

4 January 2019

Eyeopener

CPI at the 2018 low?

Mixed data from USA

Temporary PLN weakening, EURUSD slightly up

Polish bonds under impact of US data

Today flash CPI in Poland, non-farm payrolls in the USA

On Thursday falls on stock markets still prevailed, but the dollar appreciation impulse and bonds downward trend weakened. The December ADP report from the US labour market showed significant rebound in terms of nonfarm payrolls after poor November data. On the other hand, the manufacturing ISM was very disappointing, falling much stronger than expected and reaching the lowest level since November 2016. It negatively impacted dollar, although bonds strengthened. Today in the morning the market sentiment improved slightly among others thanks to better data from China, the upcoming China-USA trade talks and in view of budget bills approved by the House of Representatives (they still have to be accepted by the Senate and the President).

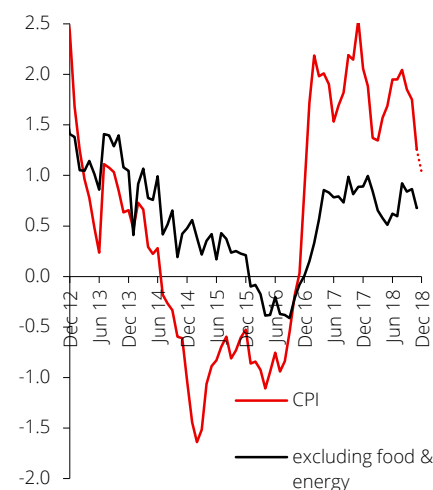
EURUSD remained close to 1.137 since the start of the session until the ISM data for US industry which came much worse than expected. This triggered a move of the exchange rate to 1.14. Today the US monthly labour market report is due. For several weeks EURUSD remains range-bound and we do not expect this to change due to today's data.

EURPLN was on the rise since the beginning of the session and set the daily peak at just above 4.31 after the Radio Zet reported that NBP's governor Adam Glapiński is to testify in the prosecutor's office. However, until the end of the day the zloty managed to recover and EURPLN was near 4.295 at the end of the Polish trading hours. USDPLN was hovering around 3.785 for the better part of the day and fell below 3.77 after the EURUSD rose in late afternoon. Elsewhere in the CEE region, the koruna and ruble performed very well, the forint also gained slightly vs the euro. EURPLN is holding just above the lower end of the range in which it has been trading since August. We do not see many factors that could push the exchange rate below 4.26 in the short term and we think there are higher chances for EURPLN to rise.

On **the domestic interest rate market**, the yield curve flattened due to a significant rise of the short end and the middle (by c4bp for 2Y and c2bp for 5Y, but intraday the changes were larger). This was to some extent caused by the news about interrogation of the central bank governor. On the long end the upside move did not exceed 3bp at the peak, but by the end of the day, the Polish 10Y benchmark bond more than offset the loss thanks to poor US ISM reading. Polish long-term debt performed better than Southern Europe, and similarly to core markets. This morning we will get to see flash December CPI (details below). We think that a reading slightly below consensus might help the short end recover partially from yesterday losses.

Today at 10:00 CET the stat office will release **flash estimate of December inflation**. We think that CPI might decrease further, after the already surprisingly large drop in November (1.3% y/y) and will thus set the 2018 low in its final month. In our view, the contribution from food and fuel prices fell further in December. Our forecast of 1% y/y is slightly below market consensus (1.1%).

Inflation, % y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2907	CZKPLN	0.1674
USDPLN	3.7619	HUFPLN*	1.3365
EURUSD	1.1405	RUBPLN	0.0550
CHFPLN	3.8130	NOKPLN	0.4347
GBPPLN	4.7567	DKKPLN	0.5745
USDCNY	6.8656	SEKPLN	0.4191

*for 100HUF

Last session in the FX market 03/01/2019

	min	max	open	close	fixing
EURPLN	4.290	4.313	4.293	4.290	4.303
USDPLN	3.762	3.801	3.787	3.763	3.7827
EURUSD	1.131	1.141	1.134	1.140	-

Interest rate market 03/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.40	5	14 gru 18	OK0521	1.625
PS0424 (5L)	2.20	1	14 gru 18	PS0424	2.382
WS0428 (10L)	2.72	-3	14 gru 18	WS0428	2.931

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.71	-6	-0.23	0
2L	1.79	0	2.58	-9	-0.18	0
3L	1.87	-1	2.50	-11	-0.10	1
4L	1.96	0	2.47	-11	0.02	0
5L	2.06	0	2.47	-11	0.15	0
8L	2.28	1	2.55	-10	0.53	0
10L	2.41	1	2.61	-9	0.75	0

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-1
T/N	1.54	0
SW	1.54	0
2W	1.59	1
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	1.72	1
6x9	1.73	1
9x12	1.74	1
3x9	1.78	1
6x12	1.77	1

Measures of fiscal risk

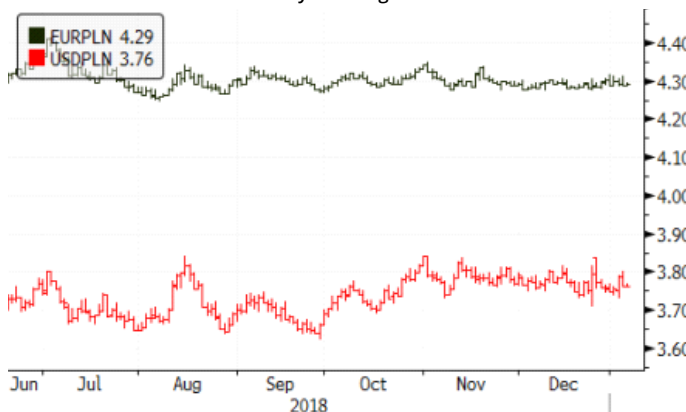
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.56 -4
France	25 1	0.50 0
Hungary	116 1	2.59 -2
Spain	65 4	1.27 -1
Italy	221 8	2.68 -3
Portugal	64 0	1.61 -1
Ireland	25 0	0.72 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

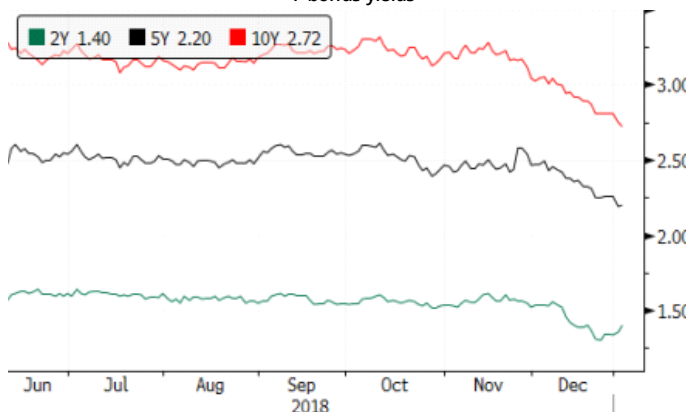
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

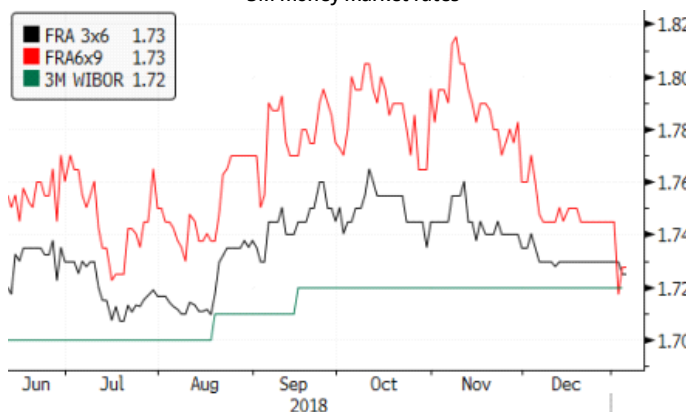
Zloty exchange rate



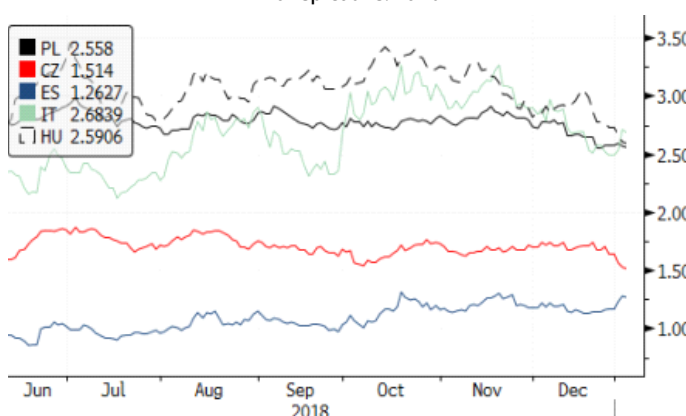
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (28 December)							
08:00	DE	HICP	% m/m	0.4	-	0.3	0.1
16:00	US	Pending Home Sales	% m/m	1.0	-	-0.7	-2.6
MONDAY (31 December)							
02:00	CH	Government PMI	Dec pts	50.0	-	49.4	50.0
WEDNESDAY (2 January)							
02:45	CH	Markit PMI	DEC pts	50.2	-	49.7	50.0
09:00	PL	Poland Manufacturing PMI	Dec pts	49.8	50.5	47.6	49.5
09:55	DE	Germany Manufacturing PMI	Dec pts	51.5	-	51.5	51.8
10:00	EZ	Eurozone Manufacturing PMI	Dec pts	51.4	-	51.4	51.8
THURSDAY (3 January)							
14:15	US	ADP report	Dec k	180	-	271	157
14:30	US	Initial Jobless Claims	week k	220	-	231	221
16:00	US	ISM manufacturing	Dec pts	57.6	-	54.1	59.3
FRIDAY (4 January)							
02:45	CN	Caixin China PMI Services	Dec pts	53.0	-	53.9	53.8
09:55	DE	Markit Germany Services PMI	Dec pts	52.5	-		52.5
10:00	EZ	Eurozone Services PMI	Dec pts	51.4	-		51.4
10:00	PL	Flash CPI	Dec % y/y	1.1	1.0		1.3
11:00	EZ	Flash HICP	Dec % y/y	1.8	-		2.0
14:30	US	Change in Nonfarm Payrolls	Dec k	180	-		155
14:30	US	Unemployment Rate	Dec %	3.7	-		3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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