

12 March 2019

# Eyeopener

## Projection without inflation

New NBP projections without much inflation pressure  
EURUSD and the zloty stable, the pound stronger heading into the Brexit vote  
Domestic bonds stable, some losses on the bond markets abroad  
Today Brexit vote in the British parliament, US inflation

On Monday morning some mixed German data were released – weaker industrial output and better-than-expected exports. In the US, the retail sales data surprised to the upside. EURUSD was moving in a narrow range while core yields rose amid higher stock prices and ECB's Benoit Coeure comment that the central bank has not changed its course despite postponing the rate hike and launching the new round of the TLTROs. In Poland, the new inflation projection was published which was accompanied by a stable zloty and bonds. The pound was gaining for the better part of the day and added some gains late at night after the EC head Jean-Claude Juncker and British PM Theresa May said that they have agreed on the legally binding changes in the add-on to the Brexit deal. It was agreed that both sides will act in order to replace the backstop mechanism until 2020. The deal is to be voted today in the UK parliament.

The **new NBP projection** assumes a much lower inflation path than its previous forecast. CPI is projected to remain subdued in 2019, rising to slightly above 2.5% at the start of 2020 and returning to slightly below the target in 2021. Interestingly, core inflation also has been trimmed substantially vs. the previous forecast (for 2019, to 1.6% from 2.1%; for 2020, to 2.2% from 2.7%). Lower CPI was justified by the lack of energy price hikes, while lower core inflation resulted from a downward revision of the output gap (higher potential output). The report does not assume a freeze of electricity prices after 2019, yet the inflation path does not look alarming, in our view. The report goes even further by claiming there is asymmetric downside risk to the central CPI path. The upcoming fiscal stimulus is described as a growth-boosting measure (private consumption up), but is expected to impact CPI in a negligible way. Unfortunately, NBP has not indicated how much the fiscal package could change the main projection paths.

**EURUSD** remained relatively stable on Monday between 1.1240 and 1.1260, despite surprisingly good data on US retail sales. Also the German data, released in the morning, did not affect the rate. Today we are expecting EURUSD to go down, thanks to US inflation data. On the other hand, yesterday's changes in the wording on backstop agreement may somewhat increase the chances that the British Parliament will back the deal in the first vote (there are three votes planned: if the today's vote fails, hard Brexit will be voted on Wednesday, and if that fails too, then a delay will be voted on Thursday), and this could support the pound and the euro against the dollar. However, we think it is more probable that the British Parliament will be kicking the can down the road and will only approve a delay of Brexit on Thursday.

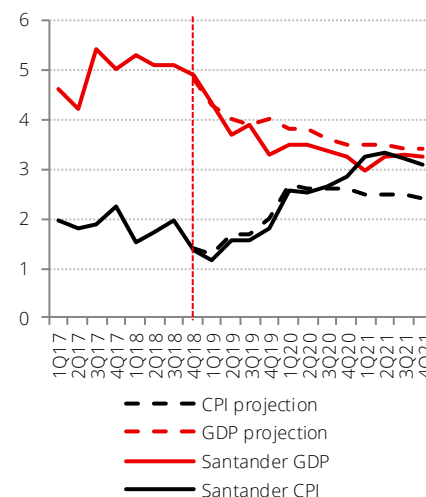
On Monday **EURPLN** was hovering around 4.298 as investors ignored the data published abroad. Today we expect the zloty to depreciate slightly vs the euro amid anticipated EURUSD drop.

In the case of **other CEE currencies**, EURHUF rose to 315.90 from 315.50, as a response to the slight trade deficit deterioration, in the afternoon EURHUF erased most of morning increases. The Czech koruna reacted in the similar way (EURCZK climbed to 25.67 from 25.64) to the worse-than-expected Czech trade data. February CPI data came above expectations but did not help the koruna. USDRUB decreased to 65.90 from 66.40 responding the rise of oil prices (after Saudi Arabia's declaration to cut oil supply).

On the **domestic debt market** yields were hovering in the narrow range and did not respond to the slight increases on the core markets. IRS rates behaved in a similar way. Today we expect slight yields increases in Poland, following the core bonds markets.

**Today** GUS to release foreign trade data for January. A rise of exports by 5-6% y/y and imports by c8% y/y should be recorded. In both cases this would be a slightly slower pace than the average for 2H18. However, for exports this would be quite a positive result, given the worrying signals about the external demand coming from business surveys.

NBP projections vs Santander forecasts



Source: NBP, GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2999	CZKPLN	0.1676
USDPLN	3.8179	HUFPLN*	1.3624
EURUSD	1.1262	RUBPLN	0.0581
CHFPLN	3.7794	NOKPLN	0.4412
GBPPLN	5.0519	DKKPLN	0.5763
USDCNY	6.7135	SEKPLN	0.4076

\*for 100HUF

### Last session in the FX market 11/03/2019

	min	max	open	close	fixing
EURPLN	4.294	4.319	4.302	4.301	4.2983
USDPLN	3.817	3.839	3.827	3.826	3.8199
EURUSD	1.122	1.126	1.124	1.124	-

## Interest rate market 11/03/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.60	2	7 lut 19	OK0521	1.493
PS0424 (5L)	2.22	2	7 lut 19	PS0424	2.158
DS1029 (10L)	2.87	1	7 lut 19	DS1029	2.820

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

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.67	1	-0.23	0
2L	1.79	1	2.60	2	-0.17	0
3L	1.85	2	2.54	1	-0.10	0
4L	1.93	2	2.52	1	-0.01	0
5L	2.03	2	2.52	1	0.09	1
8L	2.24	2	2.60	1	0.38	1
10L	2.37	2	2.66	1	0.57	1

### WIBOR rates

Term	%	Change (bps)
O/N	1.56	-2
T/N	1.57	-2
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	1.72	0
6x9	1.72	0
9x12	1.72	0
3x9	1.79	0
6x12	1.78	0

### Measures of fiscal risk

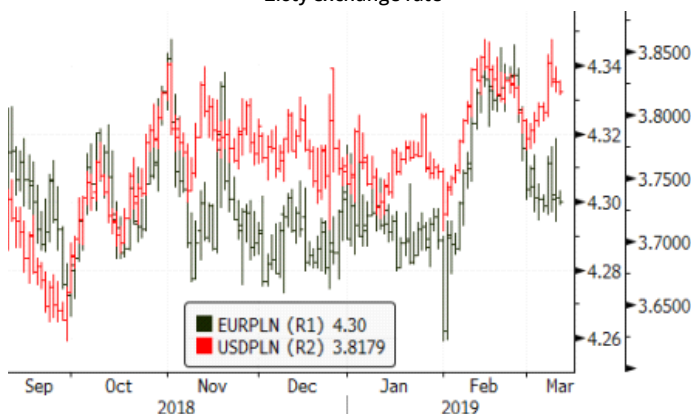
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.79	-1
France	30	0	0.39	5
Hungary			3.12	-1
Spain	61	1	1.07	-1
Italy	197	-2	2.46	-3
Portugal	69	0	1.24	-1
Ireland	37	1	0.61	-1
Germany	12	1	-	-

\* 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



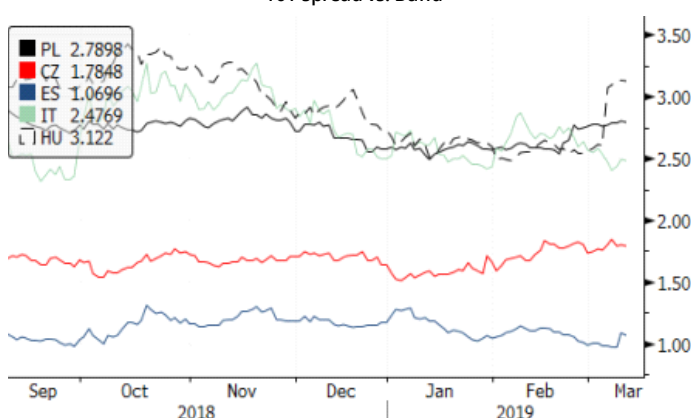
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (8 March)							
08:00	DE	Factory Orders	Jan	% m/m	0.5	-2.6	-1.6
09:00	HU	CPI	Feb	% y/y	2.9	3.1	2.7
14:30	US	Change in Nonfarm Payrolls	Feb	k	180.0	20.0	304.0
14:30	US	Housing Starts	Jan	% m/m	10.86	18.6	-11.2
14:30	US	Unemployment Rate	Feb	%	3.9	3.8	4.0
MONDAY (11 March)							
08:00	DE	Exports SA	Jan	% m/m	-0.5	0.0	1.5
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	-0.8	-0.4
09:00	CZ	CPI	Feb	% y/y	2.6	2.7	2.5
13:30	US	Retail Sales Advance	Jan	% m/m	0.0	0.2	-1.6
TUESDAY (12 March)							
13:30	US	CPI	Feb	% m/m	0.2	-	0.0
WEDNESDAY (13 March)							
11:00	EZ	Industrial Production SA	Jan	% m/m	0.5	-	-0.9
13:30	US	Durable Goods Orders	Jan	% m/m	-0.75	-	1.2
THURSDAY (14 March)							
08:00	DE	HICP	Feb	% m/m	0.5	-	0.5
13:30	US	Initial Jobless Claims	Mar.19	k	225.0	-	223.0
15:00	US	New Home Sales	Jan	% m/m	1.04	-	3.7
FRIDAY (15 March)							
09:00	CZ	Industrial Production	Jan	% y/y	1.6	-	-1.4
10:00	PL	CPI	Feb	% y/y	1.2	1.2	0.9
11:00	EZ	HICP	Feb	% y/y	1.5	-	1.5
14:15	US	Industrial Production	Feb	% m/m	0.6	-	-0.58
15:00	US	Michigan index	Mar	pts	95.8	-	93.8

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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