

16 July 2019

Eyeopener

Prices of food and services boosting inflation

Positive moods at the start of the week

Inflation accelerating, exports and imports surprised positively

Zloty supported by Hardt's comment, EURUSD stable

Bond yields in Poland and abroad lower again

Today, core inflation in Poland, US retail sales and industrial output

At the beginning of the week, market sentiment was quite positive. Stock indices were rising, bond yields started declining again, while currencies fluctuations were rather mild. Beside morning publications from China we did not see any key information from abroad, although there are some news from the domestic market.

CPI inflation rose in June to 2.6% y/y, in line with the flash estimate, and for the first time in seven years it exceeded inflation target. The growth was only partly driven by prices of food (5.7% y/y). Equally important was the upward trend in **core inflation**, which according to our estimate reached 1.9% (official NBP data will be out today at 14:00). The surge in core inflation is fuelled mainly by services prices, which accelerated to 3.9% y/y. We stick to our view that inflation will continue climbing in the coming quarters faster than the central bank predicts. CPI may stabilise during summer months, but it will near 3% y/y in December 2019 and may reach even 4% in January 2020. For the most hawkish MPC members it would be more than enough to file in motions about rate hikes (which was confirmed yesterday by MPC's Hardt). However, we think that the majority of the MPC will stick to NBP President's view that the higher inflation will be temporary and should be looked through, especially in the environment of slowing global economy and more dovish Fed and ECB.

Poland's current account reached EUR1bn surplus in May, almost twice as much as expected. Both exports and imports beat expectations, showing a clear revival to 13.3% y/y and 11.2% y/y, respectively. The rolling 12M current account balance reached almost zero. The data suggest that resilience of Polish economy to worsening global environment continues. The strength of export growth is especially noteworthy, as it not only decoupled from the trend in German exports but also clearly outperformed Polish manufacturing output (which saw slight deceleration in May). Services balance has also improved, to EUR2.1bn. Solid foreign trade data suggest that the net exports' contribution to GDP growth in 2Q19 could be better than we expected, so GDP growth slowdown (from 4.7% y/y in 1Q19) could be barely noticeable. However, we still think that such impressive performance will be hard to maintain for much longer and the trade balance will deteriorate later this year (contraction in European manufacturing will finally start hurting Polish exports while strong domestic demand will fuel imports).

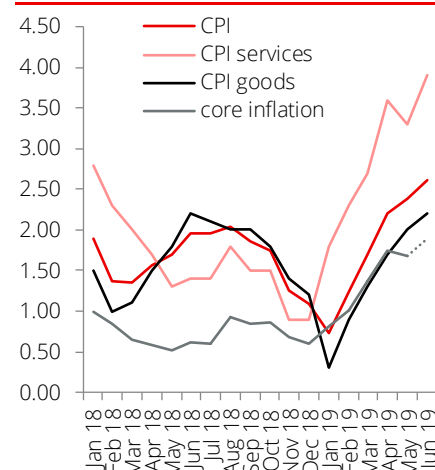
NBP's report on business climate showed that companies are less optimistic as regards the future despite positive current conditions and decent demand (mainly from abroad). Tensions on the labour market seem to abate, just like the price pressure. Companies reported also that their investment activity could fade gradually.

EURUSD fluctuated yesterday around 1.127, near to Friday closing. The changes were rather small, because of the lack of key global data releases at the beginning of the week. Today in the afternoon we will see US data – retail sales and manufacturing output. Market is convinced that in July the Fed will cut rates by 25bp and today's data in our view should not change those views. Since Thursday EURUSD is fluctuating in a narrow range between 1.124-1.128 and after US data publications it may near one of those levels.

EURPLN recorded yesterday the biggest one-session drop since the start of July, declining to 4.26 from 4.27. USDPLN trimmed below 3.78. Other CEE currencies were more stable (beside ruble, which benefited from the oil price growth) so it seems that Monday zloty's gain was caused by hawkish MPC member's comment. We still think that EURPLN will not resume its downward trend anytime soon and will not go below this year's minimum.

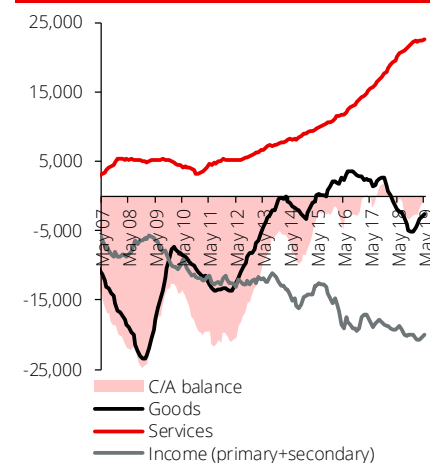
On the **domestic interest rate market** IRS and bond yields fell by 1-5bp, the most on the long end. Polish debt outperformed yesterday Treasuries and Bunds and followed the euro zone peripheries closely. The Polish market did not respond to the Polish CPI data and the same should be after today's core inflation release (our forecast is in line with the consensus). The "dovish" global environment and MPC rhetoric are likely to neutralize data showing further rise of inflation.

Inflation and its selected components (% y/y)



Source: GUS, NBP, Santander

Balance of payments: main components (12M moving sum, EURm)



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2609	CZKPLN	0.1664
USDPLN	3.7852	HUFPLN*	1.3097
EURUSD	1.1257	RUBPLN	0.0604
CHFPLN	3.8441	NOKPLN	0.4431
GBPPLN	4.7339	DKKPLN	0.5706
USDCNY	6.8755	SEKPLN	0.4044

*for 100HUF

Last session in the FX market 15/07/2019

	min	max	open	close	fixing
EURPLN	4.260	4.278	4.270	4.261	4.2673
USDPLN	3.778	3.793	3.790	3.784	3.7856
EURUSD	1.125	1.128	1.127	1.126	-

Interest rate market 15/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.88	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.27	-3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.05	-1	-0.39	-1
2L	1.74	-1	1.87	-1	-0.41	-1
3L	1.75	-1	1.82	-2	-0.37	-2
4L	1.78	-2	1.81	-2	-0.30	-2
5L	1.83	-2	1.83	-3	-0.23	-3
8L	1.98	-2	1.95	-3	0.03	-3
10L	2.05	-3	2.03	-3	0.20	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.60	5
T/N	1.60	5
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	1.71	0
9x12	1.69	0
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

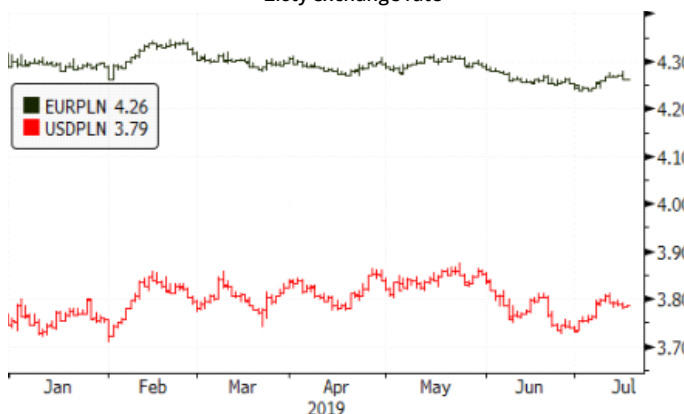
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.52	-4
France	22	1	0.26	0
Hungary			2.69	-1
Spain	40	1	0.76	0
Italy	164	-6	1.90	0
Portugal	39	1	0.84	0
Ireland	28	-1	0.45	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

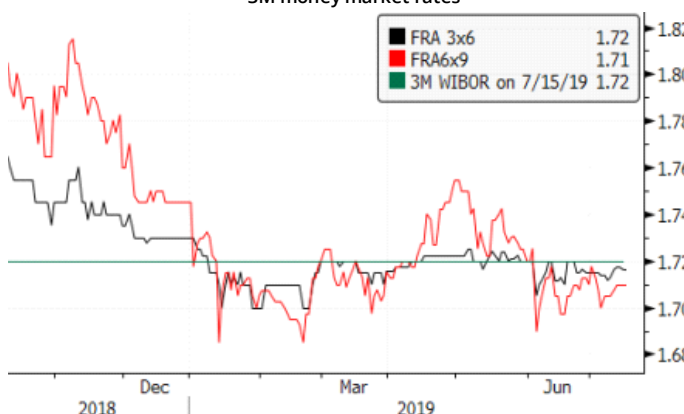
Zloty exchange rate



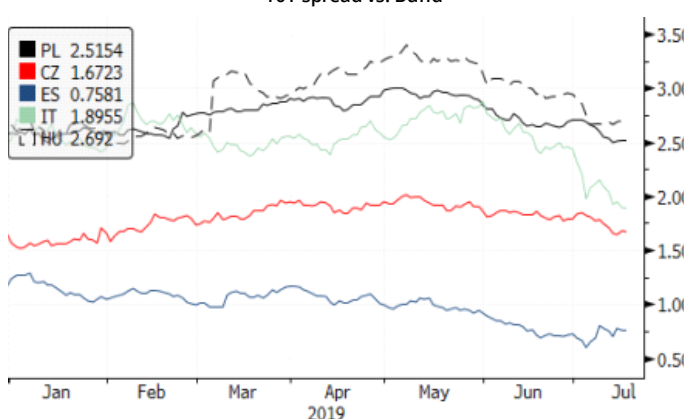
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (12 July)								
11:00	EZ	Industrial Production SA	May	% m/m	0.2	-	0.9	-0.4
MONDAY (15 July)								
10:00	PL	CPI	Jun	% y/y	2.6	2.6	2.6	2.6
14:00	PL	Current Account Balance	May	€mn	390	548	1 006	720
14:00	PL	Trade Balance	May	€mn	167	-238	96	279
14:00	PL	Exports	May	€mn	19 167	19 082	19 703	19 411
14:00	PL	Imports	May	€mn	19 300	19 320	19 607	19 132
TUESDAY (16 July)								
11:00	DE	ZEW Survey Current Situation	Jul	pts	5.0	-		7.8
14:00	PL	CPI Core	Jun	% y/y	1.9	1.9**		1.7
14:30	US	Retail Sales Advance	Jun	% m/m	0.2	-		0.5
15:15	US	Industrial Production	Jun	% m/m	0.1	-		0.37
WEDNESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.7	2.6		2.7
10:00	PL	Average gross wages	Jun	% y/y	7.1	7.0		7.7
11:00	EZ	HICP	Jun	% y/y	0.0	-		1.2
14:30	US	Housing Starts	Jun	% m/m	-0.7	-		-0.9
14:30	US	Building permits	Jun	% m/m	0.1	-		0.7
20:00	US	Fed's Beige Book						
THURSDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	4.2	0.2		7.7
10:00	PL	PPI	Jun	% y/y	0.8	0.7		1.4
14:30	US	Initial Jobless Claims	week	k	-	-		209
14:30	US	Index Philly Fed	Jul	pts	5.0	-		0.3
FRIDAY (19 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	3.9	3.6		5.6
16:00	US	Michigan index	Jul	pts	98.3	-		98.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated **estimate after CPI data

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