14 September 2020

Eyeopener

Meat prices to speed up disinflation?

Smaller market fluctuations at the end of the week
Interest rates at adequate level, says NBP governor
Zloty still stable, EURUSD higher
Polish bonds getting stronger
Today Polish balance of payments, euro zone industrial production

During the last session of the previous week the market volatility was lower than on Thursday when the ECB meeting was held. Stock indices went down and this was positive for bonds. The ECB governor said on Friday that the observed rebound in economic activity in Europe is uneven and central bank actions should be supported by active fiscal policies. US inflation surprised to the upside both in m/m and y/y terms. In the latter case, CPI accelerated in August for the third month in a row presenting a totally different pattern than in the euro zone.

China decided to ban German pork imports after the African Swine Fever case was found in that country. Earlier similar decisions were taken by South Korea and Japan. Closure of markets that consume 2/3 of total German pork exports poses a threat of a major decline of meat prices on the European markets as supply will be markedly higher than the demand. That could speed up the disinflation process in the coming months.

The Moody's agency did not update Poland's credit rating, so it remains at A2 with stable outlook.

The **NBP president Adam Glapiński** said on Friday that NBP interest rates are currently at "adequate level". He added that when the economic growth stabilises on an upward accelerating path, then "at some point in the future, in line with the rules, interest rates will go up". We are expecting interest rates to remain unchanged until the end of 2021, but the word "at some point" in the Glapiński's statement could mean an even further future, e.g. the end of the current's MPC term of office (2022).

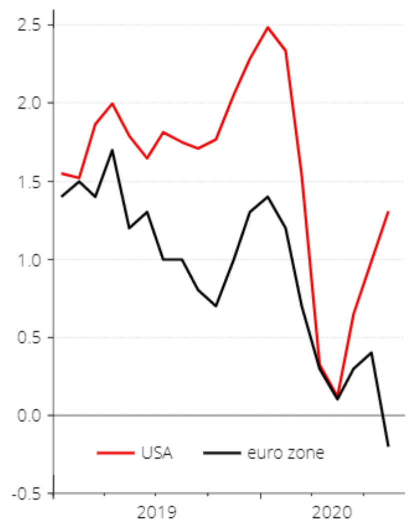
EURUSD was rising for most of Friday session after an overnight drop. As a result it rebounded from 1.18 to 1.188 and was close to 1.184 at the session close. The exchange rate remained between the Thursday high and low and the situation is unlikely to change today. Today we will get European industrial output and on Wednesday FOMC holds a meeting, so the beginning of the week may see limited volatility.

EURPLN was hovering on Friday in a horizontal trend around 4.45, with the narrowest daily range of fluctuations in a week. USDPLN was moving near 3.755. Among **other CEE currencies** flucutations were also small. Despite dollar depreciation, which is usually supportive for EM currencies, the latter were losing in the recent week. PLN was quite stable and outperformed most of EM peers. We do not expect the zloty to break away from the horizontal band anytime soon, with EURPLN constrained by 4.42 from the bottom and 4.48 from the top.

At the **domestic interest rate market** the end of the week saw a clear decrease of bond yields (by 3bp in the belly and at the long end of the curve), while IRS rates remained quite stable. German debt gained even more and as a result 10Y bond yield spread widened by c.2bp to 184bp. We think bond yields could go up this week – first of all, following a simiar move in German Bund, secondly thanks to local macro data releases, confirming that the recovery from the bottom is in progress.

After the ECB meeting, **this week** the central banks will remain in focus. We do not expect any change in the MPC's monetary policy or message. Although the recent data show that the central bank's economic forecasts released in July were way too pessimistic, but in our view it does not change the fact that majority of Council members (including the NBP governor) still support long stability of interest rates, possibly until the end of their term of office. As regards the Fed, investors will be interested to see any more details about implementation of its new monetary strategy of average inflation target. Fed will show its updated economic forecasts. In Poland we will see balance of payments data (today), final CPI inflation and core inflation, wages and employment, industrial production. Our forecasts suggest they should confirm still solid recovery from the pandemic bottom. Abroad we will see some more data reflecting economic activity (including production, retail sales, housing market).

Inflation (% y/y)



Source: Refinitv Datastream, Santander

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FX market

Today's opening

EURPLN	4.4443	CZKPLN	0.1671
USDPLN	3.7505	HUFPLN*	1.2337
EURUSD	1.1849	RUBPLN	0.0502
CHFPLN	4.1266	NOKPLN	0.4158
GBPPLN	4.8091	DKKPLN	0.5971
USDCNY	6.8282	SEKPLN	0.4276

*for 100HUF

Last session in the FX market 11/09/2020

	min	max	open	close	fixing
EURPLN	4.439	4.457	4.450	4.452	4.450
USDPLN	3.745	3.765	3.759	3.763	3.753
EURUSD	1.183	1.187	1.184	1.183	-

Interest rate market 11/09/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.10	-1
PS0425 (5Y)	0.71	0
DS1030 (10Y)	1.37	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.20	0	0.23	-1	-0.50	0
2L	0.27	1	0.21	0	-0.46	-1
3L	0.37	1	0.21	-2	-0.46	-2
4L	0.50	1	0.25	-1	-0.44	-2
5L	0.64	1	0.31	-2	-0.41	-2
8L	0.95	1	0.54	-1	-0.30	-3
10L	1.09	2	0.67	-1	-0.21	-4

WIBOR rates

Term	%	Change (bps)
O/N	0.09	1
T/N	0.10	1
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.23	0
6M	0.26	0
1Y	0.27	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	-1
3x6	0.19	2
6x9	0.19	1
9x12	0.19	0
3x9	0.23	-1
6x12	0.24	1

Measures of fiscal risk

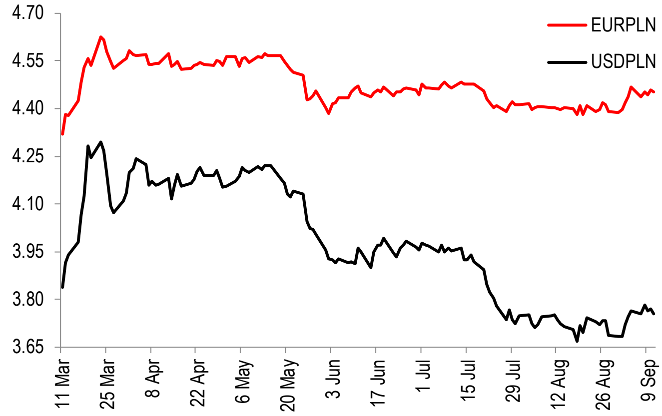
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	186	4
France	10	0	29	0
Hungary	61	0	0	-294
Spain	54	0	79	1
Italy	92	0	152	2
Portugal	36	0	82	2
Ireland	16	0	41	4
Germany	6	0	-	-

* 10Y treasury bonds over 10Y Bunds

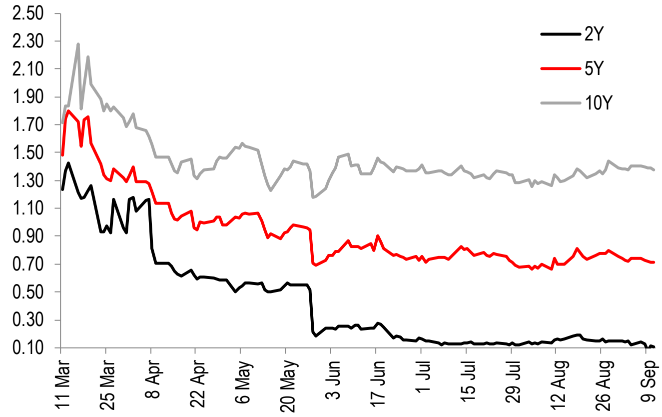
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

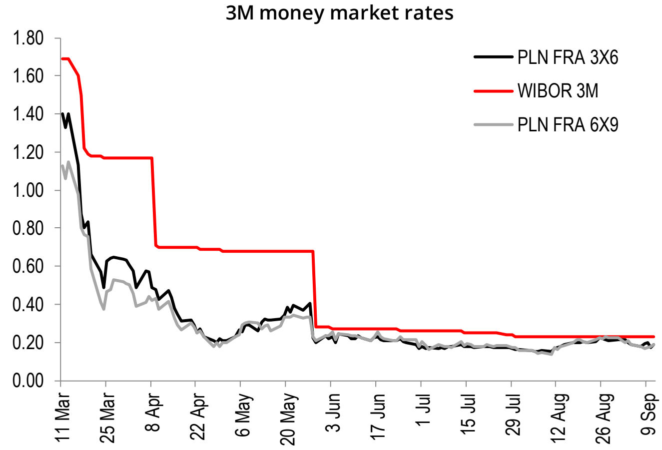
Zloty exchange rate



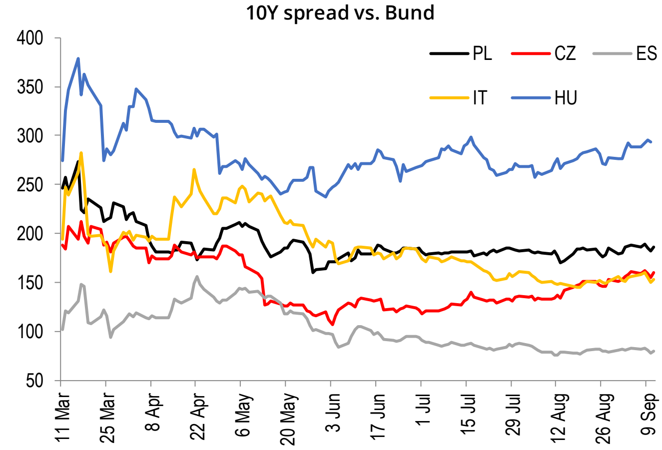
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
		FRIDAY (11 September)						
	PL	**Rating review by Moody's**						
08:00	DE	HICP	Aug	% m/m	-0.2	-	-0.2	-0.2
14:30	US	CPI	Aug	% m/m	0.3	-	0.4	0.6
		MONDAY (14 September)						
11:00	EZ	Industrial Production SA	Jul	% m/m	2.7	-		9.1
14:00	**PL**	**Current Account Balance**	**Jul**	**€mn**	**2 777**	**1 573**		**2 842**
14:00	**PL**	**Trade Balance**	**Jul**	**€mn**	**2 134**	**1 642**		**2 666**
14:00	**PL**	**Exports**	**Jul**	**€mn**	**19 830**	**19 487**		**18 689**
14:00	**PL**	**Imports**	**Jul**	**€mn**	**17 291**	**17 845**		**16 023**
		TUESDAY (15 September)						
	PL	**MPC decision**		**%**	**0.10**	**0.10**		**0.10**
10:00	**PL**	**CPI**	**Aug**	**% y/y**	**2.9**	**2.9**		**2.9**
11:00	DE	ZEW Survey Current Situation	Sep	pts	-72.5	-		-81.3
15:15	US	Industrial Production	Aug	% m/m	1.0	-		3.03
		WEDNESDAY (16 September)						
14:00	**PL**	**CPI Core**	**Aug**	**% y/y**	**4.1**	**4.1**		**4.3**
14:30	US	Retail Sales Advance	Aug	% m/m	1.0	-		1.2
20:00	US	FOMC decision		%	0.25	-		0.25
		THURSDAY (17 September)						
10:00	**PL**	**Employment in corporate sector**	**Aug**	**% y/y**	**-1.35**	**-1.6**		**-2.3**
10:00	**PL**	**Average Gross Wages**	**Aug**	**% y/y**	**4.1**	**4.1**		**3.8**
11:00	EZ	HICP	Aug	% y/y	-0.2	-		-0.2
14:30	US	Initial jobless claims	week	k	-	-		884
14:30	US	Building permits	Aug	k	1 530	-		1 483
14:30	US	House starts	Aug	k	1 450	-		1496
14:30	US	Philly Fed index	Sep	pts	15.0	-		17.2
		FRIDAY (18 September)						
10:00	**PL**	**Industrial output**	**Aug**	**% y/y**	**3.4**	**2.9**		**1.1**
10:00	**PL**	**PPI**	**Aug**	**% y/y**	**-1.0**	**-1.2**		**-0.6**
16:00	US	Flash Michigan index	Sep	pts	76.0	-		74.1

Source: Santander Bank Polska, Bloomberg, Parkiet
** in the case of a revision the data is updated*