

16 September 2019

Eyeopener

Oil reacts to attack

Attack in Saudi Arabia may weigh on market sentiment
 August inflation higher than flash estimate
 Domestic and core market yields up
 Today Polish core inflation

On Friday, the mood on global markets was positive – stock indices slightly rose, EM currencies strengthened while yields both on the core as well as emerging markets rose. The moves at least partially resulted from decent US macroeconomic data as both the retail sales and University of Michigan sentiment indices increased. However the Saturday drone attack on the Saudi Arabian oil facilities (output down by 5.7 mbpd – around 5% of world production) has significantly changed the mood on the markets: oil futures (WTI and Brent) initially rose by 15% and 19% respectively. On Monday those moves partially reversed on the open (WTI and Brent corrected by 5% and 7% to US\$60/b and US\$65.5/b respectively). Other asset classes have not responded so far as the markets try to estimate how long it will take to repair the facility, get the full production back to market and if and when will there be a counterstrike from the SA allies (in particular the US blames Iran for the attack). We might see higher volatility in the markets today.

CPI inflation in August was revised to 2.9% y/y from 2.8% y/y, i.e. remained unchanged versus July. In our view the revision was actually insignificant, but enough to push the headline higher, as the flash was only a bit below the 2.8/2.9% tipping point. In our view mostly core categories were revised higher, with core inflation excluding food and energy prices most likely showing 2.1% y/y (vs 2.2% y/y in July). We are expecting both headline and core to climb further towards 4% and 3% at the start of 2020, respectively. Food inflation was confirmed at -0.3% m/m, i.e. the lowest decline of prices in this month in 20 years. This was mostly due to high momentum in fruit and vegetables prices, which usually fall strongly in summer, but this development was distorted by draughts. Another factors putting an upward pressure on CPI were communication (most probably higher prices of mobile phones and services) and restaurants/hotels. Goods inflation eased to 2.3% y/y from 2.4% y/y while services inflation accelerated to 4.3% y/y from 4.2% y/y. We are expecting inflation in services and food to be the main drivers of CPI in the months to come. At the start of 2020 also an additional pressure from energy prices is likely to appear.

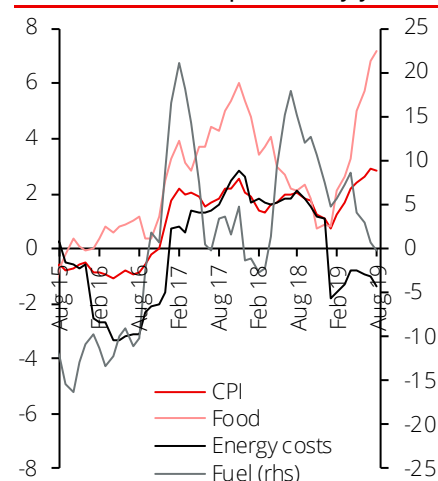
July C/A release for Poland surprised positively with the scale of economic activity. Exports of goods grew 8.8% y/y while 7.9% was expected, imports grew 9.5% vs 5.9% market expectations. As a result the trade balance at €-376mn was €€250mn worse than expectations. July C/A balance was €-814mn while market expected €€-300mn and our forecast was €-400mn. We consider the stronger-than-expected growth of exports and imports as more important than the negative surprise in balances. After all, 12M rolling C/A balance to GDP is now just -0.1% vs -0.5% in January 2019 and compared to almost -7% in late 2008 (at a similar stage of that the business cycle). The relatively strong international trade turnover suggests Poland remains resilient to European slowdown (whiel the realtively weak intermediate goods output in July made us worry that the resilience is wearing off).

EURUSD was pretty stable on Friday as it opened and closed around 1.107, the daily peak was at 1.11. **EURPLN** rose to 4.34 soon after it started the session at 4.336 but later in the day was falling and reached 4.318. Today the exchange rate is PLN0.01 higher. USDPLN close the Friday's session at 3.90 (-PLN0.02), CHFPLN at 3.945 (-PLN0.015). Even the forint gained – EURHUF eased to 331 from 332.7 – but we think this would be only a correction. EURCZK remained stable around 25.85 while USDRUB fell slightly to 64.3. We expect the ruble could gain amid events in Saudi Arabia.

On the Polish interest rate market bond yields were on the rise together with the core debt (UST +10bp to 1.86% after a positive data). Polish 10Y bonds closed at 2.13% (+11bp) and the respective IRS at 1.83% (+11bp); the asset swap spread was pretty stable. German 10Y bond yields rose 8bp and closed at -0.45% and so the PL-DE bond yield spread widened by 3bp.

Today at 14:00CET the NBP will release August core CPI. We expected a mild deceleration to 2.1% y/y.

Selected inflation components, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3287	CZKPLN	0.1674
USDPLN	3.9106	HUFPLN*	1.3053
EURUSD	1.1069	RUBPLN	0.0613
CHFPLN	3.9555	NOKPLN	0.4377
GBPPLN	4.8747	DKKPLN	0.5797
USDCNY	7.0683	SEKPLN	0.4066

*for 100HUF

Last session in the FX market 13/09/2019

	min	max	open	close	fixing
EURPLN	4.317	4.342	4.336	4.323	4.3396
USDPLN	3.895	3.923	3.918	3.905	3.912
EURUSD	1.106	1.111	1.107	1.107	-

Interest rate market 13/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.54	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.90	11	21 mar 19	PS0424	2.209
DS1029 (10L)	2.14	13	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	1.73	2	1.89	3	-0.43	4
2L	1.78	6	1.79	8	-0.44	7
3L	1.77	7	1.62	6	-0.42	1
4L	1.78	9	1.59	6	-0.41	7
5L	1.80	11	1.69	11	-0.38	7
8L	1.82	12	1.73	11	-0.21	6
10L	1.84	12	1.79	12	-0.08	5

WIBOR rates

Term	%	Change (bps)
O/N	1.65	0
T/N	1.65	0
SW	1.60	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	1
6x9	1.70	2
9x12	1.69	4
3x9	1.79	1
6x12	1.78	2

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.59 6
France	20 0	0.28 0
Hungary		2.53 -2
Spain	38 1	0.75 1
Italy	129 -8	1.33 -5
Portugal	41 1	0.77 2
Ireland	28 1	0.52 -3
Germany	10 1	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

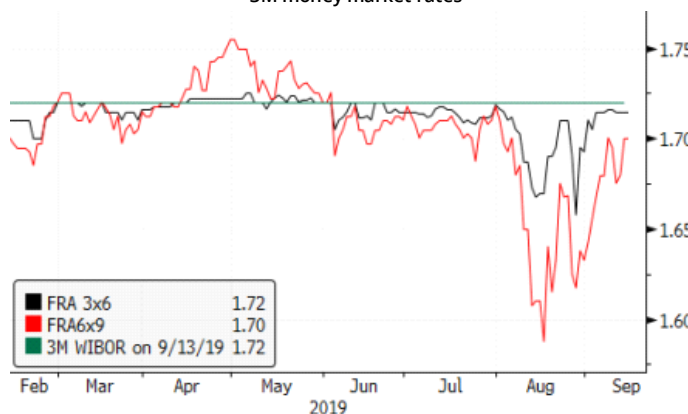
Zloty exchange rate



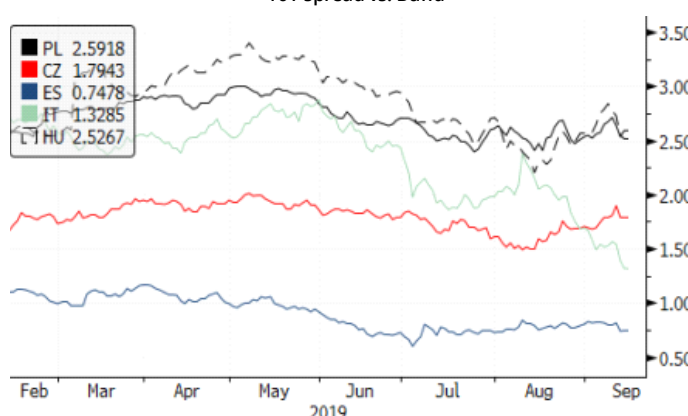
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

ECONOMIC CALENDAR					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (13 September)								
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.9	2.8
14:00	PL	Current Account Balance	Jul	€mn	-295	-401	-814	21
14:00	PL	Trade Balance	Jul	€mn	-111	-14	-376	-77
14:00	PL	Exports	Jul	€mn	19077	18845	19239	18068
14:00	PL	Imports	Jul	€mn	18966	18859	19615	18145
14:30	US	Retail Sales Advance	Aug	% m/m	0.2		0.4	0.7
16:00	US	Michigan index	Sep	pts	90.8		92.0	89.8
MONDAY (16 September)								
14:00	PL	CPI Core	Aug	% y/y	2.1	2.1	-	2.2
TUESDAY (17 September)								
11:00	DE	ZEW Survey Current Situation	Sep	pts	-13.0		-	-13.5
15:15	US	Industrial Production	Aug	% m/m	0.2		-	-0.22
WEDNESDAY (18 September)								
10:00	PL	Employment in corporate sector	Aug	% y/y	2.7	2.72	-	2.7
10:00	PL	Average Gross Wages	Aug	% y/y	6.75	6.73	-	7.4
11:00	EZ	HICP	Aug	% y/y	1.0		-	1.0
14:30	US	Housing Starts	Aug	% m/m	4.95		-	-4.0
20:00	US	FOMC decision	Sep.19		2.0		-	2.25
THURSDAY (19 September)								
10:00	PL	Sold Industrial Output	Aug	% y/y	1.25	0.9	-	5.8
10:00	PL	PPI	Aug	% y/y	0.8	0.95	-	0.6
14:30	US	Initial Jobless Claims	Sep.19	k	215.0		-	204.0
14:30	US	Index Philly Fed	Sep		10.75		-	16.8
16:00	US	Existing Home Sales	Aug	% m/m	-0.56		-	2.46
FRIDAY (20 September)								
10:00	PL	Retail Sales Real	Aug	% y/y	5.2	4.36	-	5.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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