We expect **this week's MPC meeting** to be less exciting than the previous one (new NBP forecasts and a motion for a rate hike). Recent data (low inflation in November and lower consumption growth in 3Q18) support dovish arguments and calls for stable rates.

Breakdown of changes in annual CPI



Source: Stats Office, Santander Bank Polska

GDP growth



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2831	CZKPLN	0.1651
USDPLN	3.7647	HUFPLN*	1.3269
EURUSD	1.1377	RUBPLN	0.0567
CHFPLN	3.7773	NOKPLN	0.4424
GBPPLN	4.8272	DKKPLN	0.5740
USDCNY	6.8851	SEKPLN	0.4172

*for 100HUF

Last session in the FX market 30/11/2018

	min	max	open	close	fixing
EURPLN	4.284	4.294	4.288	4.292	4.2904
USDPLN	3.761	3.797	3.770	3.792	3.7731
EURUSD	1.131	1.140	1.137	1.132	-

Interest rate market 30/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.52	-2	15 lis 18	OK0521	1.784
PS0424 (5L)	2.46	-8	15 lis 18	PS0424	2.626
WS0428 (10L)	3.04	-8	15 lis 18	WS0428	3.226

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	-2	2.91	1	-0.24	0
2L	1.87	-4	2.99	1	-0.15	0
3L	2.01	-6	2.99	1	-0.02	0
4L	2.14	-8	2.99	0	0.13	-1
5L	2.26	-8	2.99	0	0.27	-1
8L	2.50	-8	3.02	-1	0.66	-1
10L	2.64	-8	3.06	-1	0.88	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.53	0
T/N	1.55	1
SW	1.55	0
2W	1.59	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	1.72	-1
3x6	1.74	-1
6x9	1.76	-2
9x12	1.79	-3
3x9	1.80	-1
6x12	1.82	-4

Measures of fiscal risk

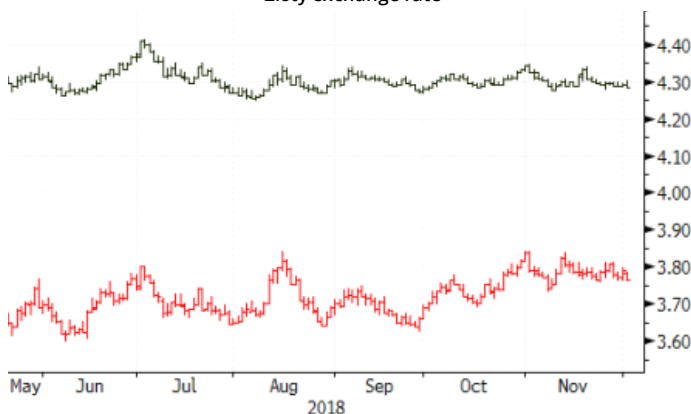
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.70	-11
France	25	1	0.37	0
Hungary	116	1	2.78	-4
Spain	65	4	1.17	-2
Italy	221	8	2.82	-7
Portugal	64	0	1.48	-3
Ireland	25	0	0.59	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

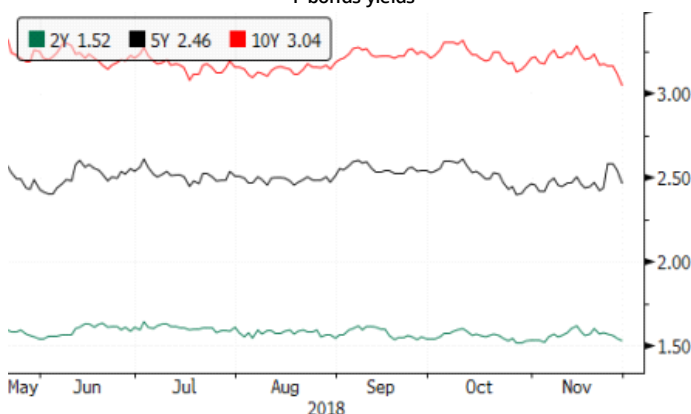
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

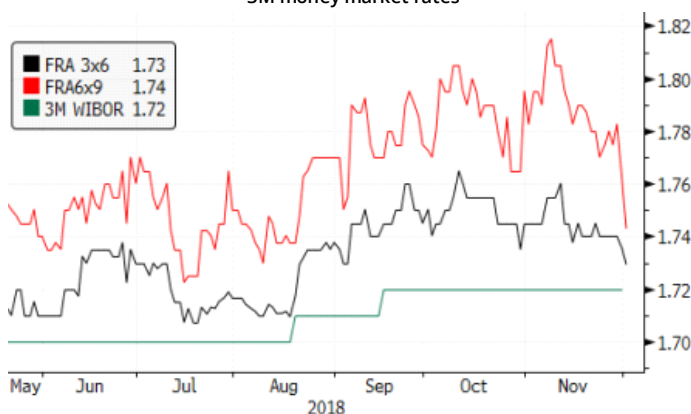
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (30 November)								
08:00	DE	Retail Sales	Oct	% m/m	0.4	-	-0.3	-0.3
09:00	CZ	GDP SA	3Q	% y/y	2.3	-	2.4	2.3
10:00	PL	Flash CPI	Nov	% y/y	1.6	1.5	1.2	1.8
10:00	PL	GDP	3Q	% y/y	-	5.1	5.1	5.1
11:00	EZ	Flash HICP	Nov	% y/y	2.0	-	2.0	2.2
11:00	EZ	Unemployment Rate	Oct	%	8.0	-	8.1	8.1
MONDAY (3 December)								
09:00	PL	Poland Manufacturing PMI	Nov	pts	50.4	51.1	49.5	50.4
09:55	DE	Germany Manufacturing PMI	Nov	pts	51.6	-		51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	0.0	-		51.5
16:00	US	ISM manufacturing	Nov	pts	58.0	-		57.7
TUESDAY (4 December)								
No important events								
WEDNESDAY (5 December)								
	PL	MPC decision		%	1.50	1.50		1.50
02:45	CN	Caixin China PMI Services	Nov	pts	50.9	-		50.8
09:00	HU	GDP	3Q	% y/y	4.8	-		4.8
09:55	DE	Markit Germany Services PMI	Nov	pts	53.5	-		53.3
10:00	EZ	Eurozone Services PMI	Nov	pts	0.0	-		53.1
11:00	EZ	Retail Sales	Oct	% m/m	0.0	-		0.0
14:15	US	ADP report	Nov	k	200	-		227
16:00	US	ISM services	Nov	pts	59.5	-		60.3
THURSDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	-0.6	-		0.3
09:00	HU	Industrial Production SA	Oct	% y/y	0.0	-		2.2
14:30	US	Initial Jobless Claims	week	k	220	-		224
16:00	US	Durable Goods Orders	Oct	% m/m	-	-		-4.4
16:00	US	Factory Orders	Oct	% m/m	-2.0	-		0.7
FRIDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.0	-		0.2
09:00	CZ	Industrial Production	Oct	% y/y	0.0	-		-0.9
11:00	EZ	GDP SA	3Q	% y/y	0.0	-		1.7
14:30	US	Change in Nonfarm Payrolls	Nov	k	205	-		250
14:30	US	Unemployment Rate	Nov	%	3.7	-		3.7
16:00	US	Michigan index	Dec	pts	97.0	-		97.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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