

17 April 2019

# Eyeopener

## Core inflation highest since 2013

Positive moods maintained, mixed data from Germany  
 Core inflation up, Convergence Programme assumed GG surplus in 2020  
 Zloty appreciation halted, EURUSD down  
 Polish bonds outperforming core market debt  
 Today Polish labour market data and euro zone inflation

Market sentiment, triggered by recent positive data from Europe and China, remained positive on Tuesday. Stock indices rose on Tuesday, which weighed on core market and euro zone peripheries' bonds. FX market was still relatively calm. ZEW index for the German industry did not have much influence on trading. The current assessment component dropped to the lowest level since November 2014, leaving no room for hopes that the largest European economy is already moving out of a slowdown. At the same time, the expectations component of ZEW continued the positive trend that started in October 2018 and reached the highest level since March last year. Today's data from China were better than expected, but their market reception was mixed as they may cast doubts on the need for further stimulus of the economy.

In the 2019 **Convergence Programme Update** the Ministry of Finance showed a much more aggressive path of fiscal consolidation than in the 2018 document. While the expected fiscal deficit for 2019 was slightly raised, the forecasts for the following years are much lower than the previous ones. What is especially surprising is the surplus of 0.2% GDP shown in 2020 – when the budget will feel the serious burden of the electoral fiscal package. Just a few days ago we saw risk of a rise of general government deficit to almost 3% GDP in 2020, but the announcement of the liquidation of OFE (Open Pension Funds), less generous tax changes in the fiscal package and new sources of revenues listed in the Convergence Programme Update suggest that the risk of entering excessive deficit next year has been removed. The spending rule is a similar story – a huge revenue coming from the transformation fee on OFE assets (Ministry of Finance expects to receive PLN19.3bn) and additional discretionary measures increased the fiscal space so much that we no longer think the spending rule could prevent the government from implementing the set of promises in full in 2020.

**MPC's Kamil Zubelewicz** told Reuters yesterday that the government's fiscal stimulus plan may increase inflation by a percentage point both in 2019 and 2020, but he does not expect the upper limit of the inflation tolerance band (3.5% y/y) could be breached.

NBP release confirmed our estimates after the inflation data that in March **core CPI** excluding food and energy prices jumped to 1.4% y/y from 1.0% y/y. This was the highest reading since October 2013. 1Q19 average amounted to 1.1% y/y, slightly higher than assumed in the March NBP projection. The three remaining core inflation measures also rose noticeably in March. In our view, core CPI will rise in the months to come and could be above 2% in 4Q19. This will be supported by the above-potential pace of the GDP growth and tensions on the labour market.

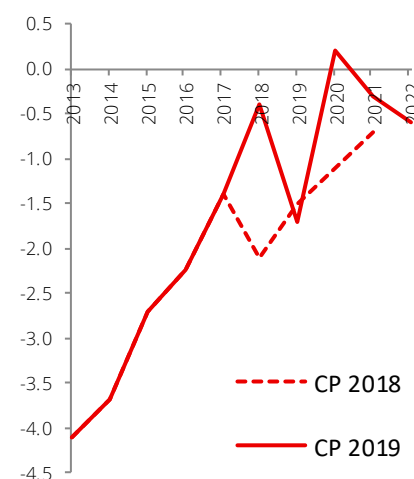
**EURUSD** recorded only a mild and temporary drop after the German data and at the end of the Polish session the exchange rate was near 1.13, just like at the opening. Today the final euro zone HICP will be released and we do not expect this figure to have a meaningful impact on the market. Investors will be rather waiting for the tomorrow's flash April PMIs for manufacturing and services in the euro zone.

On Tuesday **EURPLN** was rising over the day to near 4.28, as a consequence of a temporary drop of EURUSD, but at the end of the day EURPLN returned to 4.275. In the CEE region, the forint (firstly EURHUF decreased to 319.2 from 320.1, then rebounded above the opening level) and Czech Koruna (which weakened the second day in row) were most volatile. We expect that the appreciation of the zloty against the euro will remain halted today, waiting for the European data (due for release tomorrow).

**On the domestic debt market** bonds behaviour was determined by Monday's information about changes in OFE (Open Pension Funds), but yesterday only the short and long end curve bonds gained. Domestic bonds performed better than core and Europeriphery peers, which saw rising bonds.

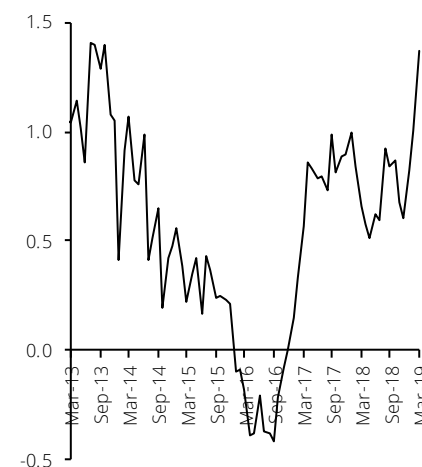
Today at 10:00 Stat Office will publish the March's **labour market data**. We believe that the wage growth remained at a quite high level, we forecast 7.4% y/y, slightly above market consensus. It confirmed that tensions on the labour market has remained.

### GG balance – government expectations, Convergence Programme Update 2018 vs 19



Source: Ministry of Finance, Santander Bank Polska

### Core inflation, % y/y



Source: NBP, Santander Bank Polska

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: skarb.santander.pl  
**Piotr Bielski** +48 22 534 18 87  
**Marcin Łuziński** +48 22 534 18 85  
**Grzegorz Ogonek** +48 22 534 19 23  
**Konrad Soszyński** +48 22 534 18 86  
**Marcin Sulewski, CFA** +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.2772	CZKPLN	0.1666
USDPLN	3.7821	HUFPLN*	1.3373
EURUSD	1.1310	RUBPLN	0.0591
CHFPLN	3.7550	NOKPLN	0.4462
GBPPLN	4.9396	DKKPLN	0.5731
USDCNY	6.6941	SEKPLN	0.4093

\*for 100HUF

### Last session in the FX market 16/04/2019

	min	max	open	close	fixing
EURPLN	4.272	4.280	4.273	4.273	4.2737
USDPLN	3.777	3.790	3.779	3.787	3.7802
EURUSD	1.128	1.131	1.131	1.128	-

## Interest rate market

16/04/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.59	-2	21 mar 19	OK0521	1.633
PS0424 (5L)	2.20	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.86	-2	21 mar 19	DS1029	2.877

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.74	0	2.62
2L	1.84	2	2.51
3L	1.90	1	2.45
4L	1.98	1	2.43
5L	2.07	2	2.44
8L	2.29	1	2.52
10L	2.41	1	2.58

### WIBOR rates

Term	%	Change (bps)
O/N	1.72	4
T/N	1.72	4
SW	1.60	1
2W	1.58	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.73	0
9x12	1.73	0
3x9	1.79	0
6x12	1.80	0

### Measures of fiscal risk

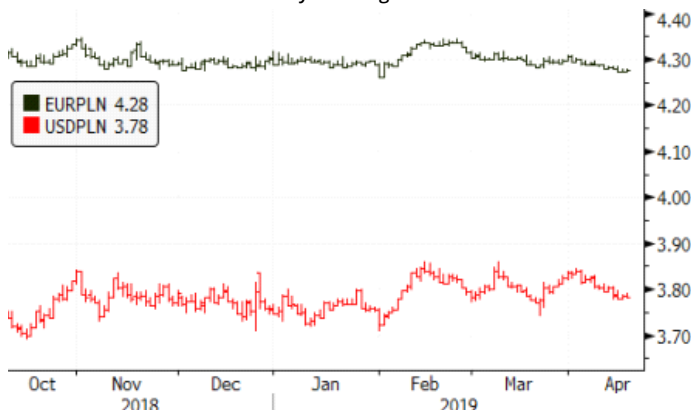
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.78	-4
France	28	1	0.35	-1
Hungary			3.14	-5
Spain	58	0	1.01	-1
Italy	186	7	2.52	-1
Portugal	66	2	1.12	-1
Ireland	31	2	0.49	-3
Germany	12	1	-	-

\* 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



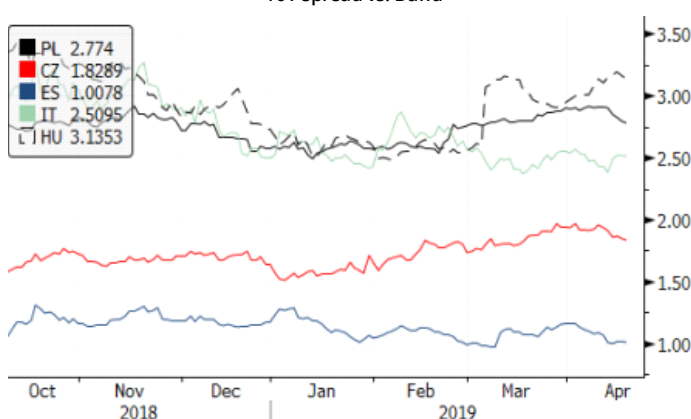
### T-bonds yields



### 3M money market rates



### 10Y spread vs. Bund



## Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (12 April)								
11:00	EZ	Industrial Production SA	Feb	% m/m	-0.5	-	-0.2	1.9
14:00	PL	Current Account Balance	Feb	€mn	-400	-597	-1 386	1 825
14:00	PL	Trade Balance	Feb	€mn	-262	-506	-1 327	290
14:00	PL	Exports	Feb	€mn	17 963	-	18 324	18 445
14:00	PL	Imports	Feb	€mn	18 133	-	19 651	18 735
16:00	US	Michigan index	Apr	pts	98.2	-	96.9	98.4
MONDAY (15 April)								
10:00	PL	CPI	Mar	% y/y	1.7	1.7	1.7	1.7
TUESDAY (16 April)								
11:00	DE	ZEW Survey Current Situation	Apr	pts	8.5	-	5.5	11.1
14:00	PL	CPI Core	Mar	% y/y	1.3	1.4**	1.4	1.0
15:15	US	Industrial Production	Mar	% m/m	0.2	-	-0.1	0.1
WEDNESDAY (17 April)								
10:00	PL	Employment in corporate sector	Mar	% y/y	2.9	2.9		2.9
10:00	PL	Average Gross Wages	Mar	% y/y	7.3	7.4		7.6
11:00	EZ	HICP	Mar	% y/y	1.4	-		1.4
THURSDAY (18 April)								
09:30	DE	Flash Germany Manufacturing PMI	Apr	pts	45.0	-		44.1
09:30	DE	Flash Markit Germany Services PMI	Apr	pts	55.0	-		55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Apr	pts	47.8	-		47.5
10:00	EZ	Flash Eurozone Services PMI	Apr	pts	53.05	-		53.3
10:00	PL	Sold Industrial Output	Mar	% y/y	4.3	4.1		6.9
10:00	PL	PPI	Mar	% y/y	2.6	2.4		2.9
14:30	US	Initial Jobless Claims	week	k	210.0	-		196.0
14:30	US	Retail Sales Advance	Mar	% m/m	0.8	-		-0.2
14:30	US	Index Philly Fed	Apr	pts	11.0	-		13.7
FRIDAY (19 April)								
14:30	US	Housing Starts	Mar	% m/m	5.85		-	-8.7

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

\*\* estimate after inflation data

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.