

5 June 2019

Eyeopener

Pause in core inflation trend

Powell's openness to rate cuts spurred market optimism
 Polish CPI rose less than expected
 Zloty held on to gains, EURUSD influenced by euro zone inflation
 Domestic debt strengthened some more
 Today MPC decision in Poland, services sentiment indicators, ADP report

On Tuesday the global market mood was quite positive thanks to the euro zone data released on Monday. Additionally, in the afternoon the Fed head Jerome Powell said that the US central bank will take appropriate actions to support the economic growth. As a result, the European and US stock indices climbed and most CEE currencies gained versus the dollar.

The **government was reshuffled** yesterday. Apart from necessary changes after a few ministers got elected to the European Parliament, a new finance minister was appointed. Teresa Czerwińska has been replaced by Marian Banaś, who served as deputy finance minister and chief of National Revenue Administration (tax police). Teresa Czerwińska was appointed to the Governing Board of the National Bank of Poland. We do not think that this change will have a material impact on fiscal policy. However, also yesterday the PM Mateusz Morawiecki informed that expectations about further benefits from improved tax collection went up and can reach PLN30bn thanks to the GDP growth and the government's rising ambitions in this respect. The April's Convergence Programme Update assumed additional PLN17bn in 2019-2020 due to these measures.

In Poland, the **flash CPI reading for May** was 2.3% y/y, slightly less than consensus and our forecast – both at 2.4%. The rise from 2.2% y/y in April was caused mainly by food prices; their contribution to y/y CPI growth increased by 0.4pp to 1.2pp in May. GUS also noted a slight decline in energy prices and a mild rise in fuel prices (compared to what we saw from other sources during the month). These data point to a decline to 1.6% y/y in May from 1.7% y/y in April, or at best stabilisation of core inflation (such are our current estimates, the actual data are due 17 June). Before the flash May release we assumed there would be a rise of core inflation to 2.0% y/y. The poor supply of vegetables, bad weather for this year's crops, and ASF disease are pushing food prices higher. The likely decline in core inflation may be linked to the surprisingly sharp increase of transport services prices in April, probably a holiday-related one-off, that could already disappear from the data. We think CPI growth could approach 3% y/y at the end of 2019, with upside risk caused by government plans not to provide significant financial support for energy purchases by mid-sized and large enterprises in 2H19. The MPC will hold a press conference today, following the June meeting. The pause in the core inflation trend and the high contribution from food may only support the Council's relatively dovish view and its plans to maintain rates stability for a prolonged period.

EURUSD stabilized after the Monday's rise but managed to reach c1.128 in morning trading. The single currency appreciation was halted by the euro zone flash May HICP data that were below the consensus. Today we will see final services PMI and ISM as well as the monthly ADP report. We do not expect any meaningful market reaction to these releases just one day ahead of the ECB meeting and today EURUSD might correct part of the recent rise.

EURPLN was hovering around 4.28 and USDPLN slightly above 3.80. The zloty did not benefit from rising stock indexes, the pause in EURUSD upside move appeared more important. The domestic currency underperformed the forint and the koruna (that both gained) which might have been due to the Polish inflation data (that suggest a decline of core CPI) that are likely to be left without reaction from the MPC. We think EURUSD might fall slightly today awaiting tomorrow's ECB decision and this might push EURPLN higher.

On the **domestic interest rate market** bond yields eased somewhat but by no more than 2bp while the IRS rates remained pretty stable. We do not expect the MPC rhetoric – that is likely to remain neutral – could have a significant impact on the Polish bonds that gained clearly in the recent weeks.

CPI inflation, %y/y



Source: GUS, Santander

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	4.2792	CZKPLN	0.1665
USDPLN	3.8007	HUFPLN*	1.3293
EURUSD	1.1259	RUBPLN	0.0583
CHFPLN	3.8311	NOKPLN	0.4372
GBPPLN	4.8272	DKKPLN	0.5730
USDCNY	6.9085	SEKPLN	0.4029

*for 100HUF

Last session in the FX market 04/06/2019

	min	max	open	close	fixing
EURPLN	4.277	4.285	4.281	4.279	4.2788
USDPLN	3.796	3.817	3.817	3.806	3.8041
EURUSD	1.122	1.128	1.122	1.125	-

Interest rate market 04/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.62	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.06	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.61	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Data on the interest rate market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.19	1	-0.28	0
2L	1.78	-1	1.95	2	-0.28	0
3L	1.81	0	1.89	3	-0.24	0
4L	1.86	0	1.89	3	-0.18	-1
5L	1.92	0	1.92	3	-0.11	-1
8L	2.10	1	2.03	3	0.14	-1
10L	2.22	0	2.11	4	0.31	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.59	1
SW	1.59	1
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.86	0

FRA rates on the interbank market**

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

Measures of fiscal risk

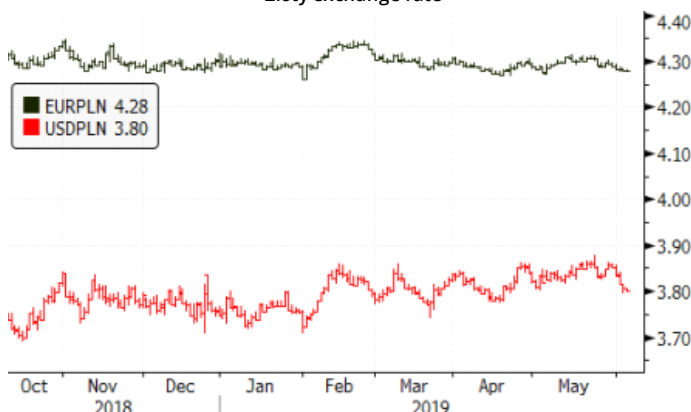
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.83 1
France	30 -1	0.39 0
Hungary		3.11 1
Spain	52 -1	0.87 0
Italy	225 1	2.74 2
Portugal	58 1	0.93 0
Ireland	32 -1	0.61 0
Germany	12 0	- -

* 10Y treasury bonds over 10Y Bunds

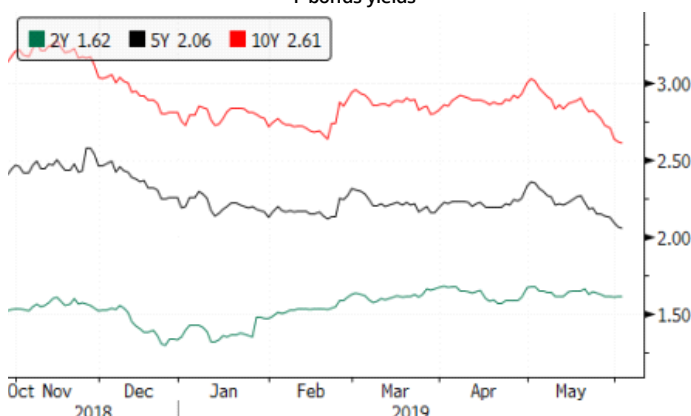
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



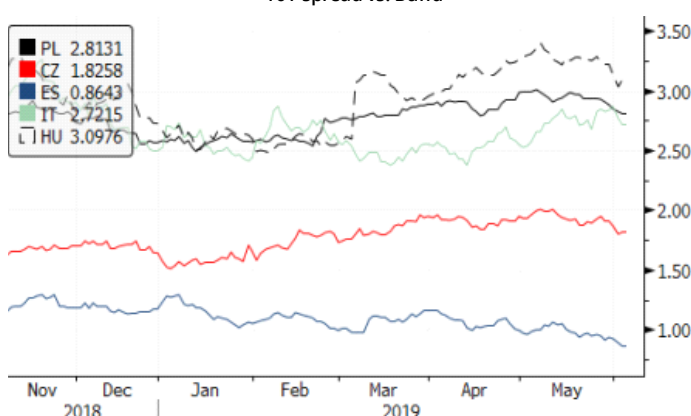
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (31 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.1	-	-2.0	-0.2
09:00	CZ	GDP SA	1Q	% y/y	2.5	-	2.6	2.5
09:00	HU	GDP	1Q	% y/y	5.3	-	5.3	5.3
10:00	PL	GDP	1Q	% y/y	-	4.6	4.7	4.6
14:00	DE	HICP	May	% m/m	0.3	-	0.3	1.0
14:30	US	Personal Spending	Apr	% m/m	0.2	-	0.3	0.9
14:30	US	Personal Income	Apr	% m/m	0.3	-	0.5	0.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-	0.3	0.2
16:00	US	Michigan index	May	pts	101.5	-	100.0	102.4
MONDAY (3 June)								
09:00	PL	Poland Manufacturing PMI	May	pts	49.0	49.4	48.8	49.0
09:55	DE	Germany Manufacturing PMI	May	pts	44.3	-	44.3	44.3
10:00	EZ	Eurozone Manufacturing PMI	May	pts	47.7	-	47.7	47.7
16:00	US	ISM manufacturing	May	pts	53.0	-	52.1	52.8
TUESDAY (4 June)								
10:00	PL	CPI	May	% y/y	2.4	2.4	2.3	2.2
11:00	EZ	Flash HICP	May	% y/y	1.3	-	1,2	1.7
11:00	EZ	Unemployment Rate	Apr	%	7.7	-	7,6	7.7
16:00	US	Durable Goods Orders	Apr	% m/m	0.0	-	-2,1	-2.1
16:00	US	Factory Orders	Apr	% m/m	-1.0	-	-0,8	1.3
WEDNESDAY (5 June)								
	PL	MPC decision		%	1.50	1.50		1.50
03:45	CN	Caixin China PMI Services	May	pts	54.0	-	52.7	54.5
09:55	DE	Markit Germany Services PMI	May	pts	55.0	-		55.0
10:00	EZ	Eurozone Services PMI	May	pts	52.5	-		52.5
11:00	EZ	Retail Sales	Apr	% m/m	-0.5	-		0.0
14:15	US	ADP report	May	k	185	-		275
16:00	US	ISM services	May	pts	55.4	-		55.5
THURSDAY (6 June)								
08:00	DE	Factory Orders	Apr	% m/m	0.0	-		0.6
09:00	CZ	Industrial Production	Apr	% y/y	2.7	-		0.1
09:00	HU	Industrial Production SA	Apr	% y/y	6.7	-		8.0
11:00	EZ	GDP SA	1Q	% y/y	1.2	-		1.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	215	-		215
FRIDAY (7 June)								
08:00	DE	Exports SA	Apr	% m/m	-0.9	-		1.6
08:00	DE	Industrial Production SA	Apr	% m/m	-0.5	-		0.5
09:00	HU	CPI	May	% y/y	3.8	-		3.9
14:30	US	Change in Nonfarm Payrolls	May	k	185	-		263
14:30	US	Unemployment Rate	May	%	3.6	-		3.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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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>.