

18 March 2019

Eyeopener

A week with Brexit, Fed and Polish data

Positive mood at the end of the week

Zloty slightly stronger vs the euro and the dollar, EURUSD higher

Domestic bond yields rose after CPI data

Today Polish C/A and core inflation data

Investors were in quite sanguine moods at the end of the week. Stock markets were in black, core and euro zone peripheries' bond yields went down, the euro strengthened and these factors were positive for PLN and other CEE currencies. US data were not unambiguous – February industrial output expanded less than expected, but the Michigan index surprised to the upside. After media reports stating that the Northern Irish DUP party is to take part in talks how to secure more power for the United Kingdom in the backstop issue, there is some hope that the Brexit deal will be backed by the Parliament in the tomorrow's vote. The British chancellor of the exchequer signalled that the third vote will be conducted only if the government is confident about its success. At the same time, he noted that support within the Conservative Party is rising. Opinions of EU representatives after last week votes suggested that the UK has to show a concrete action plan if it wants a delay in Brexit date. Market moods are positive at the start of the week, ahead of the Fed meeting with the release of new economic forecasts.

In February, **CPI** rose to 1.2% y/y, in line with expectations and despite a downward revision of January reading to 0.7% from 0.9%. According to our estimates, the change in inflation basket weights generated some upside pressure on inflation in early 2019 so the revision of the January figure was not caused by this factor. We estimate that core inflation rose less than we have expected so far – to c0.7-0.8% y/y in January and 1.0-1.1% y/y in February – with the striking acceleration of services' prices (2.3% y/y in February vs 1.8% y/y in January and 0.9% y/y in December). The data do not change our outlook for inflation – we expect core CPI to climb to 2.5% y/y and headline CPI to slightly above 2.0% y/y at the year end.

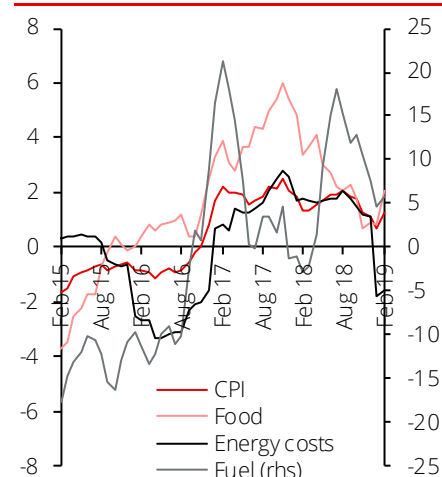
EURUSD fell to 1.13 in the first phase of the session, but after the US data and information on continued Brexit talks the euro started to gain, bringing the rate to 1.134 after setting a daily maximum at 1.135.

EURPLN was hovering for the better part of the Friday's session slightly above 4.30 while USDPLN eased to 3.79 from nearly 3.81. The Polish currency benefitted from rising stock indexes and a rebound of EURUSD, although to a limited extent. In case of the other CEE currencies, the ruble and koruna gained noticeably while the forint appreciated only marginally.

On the domestic interest rate market yields rose 1bp on the belly and long end mainly due to the Polish CPI release. Apparently, the market was impressed by a significant acceleration of the annual pace of growth of consumer prices in February vs January.

This week, Brexit shall remain on the headlines. On Tuesday the UK parliament is expected to vote for the third time on the Brexit deal negotiated by the government. If it is accepted then PM May will ask the EU side for a 'technical' extension of the Brexit date to 30 June during the 21-22 March European Council meeting. Another market-relevant event this week will be Fed meeting, with a new set of economic forecasts. We assume a broadly unchanged rhetoric, which is already quite dovish. The market is pricing in rate cuts in the USA, which we do not find well justified. As for the Polish macro data releases, we expect a confirmation of a slightly slower but still solid economic activity growth in 1Q, more less in line with the consensus. From the market perspective, the key releases may be European business sentiment indices, which will show us if the economy is trying to recover from a painful slowdown from late 2018.

Inflation and main components, % y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2988	CZKPLN	0.1676
USDPLN	3.7878	HUFPLN*	1.3677
EURUSD	1.1349	RUBPLN	0.0586
CHFPLN	3.7845	NOKPLN	0.4449
GBPPLN	5.0320	DKKPLN	0.5761
USDCNY	6.7119	SEKPLN	0.4112

*for 100HUF

Last session in the FX market 15/03/2019

	min	max	open	close	fixing
EURPLN	4.298	4.306	4.303	4.299	4.3037
USDPLN	3.792	3.809	3.809	3.795	3.8014
EURUSD	1.130	1.134	1.130	1.133	-

Interest rate market 15/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.62	1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.23	1	7 lut 19	PS0424	2.158
DS1029 (10L)	2.89	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	1.74	0	2.65	0	-0.22	0
2L	1.80	0	2.56	-1	-0.17	0
3L	1.86	0	2.49	-2	-0.09	0
4L	1.94	-1	2.46	-2	0.00	0
5L	2.04	0	2.47	-2	0.09	-1
8L	2.26	0	2.54	-3	0.39	-1
10L	2.38	0	2.61	-3	0.59	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.56	0
T/N	1.57	0
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	1.79	0

Measures of fiscal risk

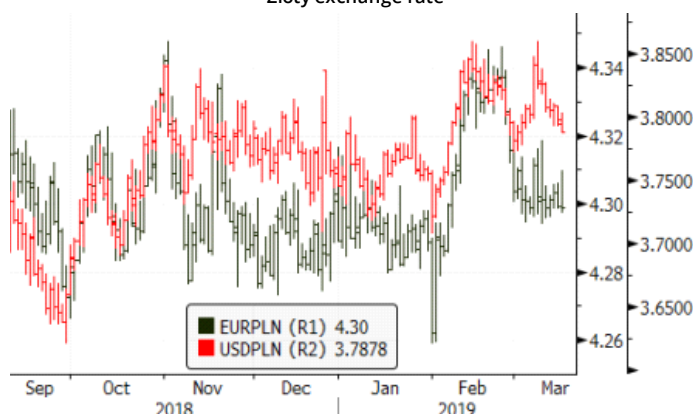
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	1
France	29	-1	0.37	0
Hungary			3.14	1
Spain	59	1	1.10	-1
Italy	192	-1	2.39	-2
Portugal	69	-1	1.21	-1
Ireland	36	1	0.59	0
Germany	12	1	-	-

* 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



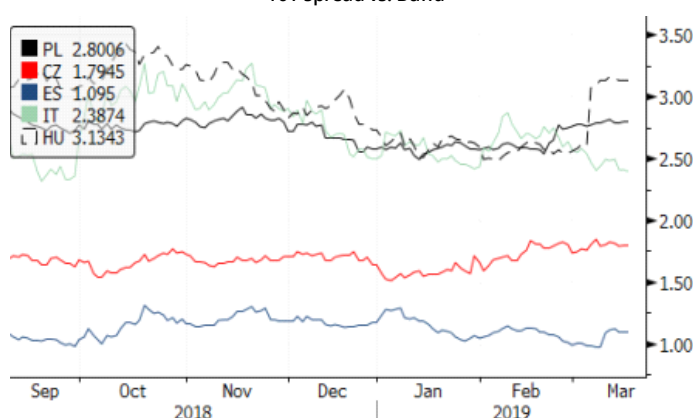
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (15 March)								
09:00	CZ	Industrial Production	Jan	% y/y	1.6	-	-1.1	-1.4
10:00	PL	CPI	Feb	% y/y	1.2	1.2	1.2	0.9
11:00	EZ	HICP	Feb	% y/y	1.5	-	1.5	1.4
14:15	US	Industrial Production	Feb	% m/m	0.4	-	0.1	-0.4
15:00	US	Michigan index	Mar	pts	95.7	-	97.8	93.8
MONDAY (18 March)								
14:00	PL	CPI Core	Feb	% y/y	1.0	0.9**		0.6**
14:00	PL	Current Account Balance	Jan	€mn	1 741	1 559		-1 400
14:00	PL	Trade Balance	Jan	€mn	-242	-493		-1 340
14:00	PL	Exports	Jan	€mn	18 694	18 694		16 005
14:00	PL	Imports	Jan	€mn	18 666	19 187		17 345
TUESDAY (19 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	2.9	2.9		2.9
10:00	PL	Average gross wages	Feb	% y/y	7.2	7.5		7.5
11:00	DE	ZEW Survey Current Situation	Mar	pts	13.0	-		15.0
15:00	US	Factory Orders	Jan	% m/m	0.0	-		0.1
WEDNESDAY (20 March)								
10:00	PL	Sold Industrial Output	Feb	% y/y	4.9	5.1		6.1
10:00	PL	PPI	Feb	% y/y	2.8	2.8		2.2
19:00	US	FOMC decision		%	2.5	-		2.5
THURSDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	4.5	8.0		3.2
10:00	PL	Retail Sales Real	Feb	% y/y	5.6	-		5.2
13:30	US	Initial Jobless Claims	week	k	225	-		229
13:30	US	Index Philly Fed	Mar	pts	4.0	-		-4.1
FRIDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	48.1	-		47.6
09:30	DE	Markit Germany Services PMI	Mar	pts	54.85	-		55.3
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.5	-		49.3
10:00	EZ	Eurozone Services PMI	Mar	pts	52.5	-		52.8
14:00	PL	Money Supply M3	Feb	% y/y	9.1	9.1		8.8
15:00	US	Existing Home Sales	Feb	% m/m	3.24	-		-1.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

** estimates after stat office inflation data

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