

18 February 2019

Eyeopener

CPI lower, core inflation higher

CPI inflation dropped in January, core inflation increased
 Zloty appreciated amid stronger dollar
 Domestic debt slightly weaker, following core markets
 No important data releases today

On Friday, Polish CPI data were released and came slightly below market expectations. In the USA, both PPI and industrial output data were lower than expected. On the other hand, US consumer sentiment index from University of Michigan was much better than anticipated, mainly due to the end of government shutdown. The data did not affect EURUSD much, but caused some negative response of Treasuries.

The preliminary reading for January CPI was 0.9% y/y, while market consensus was at 1% y/y. However, this reading does not represent a dovish outcome. Our call was 0.7% y/y, and we assumed correctly that GUS would take into account a large, most likely 5-percent m/m decrease of electricity prices for households (which was not obvious, as the legislation that froze electricity prices was questioned by the European Commission, and there were no Ministry-level detailed explanations regarding how the law should be applied). Furthermore, food prices surprised us to the downside. And yet the headline reading came in 0.2pp above our call. This leads us to conclude that there was a significant rebound of core inflation in January, to c1% y/y from 0.6% (the limited information provided by GUS let us estimate January core CPI at 0.9-1.1% y/y). It seems that the build-up of pressure on margins in the course of 2018 led to a widespread increase of prices in the new year. The January CPI reading will be revised in March with new 2019 item weights, but this should not lead to big changes (there might be a slight upside revision). We assume that CPI will be climbing gradually this year along with core inflation, with both rising above 2% y/y and possibly above 2.5% (especially core inflation), by the end of 2019.

On Friday, EURUSD remained low and oscillated around 1.1270. The dollar was running strong, despite weak data on PPI inflation in the USA and negative surprise in January industrial output. Only after the close to the European session the rate rebounded to 1.13. Today we are expecting some further rebound due to profit-taking after two week long dollar strengthening.

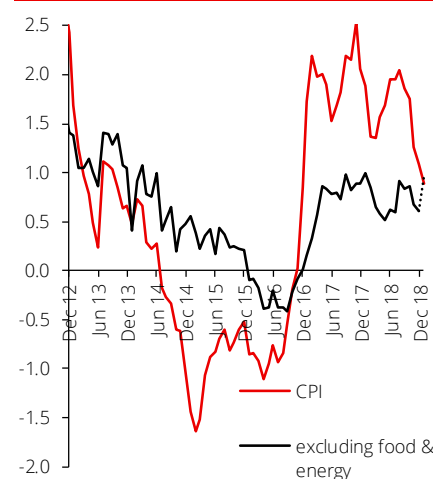
EURPLN slid to 4.3310 from 4.24 on Friday, as the zloty was supported by more sanguine moods on the stock markets after information about progress in the Sino-US negotiations. Today we are expecting EURPLN to go further down. The weaker dollar should be supportive for southern march of EURPLN.

In the CEE region, EURHUF to 318.30 from 318.50, as the forint was supported by positive GDP data. EURCZK declined to 25.68 from 25.78 as the koruna and koruna also benefitted from favourable GDP numbers in 4Q18 (2.9% y/y vs expectations at 2.4%) and core inflation reading at 3.0% y/y. USDRUB slid to 66.60 from 67.10 thanks to rising oil prices. Weaker-than-expected industrial output in January did not undermine the ruble.

On the domestic fixed income market the yield curve moved up slightly in reaction to improving stock market mood and yields jump on the core markets. This change was accompanied by slight decreases (1bp) of IRS curve. Today we expect the slight upward pressure on yields to maintain as a response to the market mood improvement driven by information about the progress in the Sino-US trading negotiations.

This week, we will see domestic data on wages, employment, industrial and construction output, retail sales, economic sentiment, money supply and maybe the budget performance. After a disappointing headlines for December, we expect some improvement in majority of domestic releases. This should support the zloty and push slightly yields up.

CPI and core inflation, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.3290	CZKPLN	0.1687
USDPLN	3.8274	HUFPLN*	1.3616
EURUSD	1.1311	RUBPLN	0.0578
CHFPLN	3.8138	NOKPLN	0.4439
GBPPLN	4.9420	DKKPLN	0.5801
USDCNY	6.7632	SEKPLN	0.4133

*for 100HUF

Last session in the FX market 15/02/2019

	min	max	open	close	fixing
EURPLN	4.322	4.336	4.336	4.333	4.3243
USDPLN	3.828	3.857	3.838	3.836	3.8326
EURUSD	1.123	1.131	1.130	1.130	-

Interest rate market 15/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.54	1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.16	0	7 lut 19	PS0424	2.158
WS0428 (10L)	2.68	-1	7 lut 19	DS1029	2.820

IRS on the interbank market**

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.70	-1	-0.22	0
2L	1.76	0	2.65	1	-0.16	0
3L	1.81	0	2.58	-3	-0.07	0
4L	1.91	-1	2.58	2	0.03	0
5L	2.00	-1	2.58	2	0.13	0
8L	2.21	-1	2.63	-4	0.45	0
10L	2.34	-1	2.69	-3	0.65	0

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	1
SW	1.56	0
2W	1.58	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	1.71	0
6x9	1.70	0
9x12	1.70	1
3x9	1.78	0
6x12	1.76	0

Measures of fiscal risk

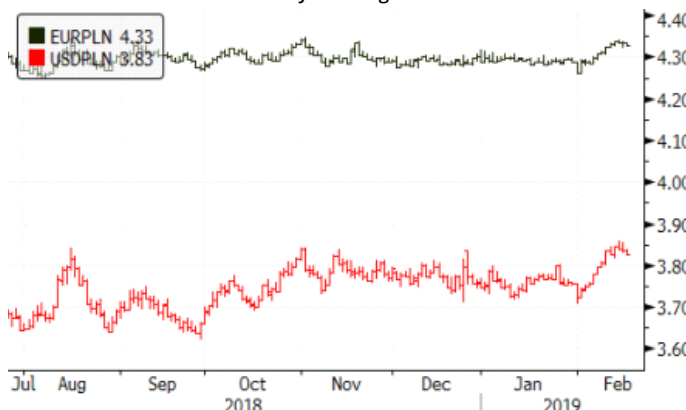
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.58 -1
France	37 0	0.43 0
Hungary		2.64 2
Spain	78 0	1.13 0
Italy	224 0	2.69 -1
Portugal	89 0	1.46 0
Ireland	41 0	0.75 0
Germany	13 0	- -

* 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



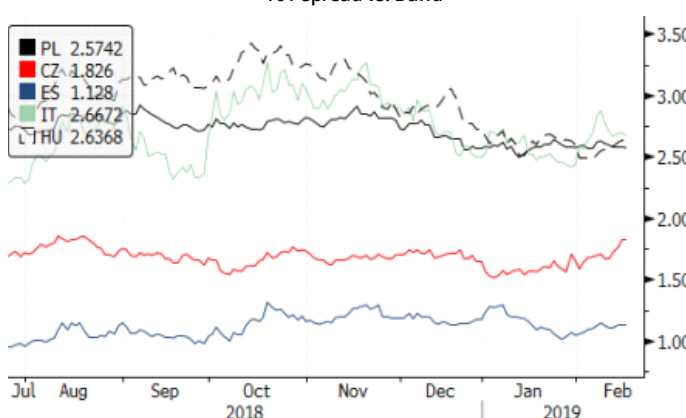
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (15 February)								
09:00	CZ	GDP SA	4Q	% y/y	2.4	2.9	2.4	
10:00	PL	CPI	Jan	% y/y	1.0	0.9	1.1	
15:15	US	Industrial Production	Jan	% m/m	0.1	-0.6	0.1	
16:00	US	Michigan index	Feb	pts	93.5	95.5	91.2	
MONDAY (18 February)								
No important events								
TUESDAY (19 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	1.75	1.5	-	2.8
10:00	PL	Average Gross Wages	Jan	% y/y	6.65	6.9	-	6.1
11:00	DE	ZEW Survey Current Situation	Feb	pts	-	-	-	27.6
WEDNESDAY (20 February)								
10:00	PL	Sold Industrial Output	Jan	% y/y	3.8	5.5	-	2.8
10:00	PL	PPI	Jan	% y/y	2.1	1.9	-	2.2
20:00	US	FOMC Meeting Minutes	Jan/19		-	-	-	0.0
THURSDAY (21 February)								
08:00	DE	HICP	Jan	% m/m	0.0	-	-	-1.0
09:30	DE	Germany Manufacturing PMI	Feb	pts	0.0	-	-	49.7
09:30	DE	Markit Germany Services PMI	Feb	pts	0.0	-	-	53.0
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	50.5	-	-	50.5
10:00	EZ	Eurozone Services PMI	Feb	pts	51.4	-	-	51.2
10:00	PL	Construction Output	Jan	% y/y	5.5	9.0	-	12.2
10:00	PL	Retail Sales Real	Jan	% y/y	4.9	5.7	-	3.9
11:30	PL	Bond Switch Auction			-			
14:30	US	Durable Goods Orders	Dec	% m/m	1.65	-	-	0.7
14:30	US	Initial Jobless Claims		k	225.0	-	-	239.0
14:30	US	Index Philly Fed	Feb		14.5	-	-	17.0
16:00	US	Existing Home Sales	Jan	% m/m	0.2	-	-	-6.38
FRIDAY (22 February)								
	PL	Central Budget Cumul.	Jan	mn PLN	-	7000.0	-	-10417.8
08:00	DE	GDP WDA		% y/y	0.7	-	-	0.6
10:00	DE	IFO Business Climate	Feb	pts	99.0	-	-	99.1
11:00	EZ	HICP	Jan	% y/y	1.4	-	-	1.4
14:00	PL	Money Supply M3	Jan	% y/y	9.4	9.4	-	9.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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