

2 October 2019

Eyeopener

Poland CPI down only for a while

US manufacturing ISM lowest for 10 years
 Polish inflation down only for a moment
 Zloty and bonds without big changes
 Today MPC decision and ADP report

On Tuesday, despite a holiday in China, the day was full of interesting events. The first one was an unsuccessful auction of Japanese bonds. Higher yields from Japan infected bonds on the other developed markets. What is more, after the publication of final manufacturing PMIs for the euro zone – which were slightly better than the dramatically weak flash estimates – the German yield curve moved higher by c5bp. Polish debt copied the move despite lower-than-expected inflation and cancellation of an auction planned for tomorrow (these factors should theoretically support the local debt market). The event of the day was the lowest reading of industrial ISM in the USA in ten years, which triggered a sharp demand for US bonds and hit the dollar.

Polish inflation eased in September to 2.6% from 2.9% y/y, as we expected, due to non-core elements. At the same time our estimates show that core inflation resumed its up trend in September, to 2.3-2.4%, after holding at 2.2% in July and August. There was a substantial decline of vegetable prices in September, which drove the whole food category to -0.2% m/m. Fuel prices kept going down for the third month, in September by 1.8% m/m. We continue to expect that headline CPI and core inflation will push higher in the coming months, both to above 3% y/y, and in early 2020 CPI inflation could go above 4% y/y.

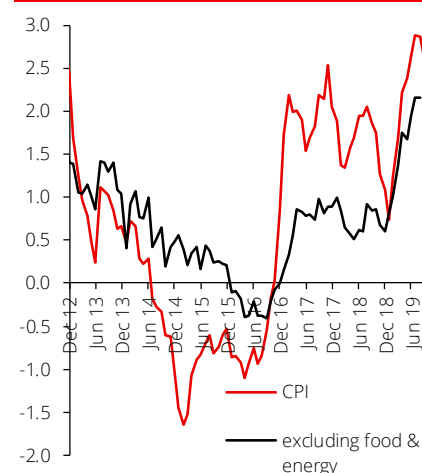
In the first hours of European trading on Tuesday **EURUSD** managed to print this year's low at 1.088, but after much weaker than expected US ISM manufacturing it bounced to 1.094. As a result, yesterday's up move was the biggest since mid-September. Today's EURUSD price action might also be volatile due to US labor market report ADP due in the afternoon.

On Tuesday **EURPLN** opened near 4.37 and remained stable throughout most of the day, however started to move higher in the final hours of Polish trading. EURHUF moved in a similar fashion having closed at 335.1 but earlier trading at 334.2. EURCZK moved lower to 25.743 whereas USDRUB increased to 65.2. At the beginning of today's session the sentiment is slightly weak which might put zloty under pressure.

On the Polish fixed income market yields of both bonds and swaps increased despite lower than expected inflation. 10Y Polish benchmark yield rose to 2.03% during the day after European final PMIs turned out to be not that weak as flash PMIs suggested. 10Y swaps reached 1.71% after trading at day's high at 1.73%. After weak US ISM data local markets started to follow falling core market yields where 10Y UST fell to 1.62% from 1.73%. As a result a decent part of the previous move has been reversed and 10Y Polgbs closed near the psychologically important level 2.0%. 10Y spread vs Bund trade at 256bp while 10Y asset swap narrowed by 2bp to 32bp.

Today MPC is likely to leave rates unchanged. Minutes from September's meeting revealed the motion to cut rates, after the hike was voted in July. But we do not think that it reflects a major shift in MPC's attitude. Rate cut was probably proposed by ultra-dovish E. Łon and had as small support as the July's rate hike motion. E. Gatnar signalled earlier he was not going to repeat tightening proposals until November. In the following months the Council will probably discuss both rate hikes and rate cuts but the baseline scenario still assumes monetary policy stability at least until the end of next year.

Poland CPI (% y/y)



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3789	CZKPLN	0.1698
USDPLN	4.0077	HUFPLN*	1.3051
EURUSD	1.0926	RUBPLN	0.0613
CHFPLN	4.0286	NOKPLN	0.4387
GBPPLN	4.9136	DKKPLN	0.5866
USDCNY	7.1483	SEKPLN	0.4057

*for 100HUF

Last session in the FX market 01/10/2019

	min	max	open	close	fixing
EURPLN	4.367	4.385	4.371	4.382	4.3734
USDPLN	4.005	4.025	4.009	4.006	4.0147
EURUSD	1.088	1.094	1.090	1.094	-

Interest rate market 01/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.50	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.77	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	1	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	1.71	1	1.78	-4	-0.43	0
2L	1.72	0	1.58	-5	-0.45	0
3L	1.68	1	1.50	-5	-0.45	0
4L	1.67	2	1.47	-5	-0.43	0
5L	1.68	3	1.46	-5	-0.41	0
8L	1.68	3	1.50	-4	-0.26	0
10L	1.69	3	1.54	-4	-0.15	0

WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
T/N	1.56	0
SW	1.59	0
2W	1.60	0
1M	1.63	0
3M	1.72	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	0
6x9	1.69	1
9x12	1.66	1
3x9	1.77	0
6x12	1.75	0

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.55 -1
France	20 0	0.30 0
Hungary		2.53 -3
Spain	40 -1	0.70 -1
Italy	132 -2	1.41 -1
Portugal	42 -2	0.73 -1
Ireland	32 1	0.53 0
Germany	10 0	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

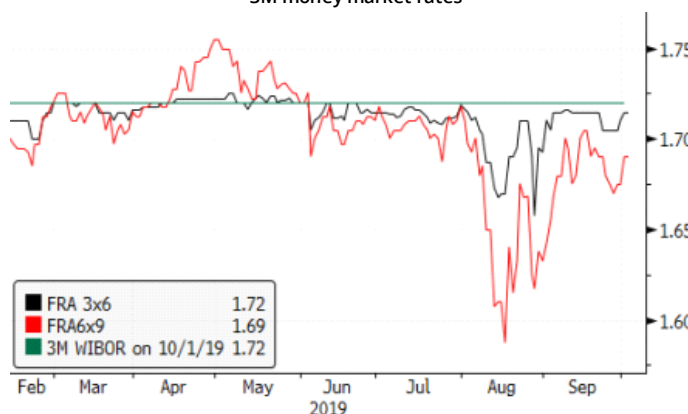
Zloty exchange rate



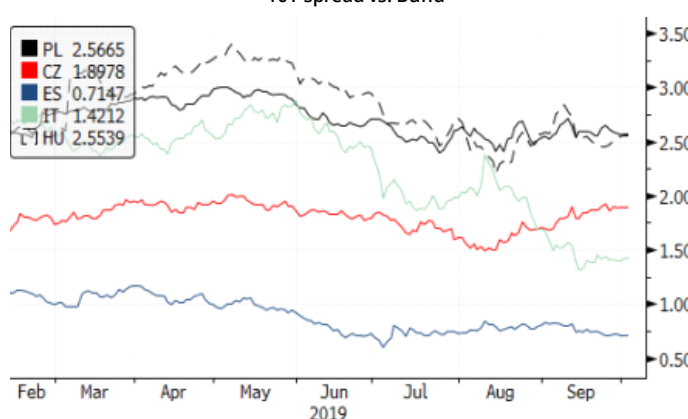
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (27 September)								
10:13	PL	Central Budget Cumul.	Aug	mn PLN	-	-	-1981.0	-4783.0
11:00	EZ	ESI	Sep	pct.	103.0	-	101.7	103.1
14:30	US	Durable Goods Orders	Aug	% m/m	-1.0	-	0.2	2.0
14:30	US	Personal Spending	Aug	% m/m	0.3	-	0.1	0.5
14:30	US	Personal Income	Aug	% m/m	0.4	-	0.4	0.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.1	-	0.0	0.2
16:00	US	Michigan index	Sep	pts	92.1	-	93.2	92.0
MONDAY (30 September)								
11:00	EZ	Unemployment Rate	Aug	%	7.5	-	7.4	7.5
14:00	DE	HICP	Sep	% m/m	0.0	-	-0.1	-0.1
TUESDAY (1 October)								
09:00	CZ	GDP SA	2Q	% y/y	2.7	-	2.8	2.7
09:00	PL	Poland Manufacturing PMI	Sep	pts	47.3	48.0	47.8	48.8
09:55	DE	Germany Manufacturing PMI	Sep	pts	41.4	-	41.7	41.4
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	45.6	-	45.7	45.6
10:00	PL	CPI	Sep	% y/y	2.7	2.6	2.6	2.9
11:00	EZ	Flash HICP	Sep	% y/y	1.0	-	0.9	1.0
16:00	US	ISM manufacturing	Sep	pts	50.0	-	47.8	49.1
WEDNESDAY (2 October)								
	PL	MPC decision		%	1.50	1.50		1.50
14:15	US	ADP report	Sep	k	137	-		195
THURSDAY (3 October)								
09:55	DE	Markit Germany Services PMI	Sep	pts	52.5	-		52.5
9:30	PL	ECJ verdict						
10:00	EZ	Eurozone Services PMI	Sep	pts	52.0	-		52.0
11:00	EZ	Retail Sales	Aug	% m/m	0.35	-		-0.6
14:30	US	Initial Jobless Claims	week	k	211	-		213
16:00	US	ISM services	Sep	pts	55.0	-		56.4
16:00	US	Factory Orders	Aug	% m/m	-0.5	-		1.4
FRIDAY (4 October)								
14:30	US	Change in Nonfarm Payrolls	Sep	k	140	-		130
14:30	US	Unemployment Rate	Sep	%	3.7	-		3.7

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

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