

17 July 2019

Eyeopener

Core inflation highest in 7 years

Weak data from Germany and not bad from USA
 Core inflation rose, as expected
 Zloty slightly stronger, EURUSD lower
 Bond yields without major change
 Today, domestic labour market data, Eurozone inflation, US housing market data

The US and German data influenced the course of the Tuesday session - especially the currency market and to some extent also interest rates. German ZEW index disappointed strongly in June - the subindex of the current situation declined below April minimum (which was supposed to be a good point to rebound) and is at the lowest level since June 2010. The expectation subindex also fell, but managed to stay above the July 2018 minimum. Those data pressed euro negatively, and in the afternoon another impulse to further EURUSD loss were better-than-expected data on US June retail sales. Good US readings triggered slight weakening of Bund and more notable of Treasuries at the end of the day.

As expected, **core inflation** excluding food and energy prices rose in June to 1.9% y/y from 1.7% y/y. Core CPI reached its highest level since late 2012 and we expect it to climb further in the months to come, to clearly above the 2.5% inflation target at the year-end. Two out of the remaining three core inflation measures also rose. CPI excluding administrative prices rose to 2.8% y/y from 2.5% (its highest since October 2012) and excluding the most volatile prices to 2.1% y/y from 1.9% y/y (its highest since December 2012). Like we wrote after the CPI data release, the majority of the MPC seems to be of the opinion that there is no need to respond to the further rise of inflation since they expect the spike to be temporary. The most hawkish MPC members could become more active as inflation goes up but we think they will not manage to form a majority for a rate hike, particularly when abroad central banks will be in the easing mode.

The government accepted a draft bill reducing the lowest personal income tax rate from 18% to 17% and raising tax deductible expenses. The changes should be effective since October 1st. The cost of those reforms will total PLN9.7bn in the full year.

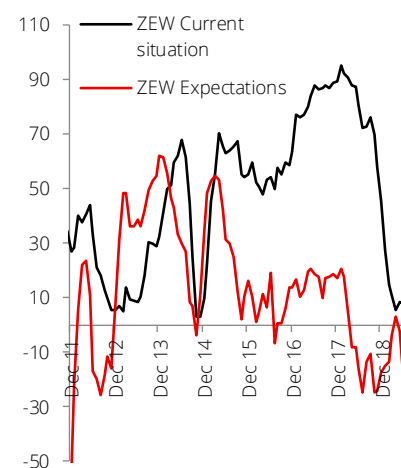
EURUSD declined the second day in a row and at the end of the domestic session was near to 1.12, and a bit above July minimum - 1.119. The US data had the biggest impact on Tuesday session course, and today it might look similar - in the afternoon we will see US data on housing market and in the evening the Fed Beige Book will be published.

EURPLN eased to 4.253 amid rising stock indexes in Europe but at the end of the day the zloty gave up part of the gains when the dollar appreciation vs the euro accelerated. EURUSD drop pushed USDPLN up to 3.80 from slightly above 3.78. In case of the other CEE currencies, the ruble and forint lost while the koruna remained fairly stable. Today in the morning, EURPLN is close to 4.26 and we expect the exchange rate could stabilize around this level. Polish labour market data should be market-neutral.

On the **domestic interest rate market** IRS and bond yields ended the day near the Monday's closing levels - the IRS curve moved 1-2bp up and the bond curve stayed flat on daily basis - but the intraday volatility was higher than in the previous days. Yesterday, Polish debt was driven by changes on the core debt market where swings were also quite noticeable. All in all, the 10Y Bund yield did not change much on daily basis, the UST lost while the euro zone peripheries gained.

Today at 10:00CET the stat office will release June wages and employment change in the corporate sector. We expect the labour market data to provide more evidence that the situation is getting tighter - with pace of employment growth slowing further and the pace of the wage rise holding elevated.

German ZEW index (pt)



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2606	CZKPLN	0.1664
USDPLN	3.8015	HUFPLN*	1.3066
EURUSD	1.1208	RUBPLN	0.0604
CHFPLN	3.8480	NOKPLN	0.4428
GBPPLN	4.7149	DKKPLN	0.5706
USDCNY	6.8825	SEKPLN	0.4046

*for 100HUF

Last session in the FX market 16/07/2019

	min	max	open	close	fixing
EURPLN	4.255	4.263	4.261	4.258	4.2582
USDPLN	3.783	3.800	3.784	3.798	3.7867
EURUSD	1.121	1.126	1.126	1.121	-

Interest rate market 16/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.89	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.26	0	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.06	1	-0.40	-1
2L	1.75	1	1.89	2	-0.42	-1
3L	1.75	0	1.84	2	-0.38	-1
4L	1.79	1	1.84	3	-0.32	-1
5L	1.85	1	1.86	3	-0.24	-2
8L	1.99	2	1.98	3	0.01	-2
10L	2.07	2	2.06	3	0.18	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.64	4
T/N	1.64	4
SW	1.60	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

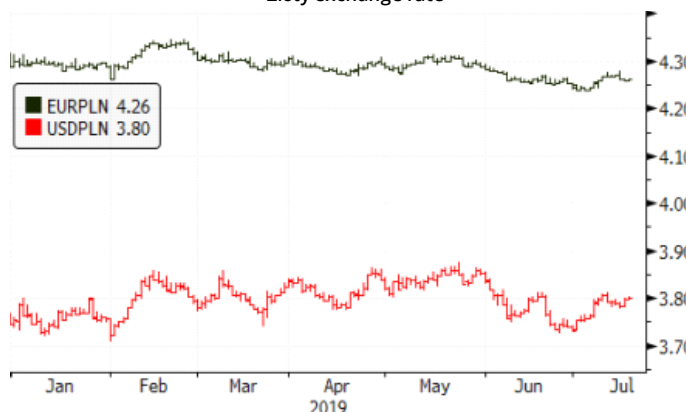
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.54	2
France	23	0	0.25	0
Hungary			2.69	3
Spain	40	-2	0.74	0
Italy	158	-6	1.86	1
Portugal	40	-1	0.80	1
Ireland	28	0	0.43	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

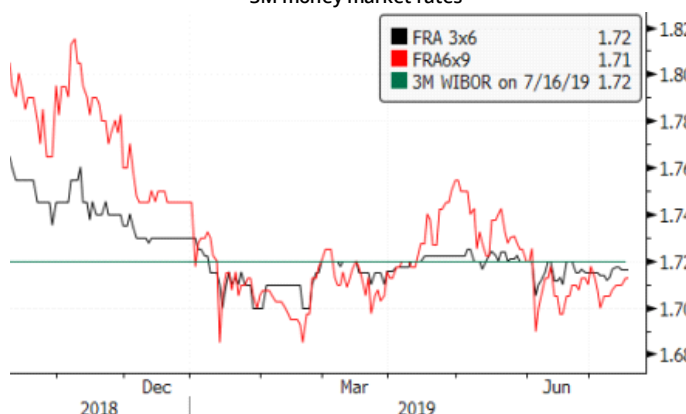
Zloty exchange rate



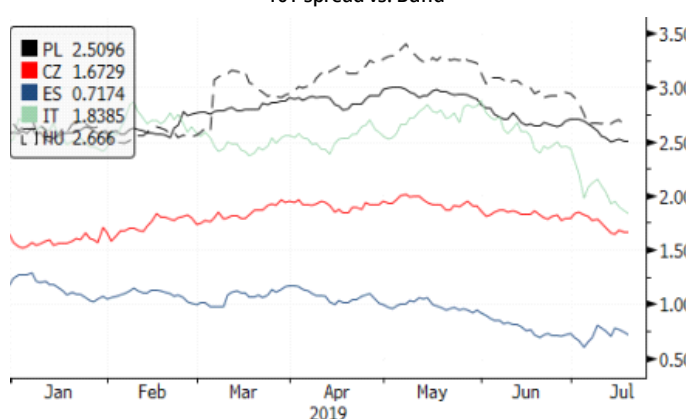
T-bonds yields



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	-	-1.1	7.8
14:00	PL	CPI Core	Jun	% y/y	1.9	1.9**	1.9	1.7
14:30	US	Retail Sales Advance	Jun	% m/m	0.2	-	0.4	0.4
15:15	US	Industrial Production	Jun	% m/m	0.1	-	0.0	0.4
WEDNESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.6	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	1.2	-		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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