

20 January 2020

# Eyeopener

## HICP inflation strongly up

### Positive market sentiment

HICP inflation went strongly up in Poland and CEE region

Zloty weaker due to stronger dollar

Yields and IRS rates up

Today no important data

Positive market mood from the previous days extended into the end of the week. Stock indices grew, while bonds were under pressure after the "Phase One" US-China deal and another decent round of US companies' earnings. The appreciation potential of the emerging market currencies (especially those from the CEE region) was limited by the dollar strength. US data were mixed but judging from the market reaction it is the surprisingly higher housing starts proved the most important for the markets. Other US data – building permits, industrial production and University of Michigan sentiment were only slightly below the consensus.

**MPC's Jerzy Żyżyński** thought that the rise of CPI is temporary and in 4Q20 CPI will be back to the target. In his view no reaction from the MPC to the rise of CPI would calm inflation expectations. He admitted in line with NBP governor Adam Glapiński that the next rate change could be a cut, while stabilisation the most likely scenario. **Jerzy Kropiwnicki** was unsettled by the rise of CPI and thought that a permanent move above 3.5% y/y would be an argument for rate hikes. At the same time he assumed that inflation will return inside the band of tolerance around the target already at the end of 1Q20 and mentioned economic slowdown as an important argument against hikes. In our view the MPC will not change rates this year although the growing inflation will be fuelling market bets for a rate hike.

On Friday Eurostat published inflation data. In December the overall **HICP inflation for Poland** rose from 2.4% y/y to 3.0% and core HICP inflation from 2.6% y/y to 2.9%. The non-tradable part of core inflation basket rose by 4.9% y/y, the fastest in 10.5 years and the tradable part showed a rise by 0.3% y/y – which is the highest reading in the category in seven years and the second positive reading since the start of 2013.

**EURUSD** was going down for the second day in a row and in the afternoon it tested 1.11 again (the last time it tried to break this level on the previous Friday). Changes on the EURUSD market were larger than in the case of other exchange rates. If 1.11 is broken, the road to 1.10 is open.

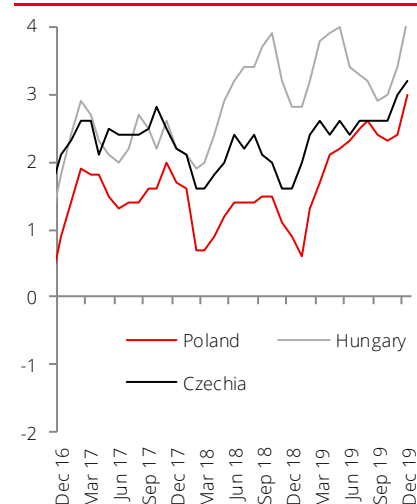
This was the third consecutive day of **EURPLN** rise and at the end of the day the exchange rate was already near 4.24. USDPLN rebounded to 3.825 from 3.80 after the largest daily upside move since the first week of January. The pressure on the zloty was put by the appreciation of the dollar and profit taking from the last strengthening. In our view EURPLN may gradually go up, propelled by the stronger dollar and the potentially weaker-than-expected data from Poland coming this week.

In the case of **other CEE currencies** only the forint was weaker vs the euro at the end of the session than on Thursday, while the koruna was stable. The ruble gained at the start of the day vs the dollar and managed to secure some of the gains until the end of the session. EURHUF approached 336 on Friday and is already close to the all-time high of 337. USD RUB tested 61 last week and the week before, but failed to go past the level that is the lower bound of the range where the exchange rate was moving between April and July 2018 (it went out from the range through the ceiling back then). EURCZK approached 25 last week due to higher-than-expected inflation, but did not continue the move to go below the lowest level since October 2012 because the governor of the Czech central bank said rates are likely to remain unchanged this year.

On the Polish **fixed income market**, after the correction which lasted 2 days, on Friday both bond and IRS yields increased again. Similarly to the behaviour from the previous days, Polish debt underperformed the German and the US counterparts and as a result the 10Y PL-DE spread widened to 255bp, above the maximum reached in the beginning of the week. Polish benchmark 10Y bond's yield moved above 2.30% again.

**This week**, the market attention is likely to focus on the sentiment indexes (flash PMIs, German ZEW) and if the releases do not disappoint (consensus assumes no further deterioration), then expectations for a gradual economic activity improvement should be sustained. In Poland, we will see December output, retail sales, wages and employment data. In all cases our forecasts are below the market consensus. We expect the zloty could depreciate (with EURPLN heading towards 4.26-4.27) amid below-consensus Polish macro data, stronger dollar and technical analysis signals. On the domestic interest rate market, the yields up trend could now decelerate amid below-consensus Polish data.

HICP inflation in CEE region, % y/y



Source: Eurostat, Santander

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## FX market

### Today's opening

EURPLN	4.2409	CZKPLN	0.1686
USDPLN	3.8205	HUFPLN*	1.2609
EURUSD	1.1101	RUBPLN	0.0621
CHFPLN	3.9453	NOKPLN	0.4295
GBPPLN	4.9648	DKKPLN	0.5675
USDCNY	6.8493	SEKPLN	0.4018

\*for 100HUF

### Last session in the FX market 17/01/2020

	min	max	open	close	fixing
EURPLN	4.229	4.244	4.230	4.241	4.2344
USDPLN	3.797	3.826	3.799	3.823	3.8053
EURUSD	1.109	1.114	1.114	1.109	-

## Interest rate market 17/01/2020

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.56	2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.98	5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.32	7	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	1.76	1	1.73	0	-0.33	0
2L	1.90	2	1.64	0	-0.30	0
3L	1.94	4	1.61	-1	-0.26	-1
4L	1.98	4	1.62	0	-0.21	-1
5L	2.03	5	1.64	0	-0.16	-2
8L	2.07	5	1.72	1	0.02	-2
10L	2.10	7	1.78	1	0.15	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.51	21
T/N	1.51	0
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	1.75	-1
9x12	1.79	1
3x9	1.83	0
6x12	1.86	0

## Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.54	6
France	18	0	0.26	0
Hungary			2.39	9
Spain	42	-1	0.68	-1
Italy	125	-4	1.59	-6
Portugal	37	-1	0.71	-2
Ireland	23	-1	0.27	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

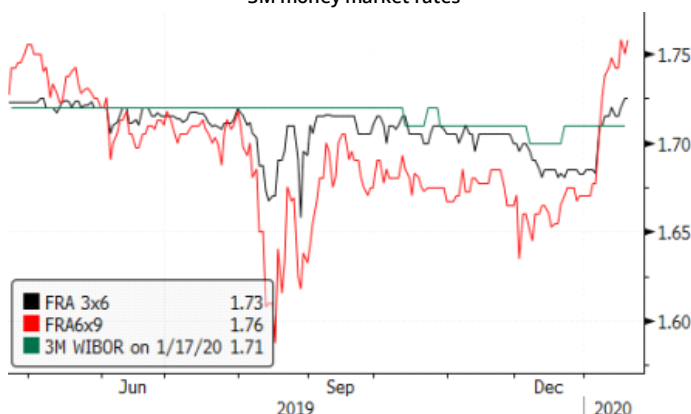
## Zloty exchange rate



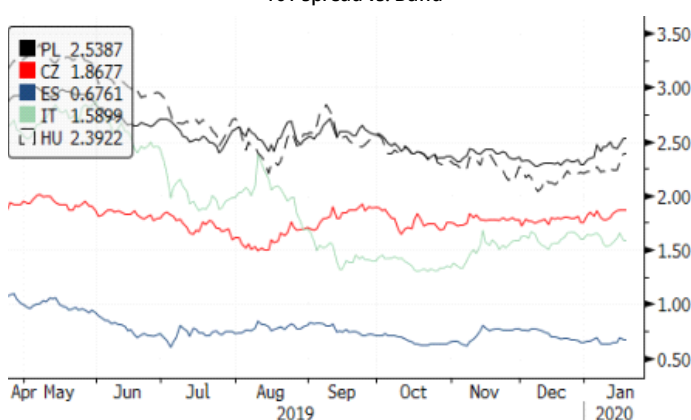
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (17 January)								
11:00	EZ	HICP	Dec	% y/y	1.3	-	1.3	1.0
14:30	US	Housing Starts	Dec	% m/m	1.1	-	16.9	2.6
15:15	US	Industrial Production	Dec	% m/m	-0.2	-	-0.3	0.8
16:00	US	Michigan index	Jan	pts	99.3	-	99.1	99.3
TUESDAY (21 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	2.6	2.6		2.6
10:00	PL	Construction Output	Dec	% y/y	1.3	-1.6		-4.7
10:00	PL	Average Gross Wages	Dec	% y/y	6.1	5.6		5.3
11:00	DE	ZEW Survey Current Situation	Jan	pts	-10.0	-		-19.9
WEDNESDAY (22 January)								
10:00	PL	Sold Industrial Output	Dec	% y/y	6.1	4.8		1.4
10:00	PL	PPI	Dec	% y/y	0.9	1.0		-0.1
16:00	US	Existing Home Sales	Dec	% m/m	1.5	-		-1.65
THURSDAY (23 January)								
10:00	PL	Retail Sales Real	Dec	% y/y	6.6	5.7		5.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	218	-		204
FRIDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	44.2	-		43.7
09:30	DE	Markit Germany Services PMI	Jan	pts	52.9	-		52.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	46.7	-		46.3
10:00	EZ	Eurozone Services PMI	Jan	pts	52.8	-		52.8
14:00	PL	Money Supply M3	Dec	% y/y	9.3	8.9		9.4

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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