

16 December 2019

Eyeopener

Inflation going up

US-China trade deal announced
Inflation rate went higher, in line with flash reading
EURPLN at the new December's low
Small reaction of Polish bonds to global events
Today, core inflation and balance of payments in Poland, flash PMIs in Europe

The main theme of the Friday session were the UK elections results. The clear victory of the Conservatives, which most likely will allow for finishing of the Brexit process, caused a strong rise of stock indexes, strengthened the euro and weakened the bonds at the start of the session. In the following hours the optimism was tested by uncertainty regarding the negotiated US-China trade deal but in the afternoon there was positive news about this. Chinese deputy trade minister informed that the text of the 'phase one' deal has been agreed and Donald Trump confirmed. Most of EM currencies gained vs the dollar and the euro and the zloty was performing the best.

CPI inflation in November was confirmed at 2.6%, up from 2.5% in October. We estimate core inflation excluding food and energy prices at 2.5-2.6% versus 2.4% in October (the official release today in the afternoon). We expect inflation to climb further in the next two months and it is likely to touch 4% y/y in January, provided that the government does not freeze energy prices again. Then CPI would then fall towards the inflation target (2.5%) later in 2020, amid slowing economic growth and easing labour market tensions.

Jacek Sasin, deputy PM and minister for state assets said this morning in RMF FM radio that the government will "do all it can so that households do not feel the rise in energy prices". In his view, the **government could introduce compensations for households** and the final proposals will be presented when the energy market regulator (URE) makes its decision on tariffs (the latter most likely tomorrow). If Sasin's words prove true, then the new tariffs are likely to increase the CPI inflation, but its negative impact on household budgets will be offset by compensations.

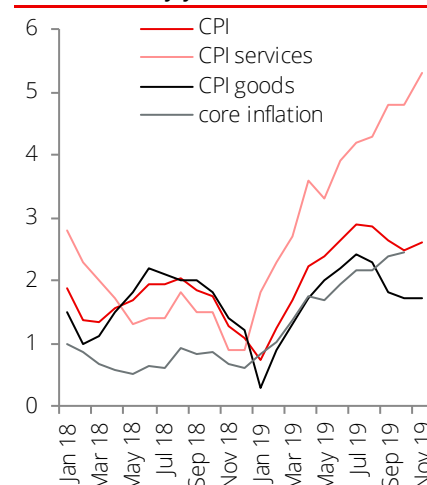
For the better part of Friday **EURUSD** was hovering slightly below December peak at 1.12 reached on Thursday after release of British election results. At the end of the day the dollar started to gain and the rate was close to 1.113 at the end of the day. Today before noon we will get to see flash PMIs for manufacturing and services in the euro zone. Last two readings of industrial activity fuelled hopes that in the upcoming quarters the European economy will be rebounding. If data surprise to the upside, then the euro could trim its losses suffered on Friday.

EURPLN was stable only at the very beginning of the session and later in the day the exchange rate plummeted to 4.265 in its biggest daily drop since December 1. In response to the UK elections, EURPLN broke the 4.27 support that paused the zloty appreciation in the previous week and now the door to 4.25 is opened. On Friday, USDPLN was hovering around 3.83.

As regards the **other CEE currencies**, EURHUF saw only temporary drop to 328.5 and at the end of the day was back near 329.5, slightly above the opening. EURCZK was steady around 25.51. USDRUB, just like EURHUF, fell only at the beginning of the day while at the end of the session was marginally above the opening level.

On the **domestic interest rate market** reaction to the outcome of the UK elections was muted. Yields rose but by no more than 2bp while the IRS rates eased slightly. The 10Y PL-DE bond yield spread moved marginally up but did not rise above the resistance at 230bp. At the switch auction, the Ministry of Finance sold bonds for PLN2.2bn. The Ministry said that after that auction, 2020 gross borrowing needs were covered in 35%.

CPI inflation, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2753	CZKPLN	0.1677
USDPLN	3.8353	HUFPLN*	1.2970
EURUSD	1.1147	RUBPLN	0.0611
CHFPLN	3.9033	NOKPLN	0.4256
GBPPLN	5.1356	DKKPLN	0.5721
USDCNY	7.0051	SEKPLN	0.4096

*for 100HUF

Last session in the FX market 13/12/2019

	min	max	open	close	fixing
EURPLN	4.267	4.291	4.285	4.268	4.2747
USDPLN	3.821	3.861	3.857	3.838	3.8234
EURUSD	1.110	1.120	1.111	1.112	-

Interest rate market 13/12/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.40	2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.75	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.01	-3	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	1.68	-1	1.75	-2	-0.34	0
2L	1.71	-1	1.64	-4	-0.32	0
3L	1.66	-2	1.62	-5	-0.29	0
4L	1.66	-4	1.62	-6	-0.24	2
5L	1.67	-4	1.63	-7	-0.19	3
8L	1.70	-4	1.70	-7	-0.03	-2
10L	1.72	-5	1.76	-7	0.09	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.58	0
SW	1.58	0
2W	1.60	0
1M	1.63	0
3M	1.70	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	0
3x6	1.68	0
6x9	1.67	0
9x12	1.63	0
3x9	1.77	0
6x12	1.75	1

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.30	-2
France	18	0	0.29	0
Hungary			2.13	1
Spain	42	-1	0.70	0
Italy	130	-5	1.54	-1
Portugal	37	-1	0.65	-1
Ireland	25	-3	0.28	0
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

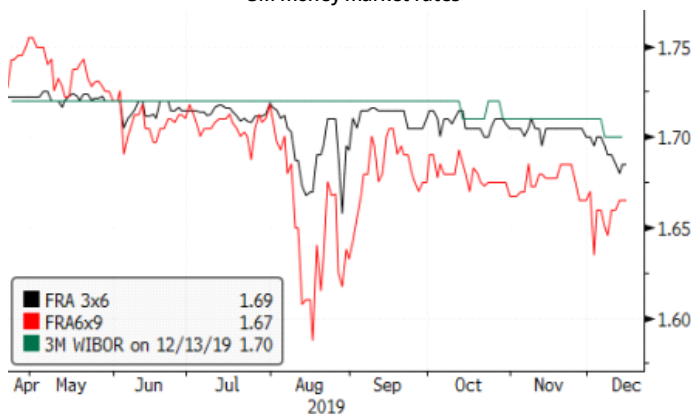
Zloty exchange rate



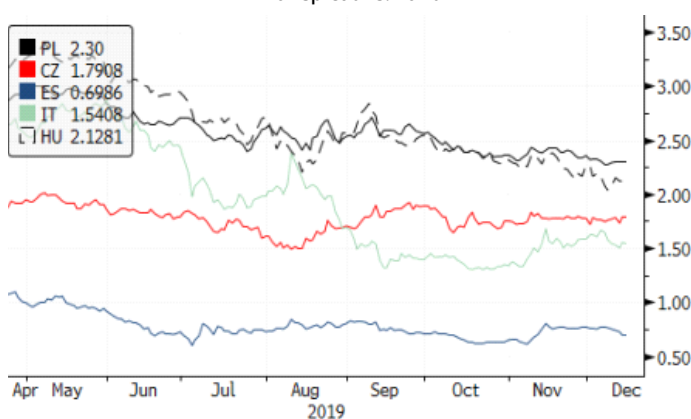
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER		
CET						VALUE	VALUE*
FRIDAY (13 December)							
10:00	PL	CPI	Nov	% y/y	-	2.6	2.6
14:30	US	Retail Sales Advance	Nov	% m/m	0.5	-	0.2
MONDAY (16 December)							
09:30	DE	Flash Germany Manufacturing PMI	Dec	pts	44.7	-	44.1
09:30	DE	Flash Markit Germany Services PMI	Dec	pts	52.0	-	51.7
10:00	EZ	Flash Eurozone Manufacturing PMI	Dec	pts	47.2	-	46.9
10:00	EZ	Flash Eurozone Services PMI	Dec	pts	52.0	-	51.9
14:00	PL	CPI Core	Nov	% y/y	2.5	2.6	2.4
14:00	PL	Current Account Balance	Oct	€mn	358	702	171
14:00	PL	Trade Balance	Oct	€mn	556	585	468
14:00	PL	Exports	Oct	€mn	22 000	21 755	19 279
14:00	PL	Imports	Oct	€mn	21 648	21 170	18 811
TUESDAY (17 December)							
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90
14:30	US	Housing Starts	Nov	% m/m	1.9	-	3.8
15:15	US	Industrial Production	Nov	% m/m	0.8	-	-0.8
WEDNESDAY (18 December)							
10:00	DE	IFO Business Climate	Dec	pts	95.4	-	95.0
10:00	PL	Employment in corporate sector	Nov	% y/y	2.5	2.5	2.5
10:00	PL	Average Gross Wages	Nov	% y/y	6.2	5.9	5.9
11:00	EZ	HICP	Nov	% y/y	1.0	-	1.0
13:00	CZ	Central Bank Rate Decision		%	2.0	-	2.0
THURSDAY (19 December)							
10:00	PL	Sold Industrial Output	Nov	% y/y	0.6	1.6	3.5
10:00	PL	PPI	Nov	% y/y	0.2	0.4	-0.1
14:30	US	Initial Jobless Claims	week	k	214	-	252
14:30	US	Index Philly Fed	Dec	pts	9.0	-	10.4
16:00	US	Existing Home Sales	Nov	% m/m	-0.2	-	1.9
FRIDAY (20 December)							
10:00	PL	Retail Sales Real	Nov	% y/y	3.9	4.3	4.6
14:30	US	GDP Annualized	3Q	% Q/Q	2.1	-	2.1
16:00	US	Michigan index	Dec	pts	99.2	-	99.2
16:00	US	Personal Spending	Nov	% m/m	0.4	-	0.3
16:00	US	Personal Income	Nov	% m/m	0.3	-	0.0
16:00	US	PCE Deflator SA	Nov	% m/m	0.2	-	0.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. <http://www.santander.pl>.