

16 January 2019

# Eyeopener

## Brexit saga continues

Dollar kept strengthening yesterday on weak European data

Domestic bonds gained, FRAs price in a rate cut in 2021

Złoty followed the euro down

Today Polish core CPI, German HICP and US retail sales

On Tuesday we got to see inflation data from Poland (no surprise). Flash German GDP for 2018 showed 1.5% y/y in seasonally adjusted terms, which means that in 4Q18 the German economy only managed to offset the decline in 3Q18. Inflation in Hungary proved lower than expected. US investors got a PPI release, which was below expectations. However, investors were mostly focused on the Brexit vote in the British Parliament. Thus, the dollar was gaining, which was moderately PLN-negative. The mix of the factors mentioned above was pushing core market yields down and hence also Polish yields were under downward pressure. However, in general, sentiments were not that bad thanks to morning reassurance from Chinese officials that the economy will be stimulated further. In the evening, the withdrawal agreement was rejected by a huge margin (432:202), which supported the pound even though the fate of the United Kingdom did not become any clearer. The no-confidence vote against premier May is scheduled for today.

In December, **Poland CPI** inflation amounted to 1.1% y/y, in line with the flash estimate. A drop vs November's 1.3% y/y was driven mainly by lower fuel prices (-3.3% m/m). In the remaining categories, prices trended somewhat down – our estimate for the December core CPI is 0.6% y/y vs 0.7% in November. We expect core inflation to move up gradually in 2019. In our view, the margin compression process in companies is so advanced that we should see its impact on prices soon. We think the December's 1.1% would be a through on the inflation path and CPI should move gradually up in the months to come. We expect a peak in December 2019 at just below the 2.5% target. On average, inflation will be slightly below 2% this year which would not generate a pressure on the MPC to hike interest rates.

**Fitch Ratings'** analyst covering Poland Arvind Ramakrishnan said that investigation into the KNF scandal has not affected the monetary policy credibility so far, so it is neutral for the sovereign rating of Poland. At the same time, the agency has revised up its forecast of fiscal deficit for this year from 2% to 2.2% of GDP, and for next year from 2.2% to 2.3% of GDP, assuming a pressure on higher spending resulting from the election calendar. Their current forecasts of GDP growth are at 3.8% in 2019 (in line with our estimate) and 3% next year (lower than we assume). The economic slowdown itself will not be the sufficient to trigger a rating downgrade, according to the Fitch analyst.

On Tuesday **EURUSD** continued to fall after the Monday break. Stronger dollar was supported by the expected vote on the Brexit agreement by the British Parliament and another signs of inflationary pressure decline in the EU (in Hungary the inflation was below consensus). 2018 data about the economic growth in Germany was also disappointing (although the main reading was in line with the expectations). Today German inflation and US retail sales data will be released. In our opinion the data will be neutral for EURUSD which will remain stable. Today, the development of political situation in the UK should have rather negative impact on FX rate.

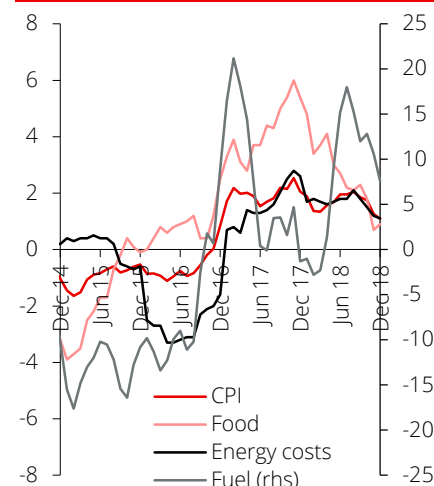
On Tuesday **EURPLN** rose slightly, went to 4,2950 from 4,2910. The Brexit vote in the British parliament and strengthening of USD affected the zloty. Zloty did not react to the Polish CPI data release (in the morning). Today we expect the zloty to stabilize, although much depends on further communication with regard to Brexit (whether the British government will survive a vote of no confidence, whether it will now move towards efforts to extend the deadlines, etc.).

As regards **CEE currencies**, EURHUF climbed to 323.30 from 321.80 after lower-than-expected inflation (yet core inflation surprised to the upside). EURCZK jumped but then returned to 25.55 after comment of CNB Head Vojtěch Benda, who was talking about prospects for further rate hikes. USDRUB remained fairly stable for the better part of the day around 67.

On the **domestic debt market** yields decreased across the curve (by 2-4bp, the most on the long end), to return to the opening levels in the afternoon. This change was a consequence of an aggressive decrease of FRA and IRS rates. The FRA market already points to an interest rate cut by 25bp in the middle of 2021. The trigger for the IRS and FRA rates slide was German GDP data release for 2018. The domestic inflation data was a positive background for these developments. Today we expect the IRS rates and (as a consequence) bonds to recover.

**Today** the NBP will release December core inflation. We expect it to come at 0.6% y/y.

Inflation measures, % y/y



Source: GUS, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2903	CZKPLN	0.1680
USDPLN	3.7658	HUFPLN*	1.3265
EURUSD	1.1393	RUBPLN	0.0564
CHFPLN	3.8070	NOKPLN	0.4407
GBPPLN	4.8444	DKKPLN	0.5748
USDCNY	6.7614	SEKPLN	0.4198

\*for 100HUF

### Last session in the FX market 15/01/2019

	min	max	open	close	fixing
EURPLN	4.288	4.296	4.291	4.294	4.2922
USDPLN	3.734	3.773	3.739	3.770	3.7542
EURUSD	1.138	1.149	1.148	1.139	-

## Interest rate market 15/01/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.33	1	10 sty 19	OK0521	1.547
PS0424 (5L)	2.16	2	10 sty 19	PS0424	2.251
WS0428 (10L)	2.73	1	10 sty 19	WS0428	2.821

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	2.76	0	-0.23	0
2L	1.72	0	2.70	0	-0.17	-1
3L	1.77	0	2.64	1	-0.08	-2
4L	1.87	-1	2.62	1	0.04	-2
5L	1.97	-1	2.62	1	0.16	-4
8L	2.19	-3	2.69	1	0.55	-2
10L	2.34	-3	2.74	1	0.77	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.55	0
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	1.71	0
3x6	1.72	1
6x9	1.71	2
9x12	1.67	1
3x9	1.78	1
6x12	1.75	1

## Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.52 1
France	25 1	0.41 -1
Hungary	116 1	2.51 -2
Spain	65 4	1.18 -1
Italy	221 8	2.62 -5
Portugal	64 0	1.58 13
Ireland	25 0	0.75 -1
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

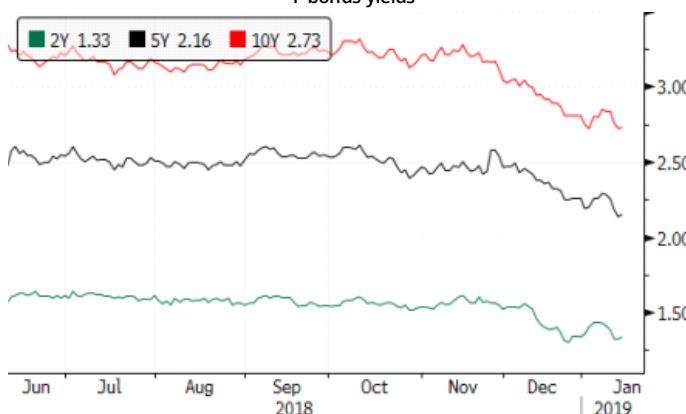
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

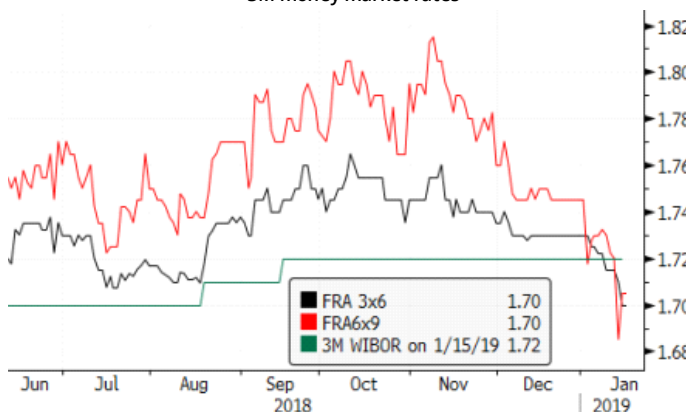
## Zloty exchange rate



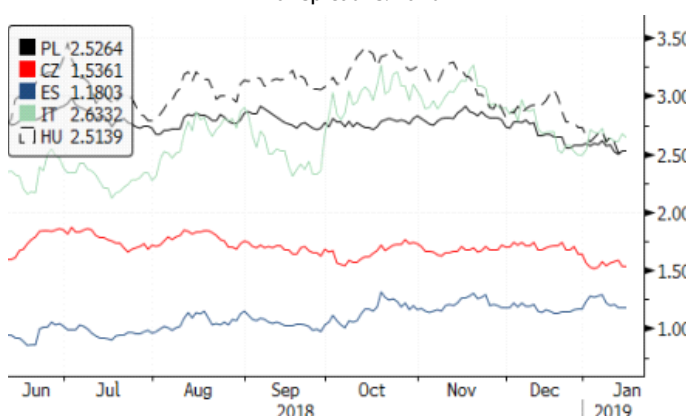
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (11 January)							
09:00	CZ	GDP SA	3Q	% y/y	2.4	2.4	2.4
14:30	US	CPI	Dec	% m/m	-0.1	-0.1	0.0
MONDAY (14 January)							
11:00	EZ	Industrial Production SA	Nov	% m/m	-1.5	-1.7	0.1
14:00	PL	Current Account Balance	Nov	€mn	-482.0	-474	-457.0
14:00	PL	Trade Balance	Nov	€mn	-405.0	-313	-588.0
14:00	PL	Exports	Nov	€mn	19 354	19 373	20 025
14:00	PL	Imports	Nov	€mn	19 643	19 643	20 254
TUESDAY (15 January)							
09:00	HU	CPI	Dec	% y/y	2.8	2.7	3.1
10:00	PL	CPI	Dec	% y/y	-	1.1	1.3
WEDNESDAY (16 January)							
08:00	DE	HICP	Dec	% m/m	0.3	0.3	0.3
14:00	PL	CPI Core	Dec	% y/y	0.7	0.6	-
14:30	US	Retail Sales Advance	Dec	% m/m	0.25	-	0.2
THURSDAY (17 January)							
11:00	EZ	HICP	Dec	% y/y	1.6	-	1.6
14:30	US	Initial Jobless Claims	Jan-19	k	226.0	-	216.0
14:30	US	Housing Starts	Dec	% m/m	-0.24	-	3.2
14:30	US	Index Philly Fed	Jan		10.0	-	9.1
FRIDAY (18 January)							
10:00	PL	Employment in corporate sector	Dec	% y/y	2.8	2.8	-
10:00	PL	Sold Industrial Output	Dec	% y/y	5.0	5.0	-
10:00	PL	Construction Output	Dec	% y/y	15.4	15.6	-
10:00	PL	PPI	Dec	% y/y	2.6	2.6	-
10:00	PL	Average Gross Wages	Dec	% y/y	7.3	7.0	-
15:15	US	Industrial Production	Dec	% m/m	0.25	-	0.61
16:00	US	Michigan index	Jan	pts	96.4	-	98.3

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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