

17 December 2018

Eyeopener

Poland November CPI at 1.3%

Low inflation, strong foreign trade
Zloty slightly stronger, dollar gains
Poland and foreign yields still low
Today Poland core CPI and inflation data in euro zone

On Friday PMI data from the euro zone again surprised to the downside (among others due to events in France), while data on retail sales and industrial production in USA was above projections. A rebound was observed in the domestic trade data, while the final CPI reached 1.3% y/y. Zloty gained (despite strong dollar) and bonds yields fell in reaction to information from the Ministry of Finance (MoF).

The final November CPI was 1.3% y/y vs 1.8% in October. The second time in a row the flash reading was revised up by 0.1pp. Inclusion of the revisions of non-core components led us to estimates of November core inflation of 0.7-0.8% y/y (so down vs October print). The services inflation decreased to 0.9% y/y from 1.5% y/y in October and 2.8% y/y in January, despite this part of CPI seemed highly vulnerable to the transmission of wages pressures to consumer prices. In our view, core CPI should reach 0.8% y/y in December and will rise to c2.5% y/y at the end of 2019. The headline inflation could ease further at the end of this year. Should there be only small impact of higher energy prices, in 2019, we expect CPI to reach 2% in mid-year and settle above 2.5% target in December. The data strengthen the MPC view that there are still no reasons to consider rate hikes.

October results of foreign trade proved higher than expected, with both exports and imports surprising strongly upwards and climbing to all-time highs (export: €20.1bn vs consensus €19.3bn, import: €20.7bn vs consensus €19.8bn), in line with suggestions from Stats Office data released earlier. Foreign trade values were underpinned by strong performance in industry in October, but in our view the upcoming quarters will be more challenging for Polish exports, given deteriorating business sentiment in Europe and especially Germany. As the surprise in exports offset the surprise in imports, the current account deficit was in line with expectations (€457mn).

MPC member Jerzy Osiatyński, said on Friday afternoon that in his opinion inflation would not reach the official target in 2019, while GDP growth should be close 4% and such scenario provided no grounds to make any moves in the monetary policy.

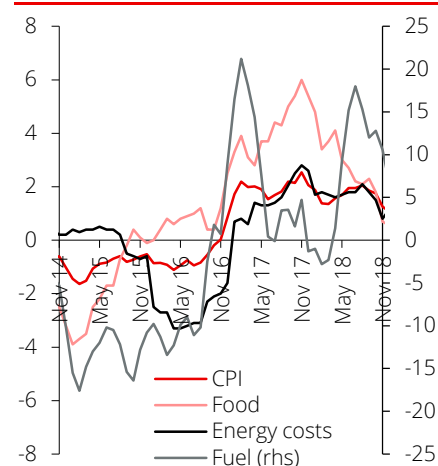
On Friday **EURUSD** went down, fueled by weak PMI data from euro zone, strong US retail sales and industrial production, as well as continuous concerns about the unsolved Brexit issue. As a result, EURUSD fell from 1.136 to 1.13. Today we expect the dollar to gain in view of the prolonging EU-UK divorce talks.

On Friday **EURPLN** was rising in the morning but until to the end of the day EURPLN slid below the opening level, despite weaker euro vs the dollar. Zloty was supported by solid trade balance data and MoF declaration to reach low level of budget deficit at the end of the year. Today we expect zloty to stabilize. **In the case of the other CEE currencies**, at the end of the day EURHUF and EURCZK returned to the opening level. USDRUB climbed to 66.80 from 66.40, despite the Central Bank of the Russia Federation decision to hike interest rates by 25bp to 7.75%.

The domestic yields declined further by 2bp in the 5-10Y segment, thanks to the poor European macro data, information about the low level of budget deficit at the end of the year (Minister Czerwińska said that deficit may reach 0.5% of GDP) and switch auction results, which suggested very comfortable budget liquidity situation. Today we expect the yields to stabilize at the low level.

In the last week before Christmas we will see a number of domestic data releases, including November's figures for: core inflation, wages and employment, production, retail sales, unemployment. Their overall tone should be quite "dovish". After negative signals from PMI indicators, it could even strengthen market scepticism about economic outlook for 2019. Especially if next data releases abroad fail to show a rebound (we will get to see German Ifo and many data on US economic activity).

Inflation measures, % y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2871	CZKPLN	0.1663
USDPLN	3.7886	HUFPLN*	1.3251
EURUSD	1.1315	RUBPLN	0.0568
CHFPLN	3.7987	NOKPLN	0.4400
GBPPLN	4.7670	DKKPLN	0.5743
USDCNY	6.8989	SEKPLN	0.4184

*for 100HUF

Last session in the FX market 14/12/2018

	min	max	open	close	fixing
EURPLN	4.290	4.306	4.297	4.292	4.3021
USDPLN	3.779	3.814	3.783	3.797	3.8095
EURUSD	1.127	1.137	1.136	1.131	-

Interest rate market 14/12/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.40	-2	29 lis 18	OK0521	1.721
PS0424 (5L)	2.36	-3	29 lis 18	PS0424	2.545
WS0428 (10L)	2.92	-3	29 lis 18	WS0428	3.132

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.87	-1	-0.22	0
2L	1.85	-1	2.88	-2	-0.14	-1
3L	1.97	-1	2.85	-3	-0.02	-1
4L	2.10	0	2.84	-3	0.12	-1
5L	2.22	-1	2.83	-3	0.26	-2
8L	2.45	0	2.88	-3	0.65	-1
10L	2.59	-1	2.92	-3	0.86	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	0
T/N	1.51	0
SW	1.53	-1
2W	1.58	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	0
3x6	1.73	0
6x9	1.75	0
9x12	1.78	-1
3x9	1.80	1
6x12	1.81	1

Measures of fiscal risk

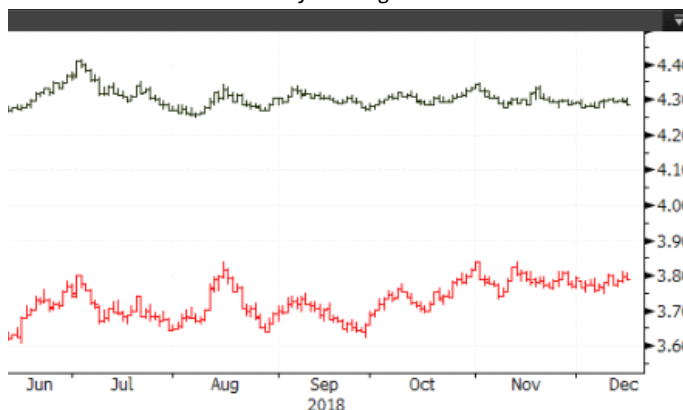
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	-3
France	25	1	0.46	0
Hungary	116	1	2.96	0
Spain	65	4	1.16	0
Italy	221	8	2.67	-1
Portugal	64	0	1.41	0
Ireland	25	0	0.69	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

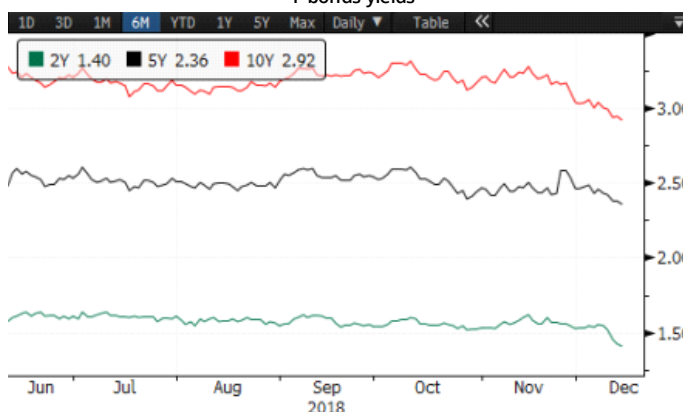
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



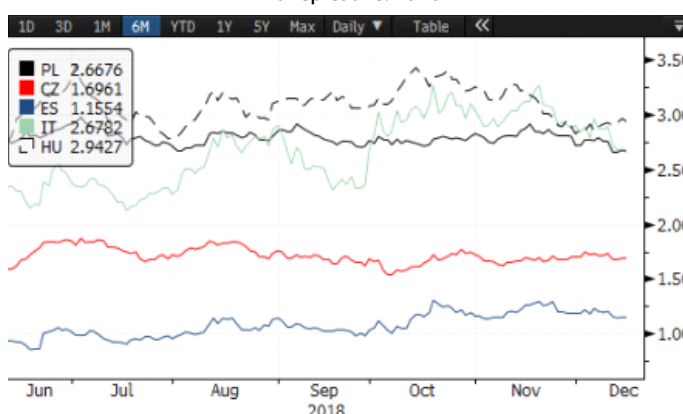
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (14 December)								
09:30	DE	Germany Manufacturing PMI	Dec	pts	51.65	-	51.5	51.8
09:30	DE	Markit Germany Services PMI	Dec	pts	53.5	-	52.5	53.3
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	51.8	-	51.4	51.8
10:00	EZ	Eurozone Services PMI	Dec	pts	53.4	-	51.4	53.4
10:00	PL	CPI	Nov	% y/y	-	1.2	1.3	1.2
14:00	PL	Current Account Balance	Oct	€mn	-471	-559.1	-457	-547
14:00	PL	Trade Balance	Oct	€mn	-341	-334	-588	-449
14:00	PL	Exports	Oct	€mn	19 281	19 530	20 143	17 683
14:00	PL	Imports	Oct	€mn	19 833	19 864	20 731	18 132
14:30	US	Retail Sales Advance	Nov	% m/m	0.1	-	0.2	0.8
15:15	US	Industrial Production	Nov	% m/m	0.3	-	0.6	0.1
MONDAY (17 December)								
	PL	Central Budget Cumul.	Nov	mn PLN	-	-		6476.31
11:00	EZ	HICP	Nov	% y/y	2.0	-	-	2.0
14:00	PL	CPI Core	Nov	% y/y	0.7	0.7		0.9
TUESDAY (18 December)								
10:00	DE	IFO Business Climate	Dec	pts	101.8	-	-	102.0
10:00	PL	Employment in corporate sector	Nov	% y/y	3.0	3.0		3.2
10:00	PL	Average Gross Wages	Nov	% y/y	7.15	7.0		7.6
14:00	HU	Central Bank Rate Decision		%	0.9	-	-	0.9
14:30	US	Housing Starts	Nov	% m/m	0.36	-	-	1.5
WEDNESDAY (19 December)								
10:00	PL	Sold Industrial Output	Nov	% y/y	4.6	3.3		7.4
10:00	PL	Construction Output	Nov	% y/y	18.4	10.8		22.4
10:00	PL	PPI	Nov	% y/y	3.2	2.8		3.2
16:00	US	Existing Home Sales	Nov	% m/m	-0.38	-	-	1.4
20:00	US	FOMC decision		%	2.5	-	-	2.25
THURSDAY (20 December)								
13:00	CZ	Central Bank Rate Decision		%	1.75	-	-	1.75
14:30	US	Initial Jobless Claims	week	k	226	-	-	206
14:30	US	Index Philly Fed	Dec	pts	15.0	-	-	12.9
FRIDAY (21 December)								
10:00	PL	Retail Sales Real	Nov	% y/y	6.8	6.8		7.8
10:00	PL	Unemployment Rate	Nov	%	5.8	5.7		5.7
14:30	US	Durable Goods Orders	Nov	% m/m	2.0	-	-	-4.3
14:30	US	GDP Annualized	3Q	% Q/Q	3.5	-	-	3.5
16:00	US	Michigan index	Dec	pts	97.5	-	-	97.5
16:00	US	Personal Spending	Nov	% m/m	0.3	-	-	0.6
16:00	US	Personal Income	Nov	% m/m	0.3	-	-	0.5
16:00	US	PCE Deflator SA	Nov	% m/m	0.0	-	-	0.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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