

8 January 2020

Eyeopener

High December flash CPI

Risk assets give back some gains
Shockingly high reading of Polish inflation
Zloty and regional currencies weaker, EURUSD lower
POLGBs under pressure after the CPI reading
Today MPC decision, abroad ADP in the US

On Tuesday, market sentiment was rather positive, although risk assets gave back some of the recent gains. The increase of risk aversion following the US air strike on Baghdad airport last week at first seemed a temporary issue. However Iran struck back (sending around a dozen of missiles on a US military base in Iraq), which increased the escalation risk and may prevent the markets from becoming unconditionally positive for some time. The afternoon data from the USA were better than or in line with forecasts. December services ISM index surprised positively. Its rise in the end of the year went against the striking decline of manufacturing ISM released last Friday.

Flash CPI inflation reading for December showed a much higher-than-expected outcome: 3.4% y/y instead of 2.8% market consensus and our 3.0% forecast. We estimate that core inflation ex food and energy surged from 2.6% y/y to 3.2% - the highest in more than 17 years. After such high December, CPI is in fact certain to be well above 4% y/y in 1Q2020 and may remain substantially above 3% for the better part of the year. More in our yesterday's [Economic Comment](#).

Comments on yesterday inflation reading are likely to appear during the **MPC post-meeting conference**. Ahead of the December CPI estimate we thought that the appearance of the brand new policymaker Cezary Kochański would be the only interesting event, as it would give markets a chance to assess his monetary bias. Now it will be crucial whether president Głapiński will continue to play down the fact that CPI is running above the target and the probability that such a situation will continue for a longer time.

Yesterday **EURUSD** more than offset the Monday jump and was close to 1.114 at the end of Polish trading session. Today in the afternoon we will get to see the December ADP report on the US labour market and this document is likely to trigger a market reaction. At the turn of the year EURUSD broke 1.12 and reached the highest level since August. The correction witnessed since then is so far less considerable that the previous one recorded in mid-December so it does not suggest that the dollar should gain more. Important support for EURUSD lays at 1.11.

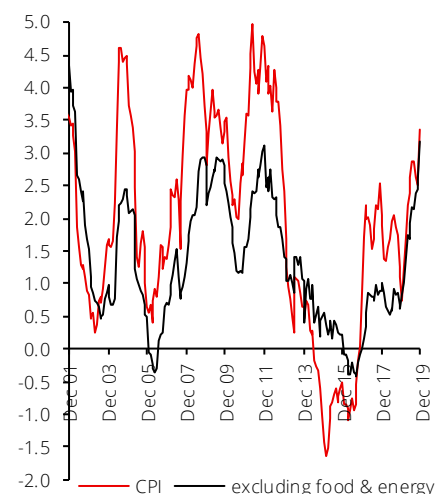
On Tuesday **EURPLN** and **USDPLN** corrected its Monday declines recorded on closed market. EURPLN failed to stay at the lowest level since May 2018 and climbed above 4.245 from 4.23 together with the waning optimism. USDPLN rebounded to 3.81 from 3.78. In our view, soon the zloty could give away its strengthening versus the single currency recorded at the start of the year.

The domestic interest rate market The domestic interest rate market was highly affected by the much-higher-than-expected flash December CPI reading. Polish bond yields jumped by 5-10bp (the most on the long end) while on the core and euro zone peripheral market bonds were stable or even slightly stronger. Only the CEE debt performed similarly to the Polish bonds. As a result, Polish 10Y bond yield closed at 2.15% vs 2.07% at the Monday's closing. Domestic IRS curve moved at a similar scale. The 10Y PL-DE bond yield spread rose to 247bp and it reached its highest since mid-October after it broke the local peak from November. We think Polish bond yields could rise and the PL-DE spread might widen further in the short term.

The **Ministry of Finance** said that at the Thursday's auction it will offer OK0722, PS1024, WZ0525, DS1029, WZ1129 and WS0447 bond series for the total amount of PLN3-5bn.

Today in Poland the MPC will decide about the interest rates, in the US ADP report will be released, in euro zone ESI index is on the agenda, in Germany we will see factory orders and in Hungary industrial output.

CPI and core inflation, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2459	CZKPLN	0.1682
USDPLN	3.8072	HUFPLN*	1.2801
EURUSD	1.1152	RUBPLN	0.0616
CHFPLN	3.9246	NOKPLN	0.4298
GBPPLN	4.9993	DKKPLN	0.5682
USDCNY	6.9455	SEKPLN	0.4028

*for 100HUF

Last session in the FX market 07/01/2020

	min	max	open	close	fixing
EURPLN	4.231	4.250	4.234	4.237	4.2347
USDPLN	3.779	3.811	3.782	3.803	3.7861
EURUSD	1.113	1.120	1.120	1.114	-

Interest rate market 07/01/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.52	6	21 mar 19	OK0521	1.633
PS1024 (5L)	1.87	10	21 mar 19	PS0424	2.209
DS1029 (10L)	2.18	12	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	1.72	3	1.72	0	-0.33	0
2L	1.82	7	1.61	0	-0.32	0
3L	1.84	11	1.59	1	-0.29	-1
4L	1.86	12	1.59	1	-0.24	-1
5L	1.88	13	1.61	1	-0.19	-1
8L	1.91	12	1.69	2	-0.01	-1
10L	1.94	12	1.76	2	0.11	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.51	-2
T/N	1.54	-2
SW	1.55	0
2W	1.59	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	3
6x9	1.71	3
9x12	1.70	5
3x9	1.79	1
6x12	1.80	3

Measures of fiscal risk

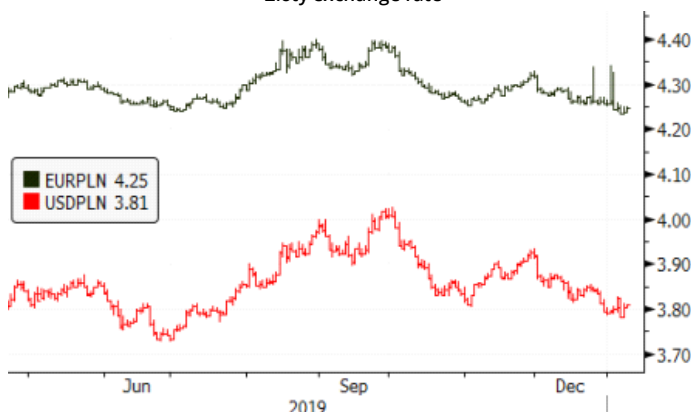
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.43	7
France	19	0	0.26	-5
Hungary			2.23	1
Spain	40	1	0.64	-4
Italy	129	1	1.62	-3
Portugal	37	1	0.61	-5
Ireland	21	1	0.26	-8
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

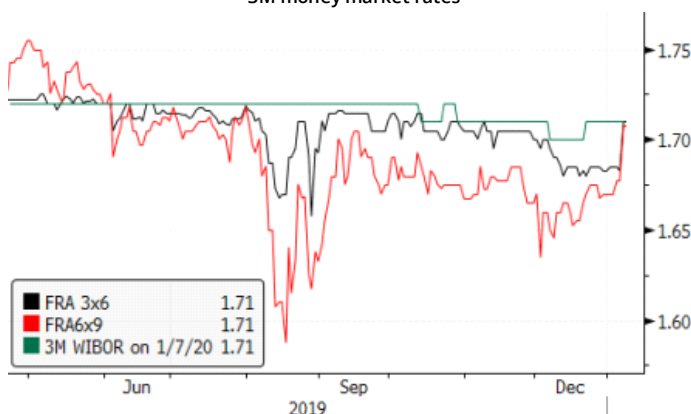
Zloty exchange rate



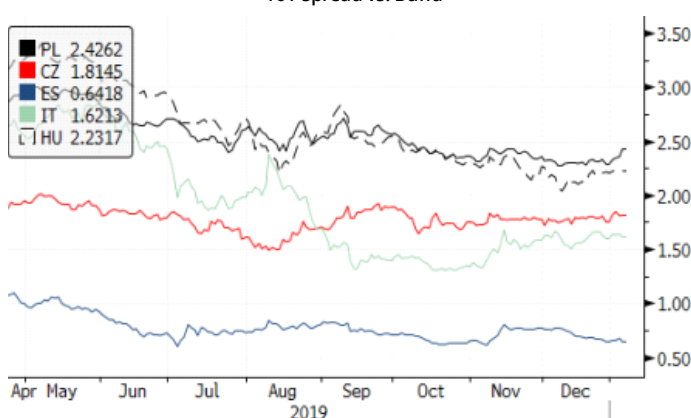
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER		
CET						VALUE	VALUE*
FRIDAY (3 January)							
14:00	DE	HICP	Dec	% m/m	0.5	-	0.6
16:00	US	ISM manufacturing	Dec	pts	49.0	-	47.2
20:00	US	FOMC Meeting Minutes					48.1
MONDAY (6 January)							
	PL	Market holiday					
02:45	CN	Caixin China PMI Services	Dec	pts	53.2	-	52.5
09:55	DE	Markit Germany Services PMI	Dec	pts	52.0	-	52.9
10:00	EZ	Eurozone Services PMI	Dec	pts	52.4	-	52.8
TUESDAY (7 January)							
10:00	PL	Flash CPI	Dec	% y/y	2.8	3.0	3.4
11:00	EZ	Flash HICP	Dec	% y/y	1.3	-	1.3
11:00	EZ	Retail Sales	Nov	% m/m	0.5	-	1.0
16:00	US	ISM services	Dec	pts	54.5	-	55.0
16:00	US	Factory Orders	Nov	% m/m	-0.7	-	-0.7
WEDNESDAY (8 January)							
	PL	MPC decision		%	1.50	1.50	1.50
08:00	DE	Factory Orders	Nov	% m/m	0.2	-	-0.4
09:00	HU	Industrial Production SA	Nov	% y/y	7.9	-	6.43
11:00	EZ	ESI	Dec	pct.	101.5	-	101.3
14:15	US	ADP report	Dec	k	165	-	66
THURSDAY (9 January)							
08:00	DE	Exports SA	Nov	% m/m	-0.7	-	1.5
08:00	DE	Industrial Production SA	Nov	% m/m	0.8	-	-1.7
11:00	EZ	Unemployment Rate	Nov	%	7.5	-	7.5
14:30	US	Initial Jobless Claims	week	k	220	-	222
FRIDAY (10 January)							
09:00	CZ	GDP SA	3Q	% y/y	2.5	-	2.5
09:00	CZ	Industrial Production	Nov	% y/y	-4.0	-	-3.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	166	-	266
14:30	US	Unemployment Rate	Dec	%	3.5	-	3.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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