

17 October 2019

# Eyeopener

## Core inflation still climbing

Changing moods regarding chance for Brexit deal  
Core inflation on the rise, the peak is still ahead  
Zloty slightly stronger, bond yields higher  
Today Polish wage and employment, numerous US data

Wednesday was another calm trading day; developed equity markets ended the day with no major changes. In the USA, we got to see new results of companies, e.g. NY Mellon Bank, Bank of America, US Bancorp and Tradeweb and these were mostly better than expected. In line with our call, core bond yields climbed for the second day in a row, followed by Polish bond yields. The oil price did not change. Over the day, we saw major swings in hopes for reaching a Brexit deal this week already, and this affected the pound exchange rate. Eventually, the view that deal is unlikely at today's EU summit has dominated, but talks are still on, so we cannot rule out any scenario.

**Core inflation** excluding food and energy prices climbed to 2.4% in September from 2.2% in August, hitting the highest level in more than 7 years. In the upcoming months this measure should climb further and approach 3% y/y at the year-end, in our view. Core inflation excluding most volatile prices is also rising systematically, showing that the upward tendencies are broad-based. This gauge also reached 2.4% y/y, the highest level since November 2012. Two other core inflation gauges also fell, in line with the headline CPI. Core inflation is still driven by cost pressure experienced by the companies, which is transferred to consumers.

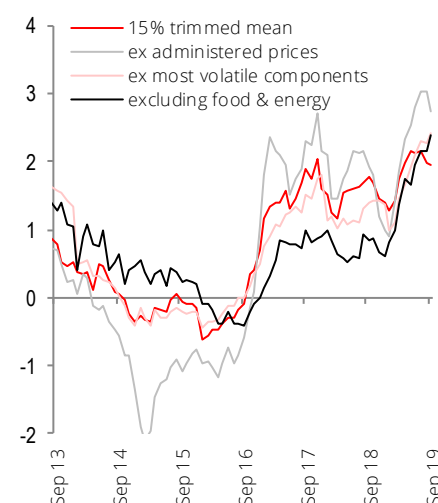
**EURUSD** rose to 1.107 from 1.103, partly thanks to the information that the Angela Merkel's CDU party is preparing a fiscal package in case of a deeper deceleration of the GDP growth.

**EURPLN** rose temporarily to 4.30 but at the end of the day the exchange rate was at 4.285 (0.2% lower) amid positive global market mood. USDPLN closed at 3.875, CHFPLN at 3.895. GBPPLN was pretty volatile in a wide range, reacting to the Brexit news, just like GBPUSD. Some of the other CEE currencies, like for example koruna, performed similar to the zloty as it gained 0.2% to 25.73 per euro after the September PPI showed rise to 1.9%, in line with expectations. The Hungarian forint lost c0.4% (EURHUF at 332.8) after the central bank deputy governor Marton Nagy said that low interest rates are now a new normal and that inflation would rather not return to higher levels seen in the previous years. The Russian ruble held stable vs the dollar as the oil price did not move much.

On the **Polish fixed income market** there was another day of Polish government bonds weakening. The 10Y yield closed at 2.0% up 4bp on the day, while 5Y at 1.76% or 2bp higher. Similar moves (up) and on the similar scale (3-5bp) were seen on the Polish swap markets where 10Y closed at 1.79%. As a result the 10Y asset swap narrowed by another 1bp to 0.21%. On the core markets the yields increased, Bund closed at -0.39%, higher by 5bp, and UST at 1.75%, a 3bp increase on the day and this despite weaker as expected retail sales data but probably as a result of stronger housing data (NAHB housing market index highest since 2008).

**Today** in Poland there are wages and employment data, and in the US industrial production and building permits. On top of that, the discussion on the Brexit deal will be continued at the European Council summit.

Polish core inflation measures, %y/y



Source: NBP, Santander

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## FX market

### Today's opening

EURPLN	4.2888	CZKPLN	0.1664
USDPLN	3.8742	HUFPLN*	1.2888
EURUSD	1.1070	RUBPLN	0.0604
CHFPLN	3.9000	NOKPLN	0.4213
GBPPLN	4.9419	DKKPLN	0.5741
USDCNY	7.0993	SEKPLN	0.3955

\*for 100HUF

### Last session in the FX market 16/10/2019

	min	max	open	close	fixing
EURPLN	4.282	4.301	4.291	4.285	4.297
USDPLN	3.864	3.900	3.893	3.867	3.8934
EURUSD	1.102	1.109	1.102	1.108	-

## Interest rate market 16/10/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.51	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.75	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.00	2	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	1.70	1	1.77	-2	-0.38	1
2L	1.76	1	1.63	-4	-0.38	1
3L	1.75	2	1.58	-4	-0.36	2
4L	1.76	3	1.56	-4	-0.33	2
5L	1.78	3	1.55	-4	-0.28	2
8L	1.78	4	1.61	-3	-0.10	2
10L	1.80	5	1.67	-2	0.03	2

### WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.59	0
SW	1.59	0
2W	1.60	0
1M	1.63	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.71	0
3x6	1.71	0
6x9	1.67	-1
9x12	1.67	2
3x9	1.78	0
6x12	1.76	-1

### Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	4
France	20	0	0.29	0
Hungary			2.41	5
Spain	37	0	0.64	0
Italy	116	-1	1.31	0
Portugal	38	-1	0.59	0
Ireland	31	0	0.44	4
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



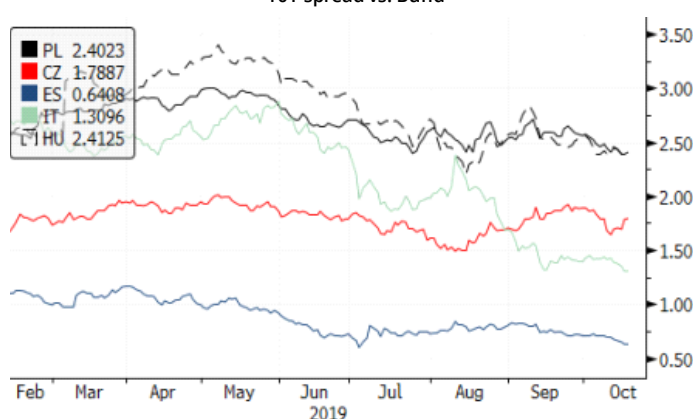
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (11 October)								
08:00	DE	HICP	Sep	% m/m	-0.1		-0.1	-0.1
16:00	US	Michigan index	Oct	pts	92.0		96.0	93.2
MONDAY (14 October)								
11:00	EZ	Industrial Production SA	Aug	% m/m	0.3		0.4	-0.4
14:00	PL	Current Account Balance	Aug	€mn	-568	-703	-606	-797
14:00	PL	Trade Balance	Aug	€mn	-440	-360	-55	-345
14:00	PL	Exports	Aug	€mn	17650	17240	17646	19286
14:00	PL	Imports	Aug	€mn	18108	17600	17001	19631
TUESDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	2.6	2.6	2.6	2.9
11:00	DE	ZEW Survey Current Situation	Oct	pts	-23.6		-25.3	-19.9
WEDNESDAY (16 October)								
11:00	EZ	HICP	Sep	% y/y	0.9		0.8	1.0
14:00	PL	CPI Core	Sep	% y/y	2.3	2.4	2.4	2.2
14:30	US	Retail Sales Advance	Sep	% m/m	0.3		-0.3	0.4
THURSDAY (17 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	2.6	2.6	-	2.6
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	7.5	-	6.8
14:30	US	Initial Jobless Claims	Oct.19	k	220.0		-	210.0
14:30	US	Housing Starts	Sep	% m/m	-3.23		-	12.3
14:30	US	Index Philly Fed	Oct		7.1		-	12.0
15:15	US	Industrial Production	Sep	% m/m	-0.1		-	0.65
FRIDAY (18 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	5.0	5.0	-	-1.3
10:00	PL	PPI	Sep	% y/y	0.5	0.4	-	0.7

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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