

18 January 2019

Eyeopener

Interest rate market stopped pricing in a cut

Złoty weaker amid dollar appreciation

Domestic bonds gave up gains

HICP inflation declined further in Poland and euro zone

Today output, employment and wages in Poland, US Michigan index

On Thursday the macro data calendar was light (except for euro zone HICP) and there were no official statements that could have an impact on the market. Philadelphia Fed index reading surprised on the positive side, while the euro zone inflation turned out to be in line with expectations and reached 1.6% y/y. As a consequence the dollar rose a little, the zloty fell while HUF and CZK strengthen driven by hawkish communication of the local central banks. Domestic yield curve was steepened, following the core bonds market. In the evening, news that the US administration was considering withdrawal of some duties imposed on China (this information was not officially confirmed) generated a positive market impulse. The Asian session was dominated by stock increases.

In December 2018 **HICP inflation** in Poland was 0.9% y/y vs 1.1% y/y in November. Core HICP inflation remained at 0.4% y/y which is significantly above January-August 2018 levels. Inflation of the internationally tradable part of core HICP basket slightly fell in December (to -0.2% y/y), but was still much above levels recorded in the previous 5 years. On m/m basis, HICP growth in December was 0.0% just like in November.

After November 2018, the **local governments** recorded a financial surplus of PLN6.4bn versus +PLN13.6bn in a corresponding period of 2017. In October and November 2018 alone local governments recorded deficit of PLN5.0bn as compared to PLN1.1bn in the previous year. Higher deficit is mostly due to higher spending, most probably in investment outlays. Data from governments support our forecast of high investment growth in 4Q18 and suggest that the general government deficit may be a bit above 0.5% of GDP in 2018.

Thursday saw **EURUSD** slipping, following slight losses on stock markets. The dollar strengthening was stimulated by a rebound of Philadelphia Fed index which remained in downward trend since mid-2018. Today the dollar might strengthen further in reaction to, in our opinion, better-than-expected University of Michigan consumer sentiment index.

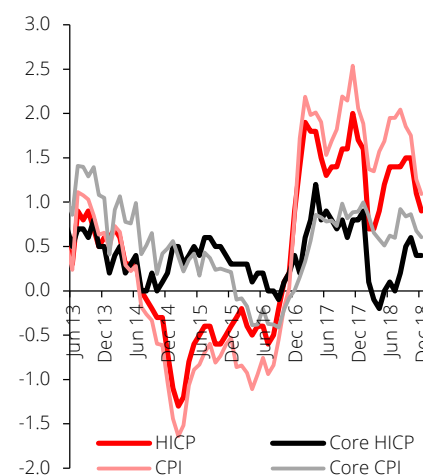
EURPLN on Thursday erased declines seen in the previous days, following stronger dollar and weakening equity markets. As a result, at the end of the day we saw EURPLN at 4.2880 vs 4.2820 at the opening. Today we expect further zloty depreciation amid continuing dollar strength.

As regards **CEE currencies**, EURHUF fell for another day in a row in reaction to Hungarian central bank's report suggesting that the expected rise in core inflation may be an argument to normalise the monetary policy. As a result, EURHUF decreased to 319.70 from 321.60. Also EURCZK had to deal with the hawkish rhetoric of the central bank, as one of the CB board members said that 25-bp hike would be positive for the economy, bringing EURCZK to 25.54 from 25.55. USDRUB climbed temporarily to 66.60 from 66.30 but then returned to the opening levels, following changes of the oil price.

On the **domestic interest rates market** yields increases continued, following the core bond markets (domestic yields changed faster though). As a result the domestic curve shifted up by 4-5bp in the 5-10Y segment. The IRS curve moved in the similar scale. These shifts wiped out the interest rate cut in Poland which had been priced in two days ago. Today we expect the bond yield curve and IRS curve steepening to continue only at a slower pace. Such move should be supported by Michigan data release (we expect it to go above the market consensus). If Polish data surprise on the positive side (especially industrial production and wages), domestic bonds might suffer.

Today we will see data from Poland about industrial and construction output in December. Our forecasts are in line with market consensus and assume maintenance of relatively good growth. November's decline of production in Germany is not a good harbinger for Polish manufacturing, but we have to remember that the downturn in German data so far has not affected Polish exports too much, which gives hope that industrial output will be decent as well. Data about wages and employment will be also released, with jobs growth likely to decelerate below 3% y/y for the first time in 2.5 years and wage growth slowing below 7% y/y due to earlier payment of bonuses in mining.

Inflation in Poland, % y/y



Source: GUS, NBP, Eurostat, Santander

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FX market

Today's opening

EURPLN	4.2902	CZKPLN	0.1680
USDPLN	3.7638	HUFPLN*	1.3425
EURUSD	1.1399	RUBPLN	0.0567
CHFPLN	3.7866	NOKPLN	0.4409
GBPPLN	4.8805	DKKPLN	0.5747
USDCNY	6.7708	SEKPLN	0.4180

*for 100HUF

Last session in the FX market 17/01/2019

	min	max	open	close	fixing
EURPLN	4.281	4.290	4.281	4.288	4.2875
USDPLN	3.752	3.771	3.755	3.766	3.7615
EURUSD	1.137	1.141	1.140	1.139	-

Interest rate market 17/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.36	-1	10 sty 19	OK0521	1.547
PS0424 (5L)	2.20	2	10 sty 19	PS0424	2.251
WS0428 (10L)	2.81	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	1.73	1	2.77	0	-0.22	0
2L	1.79	3	2.72	1	-0.16	0
3L	1.87	3	2.66	1	-0.06	1
4L	1.97	4	2.64	1	0.06	1
5L	2.08	5	2.65	1	0.19	1
8L	2.32	5	2.71	1	0.57	1
10L	2.45	4	2.76	1	0.79	1

WIBOR rates

Term	%	Change (bps)
O/N	1.52	-2
T/N	1.54	-1
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	1.72	0
3x6	1.72	0
6x9	1.72	0
9x12	1.72	1
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

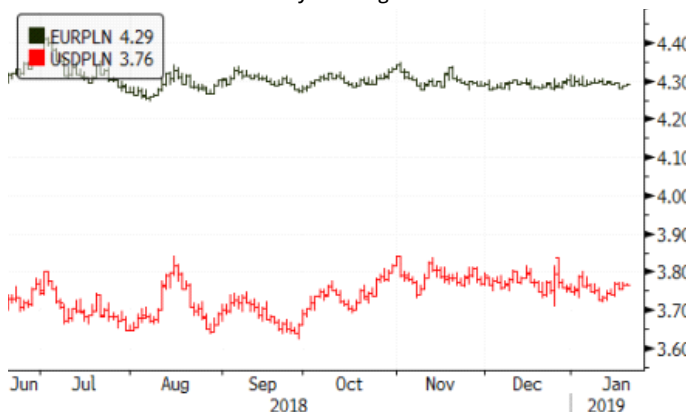
Reserves of foreign currencies				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	3
France	25	1	0.40	-1
Hungary	116	1	2.61	-1
Spain	65	4	1.11	-1
Italy	221	8	2.51	-1
Portugal	64	0	1.51	0
Ireland	25	0	0.75	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

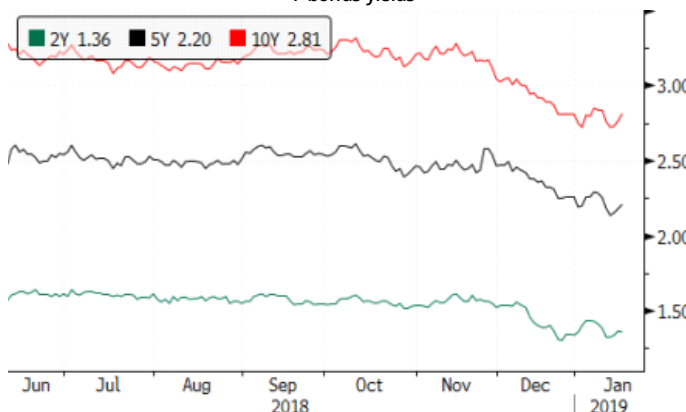
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

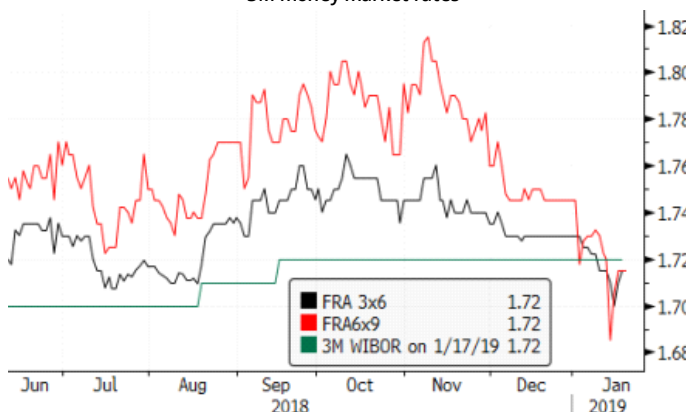
Zloty exchange rate



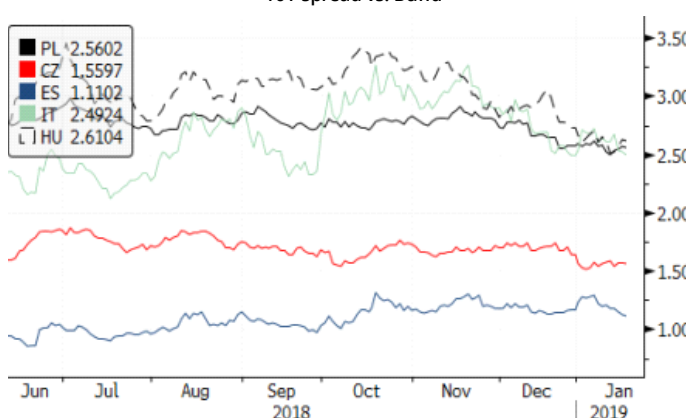
T-bonds yields



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	
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	-221
14:00	PL	Trade Balance	Nov	€mn	-405.0	-313	-229
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	1.1
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	0.6
THURSDAY (17 January)							
11:00	EZ	HICP	Dec	% y/y	1.6	1.6	1.6
14:30	US	Initial Jobless Claims	Jan-19	k	226.0	231	216.0
14:30	US	Index Philly Fed	Jan		9.0	17.0	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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