

17 January 2019

# Eyeopener

## Pound stronger despite unclear UK prospects

CEE fx stronger after failed Brexit vote

Domestic bonds gave back this week's gains

Pound gained after failed no-confidence vote vs Theresa May

Today euro zone inflation and US data

On Wednesday morning the markets were reacting positively to information on results of the meaningful vote in the United Kingdom. Later, we got to see German HICP (no surprise) confirming that inflation in euro zone's biggest economy is definitely not strengthening (annual measure fell to 1.7% y/y). In the afternoon, the NBP released core inflation, which showed 0.6% - in line with estimates based on CPI. In Poland, the Sejm approved the 2019 budget bill, with parameters unchanged versus August's draft. Yields of Polish bonds and IRS rates climbed following core markets, offsetting Monday and Tuesday declines, while stock markets, the zloty and the dollar gained ahead of another step in the Brexit saga. The British government survived the evening's no-confidence vote, which was GBP-positive, and now it has to present its further plans regarding Brexit until Monday. Market moods were mixed: uncertainty related to allegations of the US investigators against one of Chinese telecommunication company appeared together with positive results of US banks at the start of quarterly financial reports season.

According to NBP calculations, **core inflation** excluding food and energy was 0.6% y/y in December vs 0.7% in the previous month. This means that the whole surprisingly strong rebound in August to 0.9% has already been offset. In our view, the upcoming readings will bring a change in core inflation trend and it will be above 2% at the end of 2019. The three alternative measures of underlying inflation also declined in y/y terms in December. One of them, CPI ex administered prices, dropped to the lowest level in more than two years (1% y/y), after staying above 2% in the middle of 2018.

Polish Sejm (lower house of the Parliament) approved the **2019 budget** with the deficit at PLN28.5bn, revenues at PLN387.6bn and expenditures at PLN416.1bn, in line with the assumptions presented in the draft version. The GG deficit is expected to reach -1.7% of GDP. Now the bill goes to the Senate and the president should sign it until January 27.

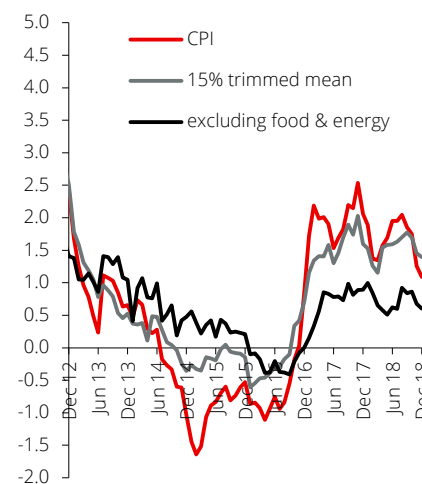
On Wednesday **EURUSD** went down slowly while waiting for the results of vote of confidence for the British government. As a result EURUSD fell from 1.1420 in the morning to 1.1400 in the afternoon. The demand for the dollar was still seen overnight.

On Tuesday **EURPLN** fell amidst the return of risk appetite on stock markets. As a consequence, EURPLN reached 4.2820 in the evening vs 4.2930 in the morning. The data released during the day did not impact the zloty - it followed the general trend observed for CEE currencies. It was a relatively large daily move compared to the previous sessions and some correction may be expected today.

Among the **other CEE currencies**, EURHUF rose to 323.9 intraday and returned to 321.4 later on after the comment of the Hungarian central banker who said that a rise in core CPI would be a reason for monetary policy normalization. EURCZK also rose temporarily after the below-consensus Czech PPI but the central bank governor view that more rate hikes should be expected, pushed the exchange rate down to c25.56. USDRUB fell to 66.4 from 67.0 after the Russian central bank did not suggest an imminent return to foreign currency purchases (that have been suspended in August).

On the **domestic debt market** yields erased Monday's and Tuesday's falls, following the core market bonds. As we saw it last days, swings on the domestic market were much bigger than on the core markets. As a result domestic yield curve rose by 3-4bp and IRS curve by 6-8bp, narrowing the ASW spread and pushing the yields to levels above the Monday's close. Today we expect Polish bonds market to stabilise.

Core inflation, % y/y



Source: GUS, NBP, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2852	CZKPLN	0.1678
USDPLN	3.7647	HUFPLN*	1.3309
EURUSD	1.1383	RUBPLN	0.0566
CHFPLN	3.7973	NOKPLN	0.4393
GBPPLN	4.8400	DKKPLN	0.5741
USDCNY	6.7694	SEKPLN	0.4170

\*for 100HUF

### Last session in the FX market 16/01/2019

	min	max	open	close	fixing
EURPLN	4.280	4.297	4.294	4.281	4.2929
USDPLN	3.752	3.774	3.770	3.755	3.7619
EURUSD	1.138	1.143	1.139	1.140	-

## Interest rate market 16/01/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.36	3	10 sty 19	OK0521	1.547
PS0424 (5L)	2.18	3	10 sty 19	PS0424	2.251
WS0428 (10L)	2.77	4	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	1.72	1	2.77	1	-0.22	0
2L	1.76	5	2.71	1	-0.16	1
3L	1.83	6	2.66	1	-0.07	1
4L	1.93	6	2.64	2	0.05	1
5L	2.03	6	2.64	2	0.17	2
8L	2.27	8	2.70	2	0.56	1
10L	2.41	7	2.76	1	0.78	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
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	0
6x9	1.72	1
9x12	1.70	3
3x9	1.79	0
6x12	1.78	3

## Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.56 5
France	25 1	0.41 0
Hungary	116 1	2.58 1
Spain	65 4	1.16 0
Italy	221 8	2.54 0
Portugal	64 0	1.57 1
Ireland	25 0	0.75 0
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

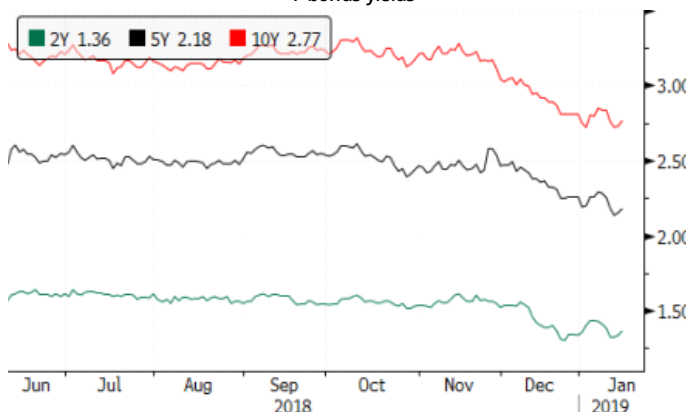
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

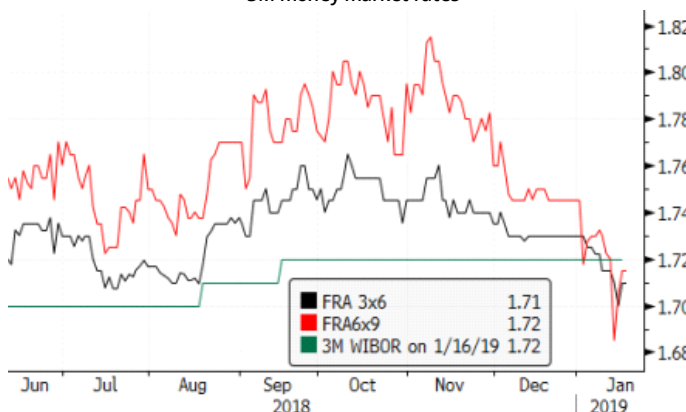
## Zloty exchange rate



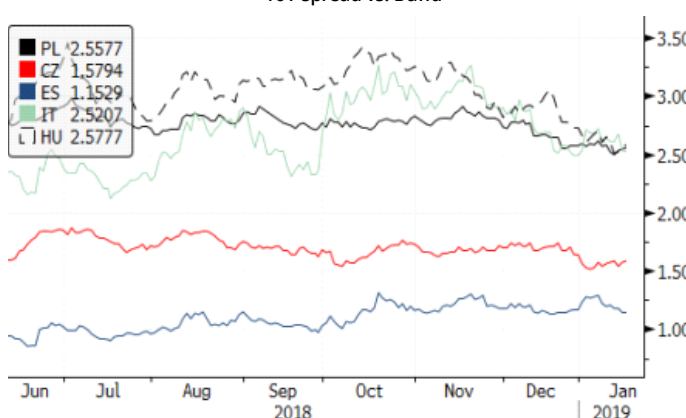
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (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	0.7
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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