

17 January 2020

# Eyeopener

## Core inflation clearly rising

Better data from Asia, equity markets in black after US-China trade agreement  
EURUSD still cannot move away from the support line  
Zloty weaker, Polish bond yields higher  
Today, several data from the euro zone and USA

On Thursday most of global stock indexes rose by c0.5%. An exception was the Shanghai stock exchange. Better-than-expected data were published in Japan and China (money supply) and in the euro zone. The Chinese GDP growth, output and retail sales released overnight were in line with expectations, confirming the gradual slowdown of the economy. At the same time there were further signals of export improvement in Asia (this time in Singapore). In the USA, strong rise was seen in Philadelphia Fed index among others. Central banks of Turkey and South Africa cut their interest rates by 75bp to 11.25% and by 25bp to 6.25% respectively. Core market yields started the day with drops, but ended it unchanged vs the previous close. Gold and oil prices did not change much. EM currencies behaved in various ways for another day – this time high yielding currencies were strengthening while CEE fx were sold.

**All measures of core inflation** increased in December. CPI excluding prices of food and energy reached 3.1% y/y, re-establishing the record-high level reached earlier in December 2011. Inflation excluding administered prices surged most, to 3.6% y/y (its highest level since June 2012), inflation excluding most volatile prices rose to 3.1% (highest since July 2012, and 15% trimmed mean reached 2.5% (highest since December 2012). We expect core inflation to stabilise at the current high level in 1Q2020, and then to start descending gradually, to around 2.5% at the year-end.

According to **MPC's Eugeniusz Gatnar**, the Council should hike rates by 15bp or 25bp to prevent speculative bubbles (strong credit activity and real estate market) and to support saving. The MPC member is worried about negative real interest rates and expects inflation to go above 4% at the start of the year and to stay for the whole year above the band of tolerable deviations from the NBP target. In our view the MPC will not change rates this year although the rise of inflation will be fuelling market speculation about such a scenario.

For another day the **EURUSD** traded within a narrow range – after opening at 1.115, the pair traded as high as 1.117 during the day, after which it declined and closed at 1.114. From the technical analysis perspective EURUSD remains above the increasing support line however it struggles to bounce off the line higher and this despite the fact that FX options markets expect the move higher with increasing probability. Key level seems to be in the vicinity of 1.113 and market close below this level would suggest further declines towards 1.10 and then 1.09

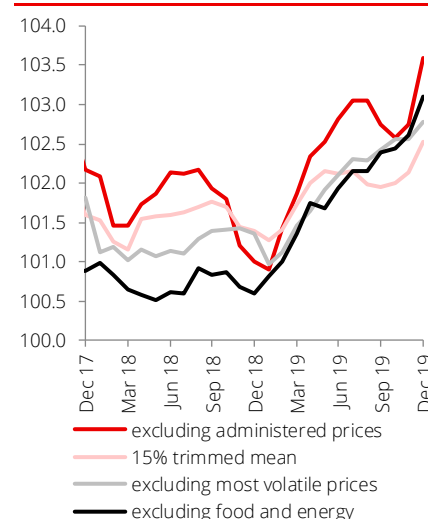
**EURPLN** gained for another day to 4.235 from 4.23 (and opens at 4.237 on Friday). There still is a double divergence seen on the currency pair and that is why we think that in the near future EURPLN might march upwards towards 4.26. USDPLN closed at 3.80, GBPPLN at 4.96 while CHFPLN at 3.94 – due to Swiss franc which gained for another day.

As to the **other CEE currencies**, the forint weakened again vs euro approaching the all-time high, and closed on Thursday at 334.2, 0.4% higher (on Friday opens at 334.9). Similarly, the Czech koruna retreated from the strongest level vs euro and rose 0.5% to 25.2. Russian ruble was relatively stable, even despite the changes made to the Russian government, weakened only slightly vs USD and closed at 61.6 (opens at 61.5 on Friday morning).

On the **domestic interest rate market** bond yields and IRS rose quite noticeably (by 4-6bp) with the 10Y bond yield touching 2.30% again (+7bp). Interestingly, Polish bonds did not follow core debt where yields remained fairly unchanged (10Y Bund yield at -0.21% and UST at 1.79%). Thus, the 10Y PL-DE bond yield spread widened by 7bp to 251bp. The 10Y asset swap spread rose 2bp to 24bp. Both curves – bonds and IRS – steepened with the 2-10 spreads rising by 1-2bp.

**Today** HICP inflation in the euro zone, and in the USA industrial output, Michigan index and house starts.

Core inflation in Poland, % y/y



Source: NBP, Santander

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## FX market

### Today's opening

EURPLN	4.2372	CZKPLN	0.1684
USDPLN	3.8039	HUFPLN*	1.2660
EURUSD	1.1139	RUBPLN	0.0617
CHFPLN	3.9414	NOKPLN	0.4281
GBPPLN	4.9774	DKKPLN	0.5670
USDCNY	6.8687	SEKPLN	0.4009

\*for 100HUF

### Last session in the FX market 16/01/2020

	min	max	open	close	fixing
EURPLN	4.226	4.238	4.228	4.230	4.2348
USDPLN	3.788	3.803	3.789	3.799	3.7968
EURUSD	1.113	1.117	1.116	1.114	-

## Interest rate market 16/01/2020

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

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
DS1021 (2L)	1.54	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.93	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.26	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	1.75	0	1.73	0	-0.33	0
2L	1.87	2	1.64	1	-0.30	0
3L	1.90	2	1.62	1	-0.25	-1
4L	1.94	2	1.62	2	-0.20	-1
5L	1.97	3	1.64	2	-0.14	-1
8L	2.01	4	1.71	1	0.04	-2
10L	2.03	2	1.77	1	0.16	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.30	9
T/N	1.51	12
SW	1.54	0
2W	1.58	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	1.74	1
6x9	1.76	1
9x12	1.78	2
3x9	1.83	2
6x12	1.86	2

## Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.48 4
France	18 1	0.26 1
Hungary		2.30 6
Spain	41 1	0.68 3
Italy	121 4	1.65 5
Portugal	37 1	0.73 3
Ireland	22 1	0.26 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

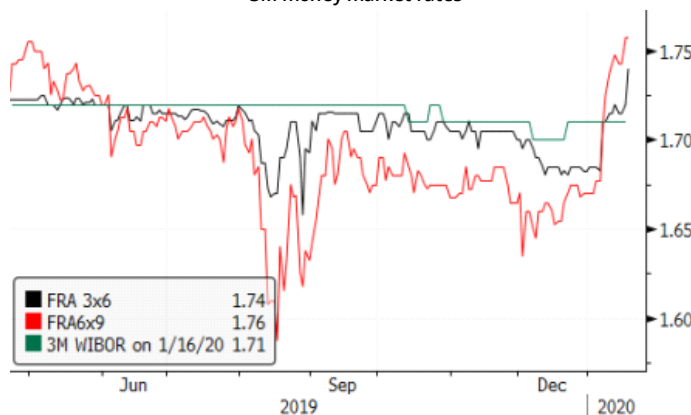
## Zloty exchange rate



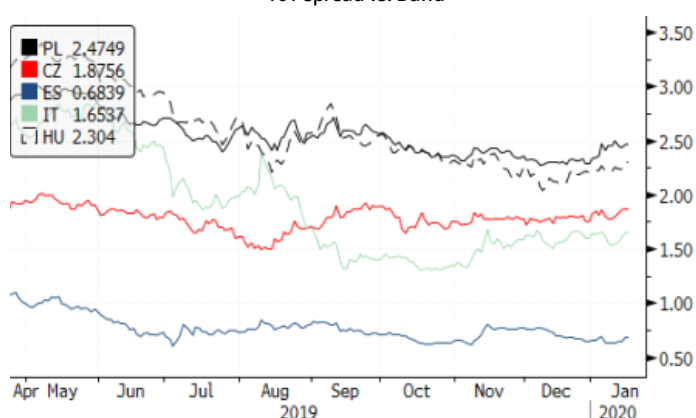
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (10 January)								
09:00	CZ	GDP SA	3Q	% y/y	2.5	2.5	2.5	
09:00	CZ	Industrial Production	Nov	% y/y	-4.0	-5.7	-3.0	
14:30	US	Change in Nonfarm Payrolls	Dec	k	160.0	145.0	256.0	
14:30	US	Unemployment Rate	Dec	%	3.5	3.5	3.5	
MONDAY (13 January)								
09:00	CZ	CPI	Dec	% y/y	3.1	3.2	-	3.1
14:00	PL	Current Account Balance	Nov	€mn	451	521	1457	573
14:00	PL	Trade Balance	Nov	€mn	356	356	829	427
14:00	PL	Exports	Nov	€mn	20653	20511	20238	21757
14:00	PL	Imports	Nov	€mn	20392	20155	19409	21330
TUESDAY (14 January)								
09:00	HU	CPI	Dec	% y/y	4.0	4.0	3.4	
14:30	US	CPI	Dec	% m/m	0.3	0.2	0.3	
WEDNESDAY (15 January)								
10:00	PL	CPI	Dec	% y/y	3.4	3.4	3.4	3.4
11:00	EZ	Industrial Production SA	Nov	% m/m	0.3	0.2	-0.9	
THURSDAY (16 January)								
08:00	DE	HICP	Dec	% y/y	1.5	1.5	-	1.2
14:00	PL	CPI Core	Dec	% y/y	3.2	3.2	3.1	2.6
14:30	US	Initial Jobless Claims	Jan.20	k	218.0	204.0	214.0	
14:30	US	Retail Sales Advance	Dec	% m/m	0.3	0.3	0.3	
14:30	US	Index Philly Fed	Jan		3.7	17.0	0.7	
FRIDAY (17 January)								
11:00	EZ	HICP	Dec	% y/y	1.3	-	1.3	
14:30	US	Housing Starts	Dec	% m/m	1.1	-	3.2	
15:15	US	Industrial Production	Dec	% m/m	0.0	-	1.1	
16:00	US	Michigan index	Jan	pts	99.15	-	99.3	

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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