17 June 2019

Eyeopener

Week with central banks

Positive data from USA, but growth worries remain
Polish May CPI eventually at 2.4%
EURPLN stable, EURUSD down
Polish bonds still gain
Today Polish core inflation, start of Sintra conference

On Friday the global moods deteriorated somewhat and this may have been due to recent comments of the US president or to profit-taking after last strengthening of risky assets. As a result, stock market indices went down and this supported bonds. The debt market was not vulnerable to better-than-expected US data on retail sales and industrial output. Stronger readings supported the dollar and this weighed somewhat on the emerging market currencies.

Final May CPI reading was 2.4% y/y vs the flash estimate of 2.3% and after April's 2.2%. The details of CPI confirmed our call that there was a one-off distortion in transport services prices, most likely due to the Easter and ahead of Polish holidays in early May – strong enough to affect the headline print. This category now saw prices falling by 22.1% m/m, which is why our estimate of core inflation suggests a pause at 1.7% y/y in the upward trend seen so far this year. It also made the overall services inflation decline from 3.6% to 3.3%, while goods price growth continued to rise, from 1.7% y/y to 2.0%. We forecast that inflation might soon reach the 2.5% target and to rise towards 3% by the end of the year. The path next year will depend on the transmission of higher energy prices for medium and large enterprises from 2H19 to consumer prices. **Jerzy Osiatyński** – a moderate MPC member, commented after the May CPI release that a rate hike should be considered in 2020 (in line with his previous remarks). **Eugeniusz Gatnar** said today in an interview with PAP that the higher CPI path is likely to encourage him to file a hike motion in autumn 2019. The MPC member is expecting CPI at 3% and core inflation at 2% at the year-end.

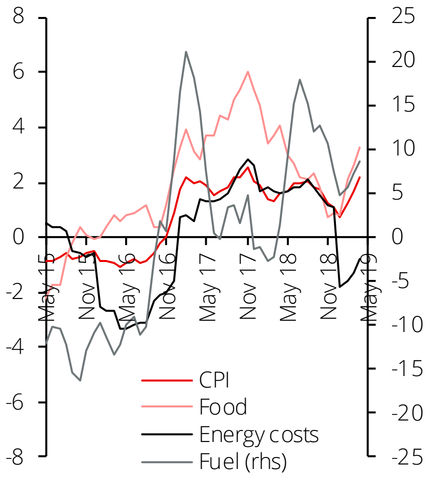
EURUSD slid to 1.123 on the Friday afternoon in reaction to better-than-expected US data. The dollar ended the week with a slight gain versus the euro and managed to trim a half of the losses it suffered versus the single currency last week. There are no important data on the agenda today, so EURUSD is likely to stabilise ahead of the FOMC decision.

EURPLN was hovering around 4.254 and only temporarily fell to 4.251. On the other hand, USDPLN rebounded to 3.79 from 3.77 due to impact of lower EURUSD. The forint, the koruna and the ruble were gradually appreciating. Only the forint failed to stick to its gains - EURHUF went up to 322 recorded at the opening.

Domestic bond yields and IRS were falling at a similar scale as on Thursday (even by 7bps on the longer end of the curve). Polish debt gave away a half of its gains but was still doing better than Bunds and UST.

The trade wars issue is likely to be still highlighted in comments of global political leaders and concerns about the global growth should stay alive **in the upcoming time**. Higher uncertainty and risks for the economic activity are likely to be reflected in the statement from the FOMC meeting and in its new GDP and CPI forecasts. Today the ECB Forum on Central Banking starts in Sintra, this week also Bank of England and Bank of Japan have their meetings scheduled. Among the upcoming data, the flash June euro zone and German PMIs should be the most interesting. In Poland: today core inflation, later labour market data and industrial output. We think that persistent tensions related to the global economic growth would make the market still price-in Fed rate cuts and this should allow EURPLN to go further slightly down in the short term. This trend could be reversed by the release of the European PMIs. In our view, the IRS and yields downtrend should continue in the next two weeks. The move should be fuelled not by the macro data but by the next fronts of the trade war that could be opened by the US administration. Polish debt could be supported by the budget data and likely dovish tone during the FOMC post-meeting press conference, as well as euro zone sentiment indicators.

Selected inflation components, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2562	CZKPLN	0.1667
USDPLN	3.7979	HUFPLN*	1.3204
EURUSD	1.1207	RUBPLN	0.0590
CHFPLN	3.7991	NOKPLN	0.4357
GBPPLN	4.7787	DKKPLN	0.5700
USDCNY	6.9242	SEKPLN	0.4000

*for 100HUF

Last session in the FX market 14/06/2019

	min	max	open	close	fixing
EURPLN	4.253	4.259	4.255	4.257	4.2554
USDPLN	3.768	3.800	3.774	3.797	3.7727
EURUSD	1.120	1.129	1.128	1.121	-

Interest rate market 14/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.55	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.95	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.39	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.72	0	2.08	-2	-0.30	-1
2L	1.74	0	1.86	-3	-0.32	-1
3L	1.74	-2	1.79	-4	-0.30	-1
4L	1.78	-2	1.79	-4	-0.24	-1
5L	1.82	-2	1.81	-4	-0.17	-1
8L	1.97	-3	1.93	-4	0.09	-1
10L	2.07	-4	2.01	-5	0.26	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.57	1
T/N	1.57	1
SW	1.57	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	1.71	0
6x9	1.71	0
9x12	1.68	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

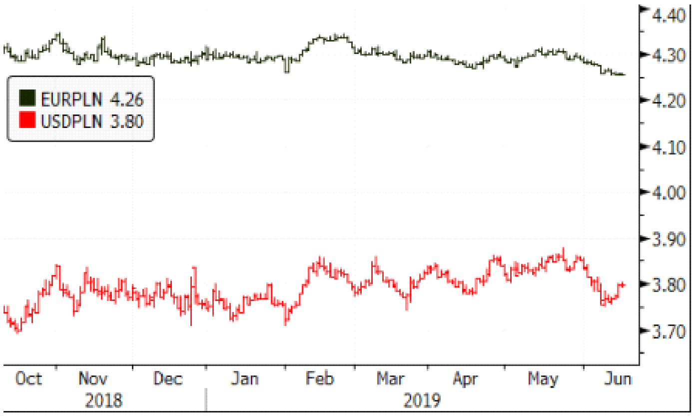
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland			2.64	-5
France	28	-1	0.35	0
Hungary			3.00	-4
Spain	40	2	0.75	0
Italy	217	-2	2.56	-4
Portugal	48	1	0.86	-1
Ireland	29	2	0.55	-1
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

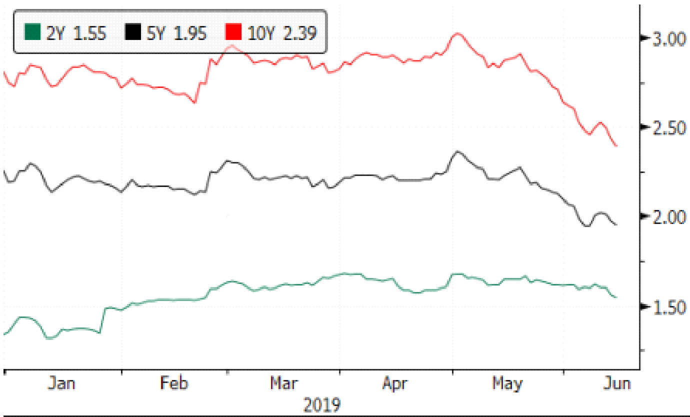
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

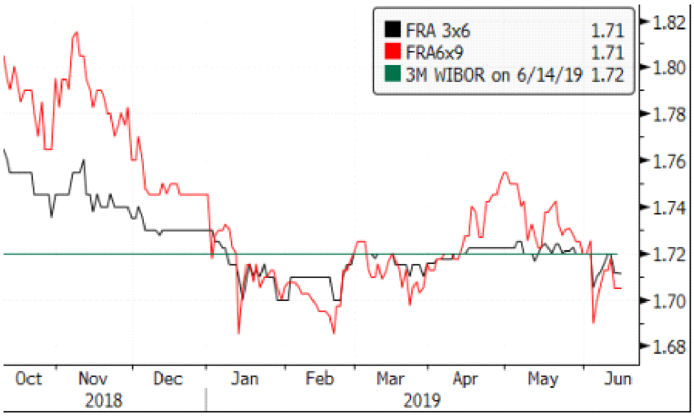
Zloty exchange rate



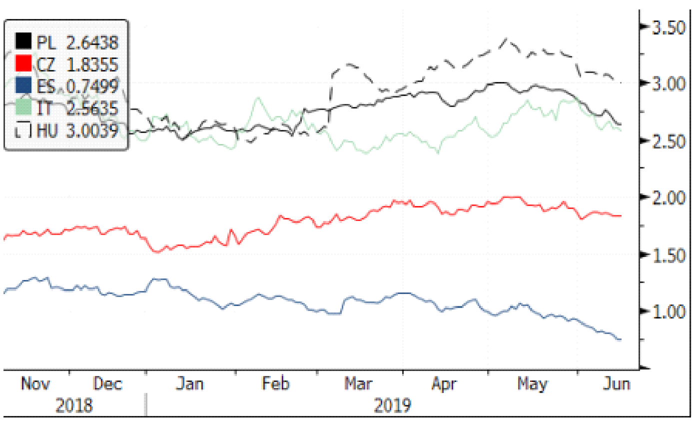
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
FRIDAY (14 June)								
10:00	**PL**	**CPI**	**May**	**% y/y**	**2.3**	**2.3**	**2.4**	**2.3**
14:30	US	Retail Sales Advance	May	% m/m	0.6	-	0.5	-0.3
15:15	US	Industrial Production	May	% m/m	0.2	-	0.4	-0.4
16:00	US	Michigan index	Jun	pts	98.0	-	97.9	100.0
MONDAY (17 June)								
14:00	**PL**	**CPI Core**	**May**	**% y/y**	**1.7**	**1.7**	**-**	**1.7**
TUESDAY (18 June)								
11:00	EZ	HICP	May	% y/y	1.2	-		1.2
11:00	DE	ZEW Survey Current Situation	Jun	pts	7.0	-		8.2
14:30	US	Housing Starts	May	% m/m	0.4	-		5.7
WEDNESDAY (19 June)								
10:00	**PL**	**Employment in corporate sector**	**May**	**% y/y**	**3.0**	**3.0**	**-**	**2.9**
10:00	**PL**	**Average Gross Wages**	**May**	**% y/y**	**7.2**	**7.0**	**-**	**7.1**
20:00	US	FOMC decision		%	2.5	-	-	2.5
THURSDAY (20 June)								
14:30	US	Initial Jobless Claims	week	k	220	-		222
14:30	US	Index Philly Fed	Jun	pts	10.5	-		16.6
FRIDAY (21 June)								
09:30	DE	Flash Germany Manufacturing PMI	Jun	pts	44.6	-		44.3
09:30	DE	Flash Markit Germany Services PMI	Jun	pts	55.2	-		55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Jun	pts	48.0	-		47.7
10:00	EZ	Flash Eurozone Services PMI	Jun	pts	53.0	-		52.9
10:00	**PL**	**Sold Industrial Output**	**May**	**% y/y**	**7.8**	**8.7**		**9.2**
10:00	**PL**	**PPI**	**May**	**% y/y**	**1.6**	**1.5**		**2.6**
16:00	US	Existing Home Sales	May	% m/m	2.12	-		-0.38

Source: Santander Bank Polska. Bloomberg, Parkiet
** in case of the revision the data is updated*