

2 May 2019

Eyeopener

Polish CPI going up

Polish CPI above the forecast, MPC softening the market mood

Zloty gains, yields up in response to CPI data

FOMC communique supports the US dollar

Today: Czech central bank decision and a big US data release

Data for the Eurozone and Poland were released on Tuesday, causing significant market volatility. The flash Eurozone GDP for Q1 surprised slightly to the upside and the German flash inflation rate for April turned out markedly higher than expected. These data releases caused the euro to gain further against the US dollar and the yields to significantly rebound. In line with this trend, domestic inflation increased more than expected, generating upward pressure on Polish bonds' yields. The Fed's communique published on Wednesday strengthened the dollar. The retail data from Germany published this morning surprised to the downside.

FOMC didn't change the rate for the federal funds and pointed out that at this juncture there were no signs of either an increase or a decrease of interest rates. At the same time, FOMC decided to reduce the interest on excess reserves rate from 2.40% to 2.35%. The Chairman assessed recent inflation to be slightly lower and the Fed reemphasised it would be patient when determining the federal funds rate. The decision was consistent with the commentators' expectations. By the end of the day, however, the short end of the US curve rose by 4bp, more than offsetting the morning declines, and the dollar strengthened.

Flash estimate of Polish CPI for April was much higher than the market expected: 2.2% y/y vs 1.8% consensus and our 2.0% estimate. This means inflation could even head for c3% by the end of the year. In April, all main categories worked towards such a high reading: m/m rise of food prices, by 1.0%, was the strongest for April in a decade (this is due to limited supply of vegetables, very dry weather, rapid rise of pork prices due to ASF). Fuel prices were also going up quickly throughout April, and GUS has not captured all the move yet in the April flash CPI (it showed +4.0% m/m, we saw a rise of more than 5.5% at gas stations from other data sources). Energy prices went up more than we assumed (0.5% m/m vs 0.1% estimate). Based on the information from the flash release we estimate that core CPI pushed from 1.4% to 1.7% in April (highest in 6.5 yrs), while we thought it would reach 1.5%. The previous readings have already shown that services price inflation is rising quite quickly and we expect this also happened in April. In our view the rise of inflation will continue this year, with the headline CPI possibly hitting the NBP target already in the middle of the year, and heading towards 3% by December. Core CPI should rise systematically, above 2.5% in 4Q19, given the background of still strong domestic demand, tight labour market and painful margin squeeze among enterprises.

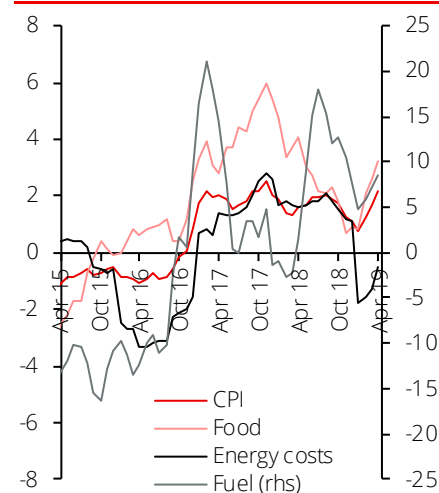
On Tuesday **EURPLN** rose for the third day in a row and broke the level of 1.12. The move was driven by Eurozone flash GDP data and German flash inflation data. The Fed communique pushed the EURUSD down to 1.1190. The last reading of April's PMI-manufacturing did not significantly deviate from the flash reading so the EURUSD reaction should not be significant. The volatility may be limited by waiting for the US NFP data, which will be released tomorrow.

On Tuesday **EURPLN** dropped to 4.2830 in response to the unexpectedly high Polish flash CPI for April and a further rise of EURUSD. USDPLN slid below 3.82, from 3.84. There is a strong seasonal pattern in the EUR/PLN market: in the last ten years, the zloty lost vs the euro in May eight times. At the end of the week the EURUSD response to important US market data will be crucial for the EURPLN.

On the domestic debt market the yield curve moved up by c 6bp and the IRS by 4-7bp (mostly on the long end of the curve) in response to the domestic inflation data and the Eurozone flash GDP reading. We believe that the upward pressure on the yield curve will be maintained, especially if the US data surprise on the positive side. However, the growth potential may not be significant, owing to the Ministry of Finance's announcement that only switch auctions would take place in May.

The **Polish manufacturing PMI** rose in April to 49 from 48.7. The rate of contraction in exports was among the fastest seen in the last six years, while the fall in domestic new orders strongly decelerated. According to our forecast, the data point to a downturn in the manufacturing activity.

Selected inflation components, % y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2871	CZKPLN	0.1672
USDPLN	3.8282	HUFPLN*	1.3202
EURUSD	1.1198	RUBPLN	0.0590
CHFPLN	3.7600	NOKPLN	0.4408
GBPPLN	4.9981	DKKPLN	0.5742
USDCNY	6.7351	SEKPLN	0.4007

*for 100HUF

Last session in the FX market 01/05/2019

	min	max	open	close	fixing
EURPLN	4.278	4.289	4.287	4.282	4.2911
USDPLN	3.803	3.825	3.821	3.808	3.8291
EURUSD	1.121	1.125	1.122	1.124	-

Interest rate market

01/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.67	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.33	0	21 mar 19	PS0424	2.209
DS1029 (10L)	3.00	0	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.76	2.53	-0.23
2L	1.91	2.38	-0.19
3L	2.00	2.31	-0.13
4L	2.11	2.30	-0.05
5L	2.21	2.31	0.04
8L	2.44	2.41	0.33
10L	2.56	2.47	0.51

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-1
T/N	1.57	0
SW	1.56	0
2W	1.58	1
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	1.73	0
6x9	1.76	0
9x12	1.79	0
3x9	1.81	0
6x12	1.84	0

Measures of fiscal risk

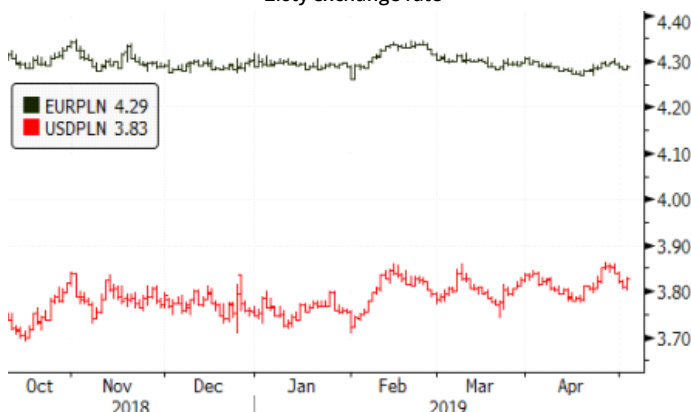
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.97	-1
France	29	-1	0.36	0
Hungary			3.25	-1
Spain	58	-2	0.99	0
Italy	192	-4	2.55	1
Portugal	66	-1	1.10	0
Ireland	31	-1	0.53	-1
Germany	12	0	-	-

* 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



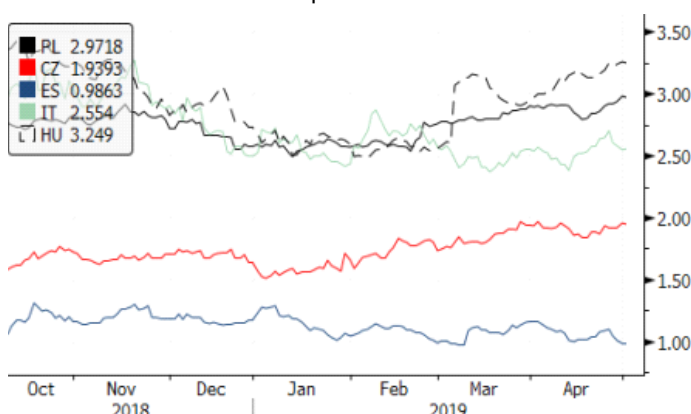
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (26 April)								
14:30	US	GDP Annualized	1 Q	% Q/Q	2.3	-	3.2	2.2
16:00	US	Michigan index	Apr	pts	97.0	-	97.2	96.9
MONDAY (29 April)								
11:00	EZ	ESI	Apr	pct.	105.0	-	104.0	105.5
14:30	US	Personal Spending	Mar	% m/m	0.7	-	0.9	0.1
14:30	US	Personal Income	Mar	% m/m	0.4	-	0.1	0.2
14:30	US	PCE Deflator SA	Mar	% m/m	0.3	-	0.0	-0.1
TUESDAY (30 April)								
10:00	PL	CPI	Apr	% y/y	1.7	2.0	2.2	1.7
11:00	EZ	GDP SA	1 Q	% y/y	1.0	-	1.2	1.2
11:00	EZ	Unemployment Rate	Mar	%	7.8	-	7.7	7.8
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90	0.90
14:00	DE	HICP	Apr	% m/m	0.5	-	1.0	0.5
16:00	US	Consumer Conference Board	Apr	pts	126.0	-	129.2	124.2
16:00	US	Pending Home Sales	Mar	% m/m	1.0	-	3.8	-1.0
WEDNESDAY (1 May)								
14:15	US	ADP report	Apr	k	180	-	275	128
16:00	US	ISM manufacturing	Apr	pts	55.0	-	52.8	55.3
20:00	US	FOMC decision		%	2.5	-	2.5	2.5
THURSDAY (2 May)								
08:00	DE	Retail Sales	Mar	% m/m	-0.5	-	-0.2	0.5
09:00	PL	Poland Manufacturing PMI	Apr	pts	48.5	49.2	49.0	48.7
09:55	DE	Germany Manufacturing PMI	Apr	pts	44.5	-	44.4	44.5
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	47.8	-	47.9	47.8
13:00	CZ	Central Bank Rate Decision		%	2.0	-		1.75
14:30	US	Initial Jobless Claims	week	k	200	-		230
16:00	US	Durable Goods Orders	Mar	% m/m	0.8	-		2.7
16:00	US	Factory Orders	Mar	% m/m	1.0	-		-0.5
FRIDAY (3 May)								
11:00	EZ	Flash HICP	Apr	% y/y	1.6	-		1.4
14:30	US	Change in Nonfarm Payrolls	Apr	k	181	-		196
14:30	US	Unemployment Rate	Apr	%	3.8	-		3.8
16:00	US	ISM services	Apr	pts	57.2	-		56.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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