

7 January 2019

Eyeopener

Inflation at the bottom

US labour market data surprised at the end of the week

Polish inflation went down

Zloty stable vs. EUR and weaker vs. USD, EURUSD down

Polish and core markets yields up due to US data

Today: US and euro zone data

The Friday session started with much better moods than end of the previous week, following the recent release of information maintaining upward trends on stock exchanges and pressure on bonds. The Chinese central bank reduced the minimum reserve requirement which might have been aimed mainly at liquidity management before the Chinese New Year (celebrated last weekend), but investors interpreted it as a desired step after the recently released unfavorable macroeconomic data. In the afternoon the US data was released showing the biggest growth in terms of nonfarm payrolls since February 2018, while the November data was revised upwards. The dollar, which had been stable since the beginning of the session, strengthened in reaction to the data and bond yields rise accelerated. Dovish comments of Fed's chairman, as well as information about the lack of progress in unlocking the US government shutdown translated into correction of those changes. The voting on Brexit will take place on 15 January as BBC informed today morning (referring to a governmental sources).

Flash CPI was at 1.1% y/y in December, slightly above our forecast at 1.0% y/y and versus 1.3% y/y in November. Food prices accelerated to 0.9% y/y from 0.7% y/y, probably mostly due to higher tendencies in grain products. According to our estimates, core inflation was at 0.6-0.7% m/m. In our view, this reading sets an inflation trough and we are expecting CPI to climb throughout 2019, approaching 2.5% in December

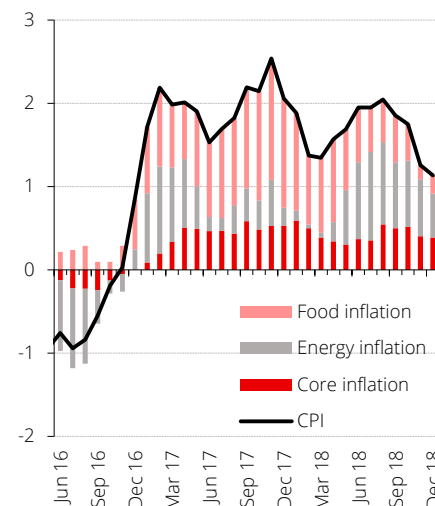
EURUSD stayed close to 1.14 ahead of the US data and dropped to 1.136 in response to a significantly higher-than-expected no-farm payrolls figure. The appreciation of the dollar was not permanent and at the end of the Polish session USD returned to the initial level. Today we expect the dollar to weaken if ISM services index comes relatively weak as we assume.

EURPLN increased slightly above 4.30, but at the end of the day returned below this level. In turn, USDPLN remained stable near 3.765 and after US data rebounded temporarily to 3.78. We think that today the zloty will gain, together with euro strengthening. In case of other currencies in the region, EURHUF and EURCZK also increased slightly, while USDRUB fell for the third time in a row thanks to rebound in oil prices.

On **the domestic interest rate market**, yields of 5- and 10Y bonds rebounded to levels seen at the end of 2018, while 2Y yields returned to mid-December levels. These developments were due to weakening of core market debt given lower demand for safe assets and strong US data. Today we see chances for some improvement in debt pricing in reaction to weaker data from the German industry.

This week the financial markets will be mainly focused on events abroad – there are plenty of data releases in the euro zone and USA, which may deliver new hints regarding the scale of economic slowdown. We do not expect to see a reversal of negative trends from the past months. Investors will also watch the FOMC minutes from December meeting and the US administration's struggle to end the government shutdown. In Poland there are two events in the agenda: MPC meeting (decision on Wednesday) and bond auction (Thursday). As regards the MPC meeting, there will be absolutely no surprise and the NBP Governor should repeat his declaration of interest rates stability at least until the end of 2019. he bond auction should not be the even that would shake the market, we think. The Ministry of Finance will offer bonds worth PLN3-6bn. Financial markets have priced-in so much pessimism about the economic outlook that despite the likely next weak data releases we expect to see a profit taking on debt markets, resulting in upward move of bond yields. It could be additionally supported by hopes for a nearing compromise in ending the US government shutdown. As regards the FX market, weak European data should push EURUSD lower and so the zloty may weaken: EURPLN may move towards 4.34, although we do not expect this level to be breached in the nearest week.

Inflation, % y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2937	CZKPLN	0.1681
USDPLN	3.7593	HUFPLN*	1.3376
EURUSD	1.1421	RUBPLN	0.0556
CHFPLN	3.8170	NOKPLN	0.4379
GBPPLN	4.7908	DKKPLN	0.5750
USDCNY	6.8503	SEKPLN	0.4206

*for 100HUF

Last session in the FX market 04/01/2019

	min	max	open	close	fixing
EURPLN	4.287	4.302	4.290	4.291	4.3018
USDPLN	3.756	3.786	3.763	3.767	3.772
EURUSD	1.135	1.142	1.140	1.140	-

Interest rate market 04/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.43	3	14 gru 18	OK0521	1.625
PS0424 (5L)	2.26	6	14 gru 18	PS0424	2.382
WS0428 (10L)	2.80	8	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	1.74	1	2.75	4	-0.23	0
2L	1.82	2	2.65	6	-0.17	2
3L	1.90	3	2.58	8	-0.07	3
4L	2.00	4	2.56	8	0.06	4
5L	2.12	6	2.56	9	0.19	4
8L	2.34	5	2.64	9	0.58	4
10L	2.47	6	2.70	9	0.79	5

WIBOR rates

Term	%	Change (bps)
O/N	1.55	2
T/N	1.55	1
SW	1.55	1
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	0
3x6	1.72	0
6x9	1.73	0
9x12	1.74	1
3x9	1.79	1
6x12	1.80	2

Measures of fiscal risk

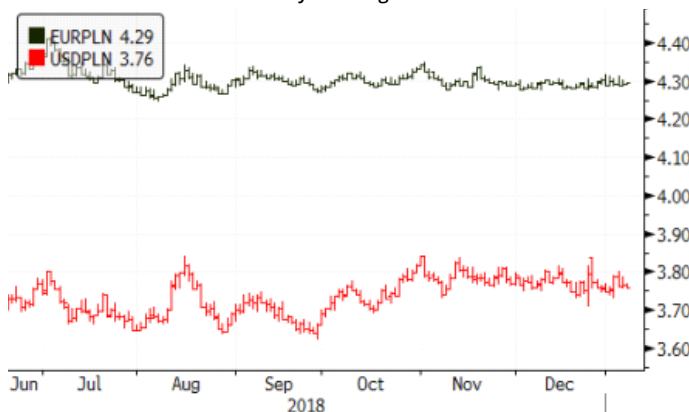
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	8
France	25	1	0.49	0
Hungary	116	1	2.64	9
Spain	65	4	1.27	0
Italy	221	8	2.69	0
Portugal	64	0	1.60	0
Ireland	25	0	0.72	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

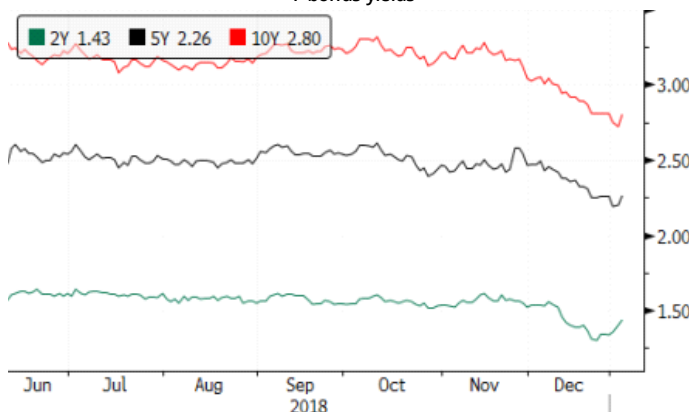
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

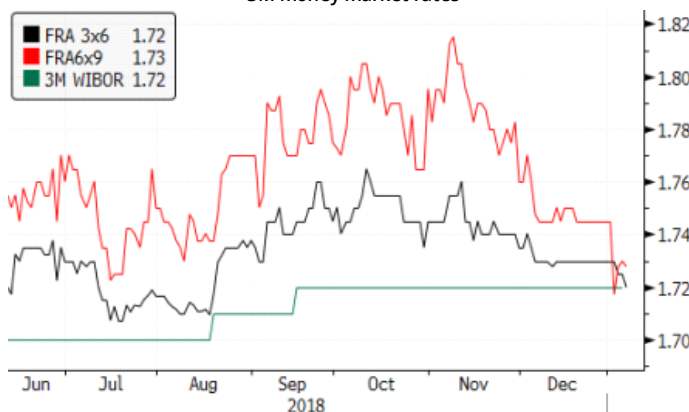
Zloty exchange rate



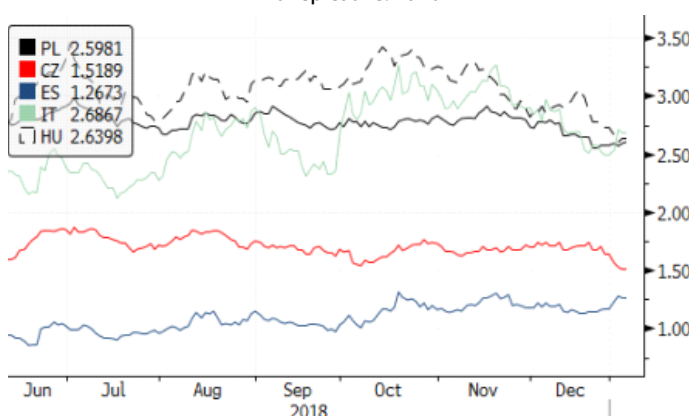
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
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	-	51.8	52.5
10:00	EZ	Eurozone Services PMI	Dec	pts	51.4	-	51.2	51.4
10:00	PL	CPI	Dec	% y/y	1.1	1.0	1.1	1.3
11:00	EZ	Flash HICP	Dec	% y/y	1.7	-	1.6	2.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	183	-	312	176
14:30	US	Unemployment Rate	Dec	%	3.7	-	3.9	3.7
MONDAY (7 January)								
08:00	DE	Retail Sales	Nov	% m/m	0.4	-	1.4	-0.3
08:00	DE	Factory Orders	Nov	% m/m	-0.2	-	-1.0	0.3
11:00	EZ	Retail Sales	Nov	% m/m	0.1	-		0.3
16:00	US	Durable Goods Orders	Nov	% m/m	0.0	-		0.8
16:00	US	ISM services	Dec	pts	59.5	-		60.7
16:00	US	Factory Orders	Nov	% m/m	0.3	-		-2.1
TUESDAY (8 January)								
08:00	DE	Industrial Production SA	Nov	% m/m	0.5	-		-0.5
09:00	CZ	Industrial Production	Nov	% y/y	5.0	-		6.7
09:00	HU	Industrial Production SA	Nov	% y/y	0.0	-		3.3
11:00	EZ	ESI	Dec	pct.	108.0	-		109.5
WEDNESDAY (9 January)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	Exports SA	Nov	% m/m	-0.1	-		0.9
11:00	EZ	Unemployment Rate	Nov	%	8.1	-		8.1
20:00	US	FOMC Meeting Minutes						
THURSDAY (10 January)								
09:00	CZ	CPI	Dec	% y/y	2.1	-		2.0
14:30	US	Initial Jobless Claims	week	k	220	-		231
FRIDAY (11 January)								
09:00	CZ	GDP SA	3Q	% y/y	2.4	-		2.4
14:30	US	CPI	Dec	% m/m	-0.1	-		0.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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