

18 November 2019

Eyeopener

Core inflation stalled for a while

Mixed US data at the end of the week
Core inflation unchanged in October
EURPLN lower for the second day in a row, EURUSD higher
Polish debt lost more than core markets
Today no important data releases

On Friday the trade was mostly affected by information on trade deal between the USA and China, like earlier in the week. Stock indices went up and bonds were under pressure after economic advisor of Mr. Trump revived hopes for an imminent deal. US data were mixed: retail sales surprised to the upside, while industrial output disappointed markedly. Most EM currencies gained versus the dollar and more or less half gained versus the euro.

Core inflation ex energy and food prices remained at 2.4% y/y in October, but in our view it will resume its upward trend in the months to come and will end the year near 3% y/y. As regards other measures of core inflation, two climbed (15% trimmed mean and CPI ex most volatile prices) and one fell (CPI ex administered prices).

EURUSD rose on Friday for the second day, aided by a decrease of demand for safe assets and weaker than expected data on US industrial output. As a result, at the end of the Polish session the exchange rate was close to 1.105 and approached the resistance at 1.107. Today there will be no important publications, so the trading environment should be calm.

EURPLN dropped on Friday to c4.275 and USDPLN to 3.87 because of weaker dollar and gains on European stock exchanges. The zloty also strengthened vs the Swiss franc and was stable vs the British pound. In the course of the last two days of the past week the zloty regained around a half of the losses vs the euro since the start of November. We remain of the view that the chances for more appreciation after the very strong performance in October and with domestic data coming weaker than expected are small and we assume that EURPLN may, after a short break, return to the move towards 4.30.

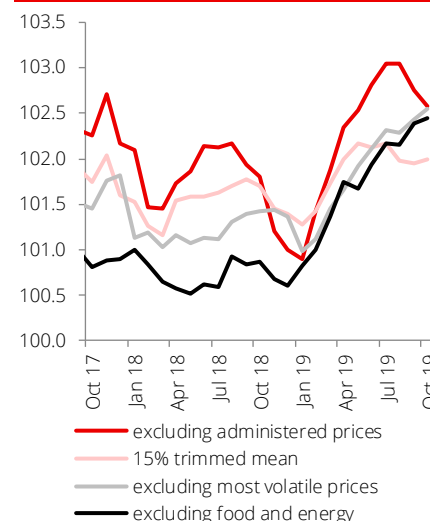
As to the **other CEE currencies**, korona and forint closed slightly weaker, while ruble gained a bit. EURHUF remains in consolidation phase after dynamic increase in the first half of November, while EURCZK slowly moves away from its lowest level since July low which printed last week. Tomorrow Hungarian central bank decides about interest rates and the tone of the statement might influence the forint.

On Polish fixed income market yields of 5Y and 10Y bonds rose by 3bp, while the short end of the curve remained stable. Changes on the swap curve were smaller than on the bond curve. At the end of the week Polish bonds traded weaker than Bund or Treasuries hence the 10Y spread vs Bund widened to 245bp.

Ministry of Finance said it **sold PLN 1.97bn of retail bonds** in October (vs PLN1.57bn in September). This instrument is increasingly important for covering borrowing needs – this year the net issuance of retail bonds might represent roughly 25% of the total state debt increase. YTD Ministry of Finance sold PLN13.95bn of saving bonds (in net terms probably around PLN5bn).

It seems that the upcoming week will start with a load of optimism – the German economy managed to avoid a recession and information on US-China trade talks still fuel hopes. Sentiments are unlikely to be undermined by October FOMC minutes, as US central bankers signalled that despite the end of the easing cycle, hikes are still distant. Flash November PMIs will tell us whether entrepreneurs also grew more sanguine. In Poland, data on wages, employment and industrial and construction output for October will be out. The sudden deterioration of sentiment in manufacturing captured by the PMI index bodes ill for output, so is the intriguing weakness of imports in September. Moreover, PM Morawiecki will deliver his expose in Sejm and the parliament will start working on proposal to cancel 30x threshold for social security and on excise tax hike.

Core inflation, % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2781	CZKPLN	0.1672
USDPLN	3.8668	HUFPLN*	1.2779
EURUSD	1.1064	RUBPLN	0.0606
CHFPLN	3.9058	NOKPLN	0.4264
GBPPLN	5.0069	DKKPLN	0.5725
USDCNY	7.0117	SEKPLN	0.4019

*for 100HUF

Last session in the FX market 15/11/2019

	min	max	open	close	fixing
EURPLN	4.271	4.288	4.287	4.275	4.2807
USDPLN	3.866	3.892	3.891	3.869	3.8848
EURUSD	1.102	1.106	1.102	1.105	-

Interest rate market 15/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.38	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.81	4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.10	4	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	0	1.74	1	-0.34	0
2L	1.75	1	1.63	2	-0.34	0
3L	1.75	2	1.60	2	-0.31	0
4L	1.78	3	1.60	2	-0.28	-1
5L	1.81	3	1.61	2	-0.23	-2
8L	1.86	3	1.68	2	-0.06	-3
10L	1.88	3	1.74	2	0.06	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.61	1
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	1.70	0
6x9	1.68	0
9x12	1.65	0
3x9	1.78	0
6x12	1.76	0

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.42	3
France	20	0	0.31	0
Hungary			2.36	2
Spain	39	0	0.77	-1
Italy	139	0	1.57	0
Portugal	38	0	0.70	0
Ireland	27	0	0.39	-1
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

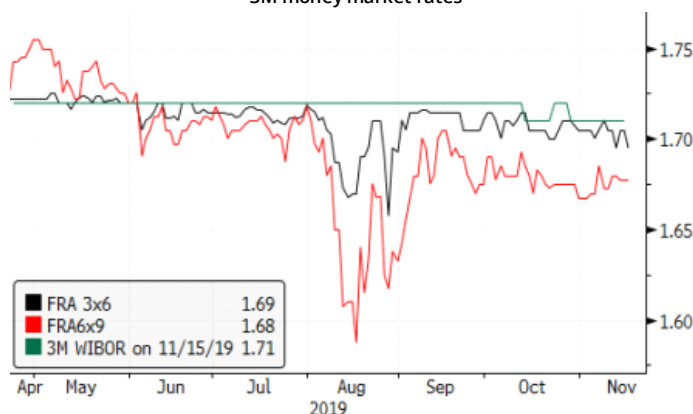
Zloty exchange rate



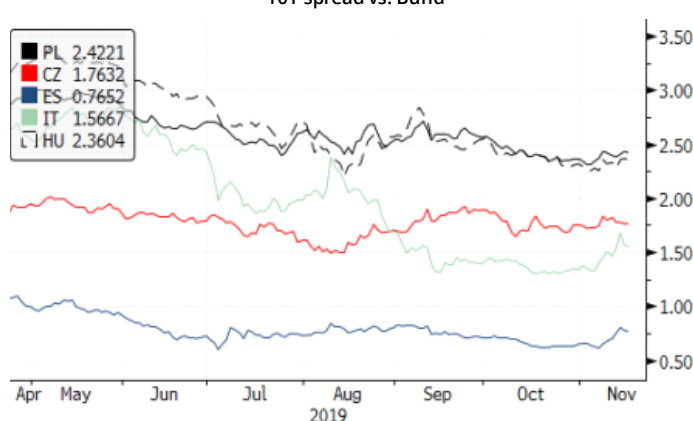
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (15 November)								
11:00	EZ	HICP	Oct	% y/y	0.7	-	0.7	0.8
14:00	PL	CPI Core	Oct	% y/y	2.4	2.5	2.4	2.4
14:30	US	Retail Sales Advance	Oct	% m/m	0.2	-	0.3	-0.3
15:15	US	Industrial Production	Oct	% m/m	-0.4	-	-0.8	-0.3
MONDAY (18 November)								
No important data releases								
TUESDAY (19 November)								
14:00	HU	Central Bank Rate Decision	Nov.19	%	0.9	-		0.9
14:30	US	Housing Starts	Oct	% m/m	4.9	-		-9.4
WEDNESDAY (20 November)								
20:00	US	FOMC Meeting Minutes						
THURSDAY (21 November)								
10:00	PL	Employment in corporate sector	Oct	% y/y	2.6	2.6		2.6
10:00	PL	Average Gross Wages	Oct	% y/y	6.3	6.0		6.6
14:30	US	Initial Jobless Claims	week	k	215	-		225
14:30	US	Index Philly Fed	Nov	pts	6.5	-		5.6
16:00	US	Existing Home Sales	Oct	% m/m	2.1	-		-2.1
FRIDAY (22 November)								
08:00	DE	GDP WDA	3Q	% y/y	0.45	-		0.5
09:30	DE	Flash Germany Manufacturing PMI	Nov	pts	42.6	-		42.1
09:30	DE	Flash Markit Germany Services PMI	Nov	pts	51.8	-		51.6
10:00	EZ	Flash Eurozone Manufacturing PMI	Nov	pts	46.3	-		45.9
10:00	EZ	Flash Eurozone Services PMI	Nov	pts	52.4	-		52.2
10:00	PL	Sold Industrial Output	Oct	% y/y	2.3	2.0		5.6
10:00	PL	Construction Output	Oct	% y/y	5.6	8.7		7.6
10:00	PL	PPI	Oct	% y/y	0.6	0.1		0.9
16:00	US	Michigan index	Nov	pts	95.6	-		95.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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