

13 October 2020

Eyeopener

Inflation in the CEE region softens

Optimism on the markets at the start of the week
 Gatnar talks about rate hikes, Łon about rate cuts
 EURPLN and CEE currencies under pressure from weaker yuan
 POLGB 10Y tests 1.30%
 Today German ZEW and inflation in the US

Monday's session started peacefully, but as the time passed the optimism was growing amid hopes for approval of the US fiscal package (even in limited form). Stock indices in Europe started rising clearly, but similarly as on Friday it did not have negative impact on core markets bonds. Also, the EM currencies did not benefit from the persisting risk-on appetite. The weakening of the zloty and other CEE currencies was triggered, in our view, by the depreciation of yuan after the Chinese central bank's decision that we mentioned yesterday. Overnight, the September's foreign trade data from China pointed to worsening of trade balance amid high imports.

The **NBP president Adam Glapiński** wrote for "Polski Kompas" yearly that the central bank is ready to take further anti-crisis actions should the Polish economy need it. In the same magazine, the MPC member **Eugeniusz Gatnar** reiterated his opinion on the need to consider gradual rate hikes in 2021 should the economic recovery continue and consumer sentiment do not deteriorate. Gatnar is not expecting inflation to fall markedly, and this is his argument behind hiking rates. **Eryk Łon** said meanwhile that falling consumer confidence due to the new coronavirus wave could be a reason to cut rates even below zero. In his view chances for such a scenario are low, and in the baseline scenario Łon assumed rates to stabilise at the current level for a longer time. In his view, rate hikes could be negative for households (due to rising loan instalments) or companies (discouraging from investment).

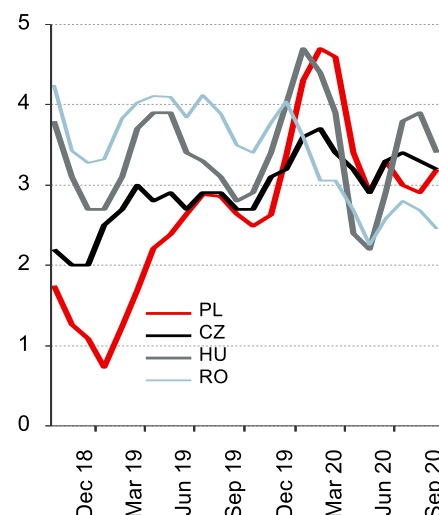
EURUSD did not change much on Monday and was hovering near 1.18, slightly below Friday's close. Consolidation was supported by the lack of important data and stabilisation of UST yields. Today we may see slightly higher volatility after the release of German ZEW and US inflation.

Yesterday **EURPLN** offset its entire Friday decline, while **USDPLN** made up for a half of it and at the end of the day rates were at 4.48 and 3.80, respectively. However, during the night and today in the morning **EURPLN** plunged by 0.8% and it starting the session at 4.463. Global trends are likely to remain the main factor affecting the zloty in the short term.

In case of the **remaining CEE currencies** also under pressure of weakening yuan. **EURCZK**, **EURHUF** and **USDRUB** rebounded to their Friday's closing levels and neutralized the drop seen during the final session of the past week. Head of the Czech central bank Jiri Rusnok said that there is no need for an extraordinary monetary policy easing amid high inflation but this did not support the koruna. In September, the Czech CPI fell unexpectedly to 3.2% but is still holding above the range of allowed deviations from the target (1-3%). In October, **EURCZK** is holding so far near its September peak while **EURHUF** and **USDRUB** fell somewhat. After closing of the European session, **USDRUB** fell to 77.2, its opening level.

On the domestic interest rate market 5Y and 10Y bond yields fell c3bp and the respective IRS 4-5bp. Slight down move was recorded also on the front ends of both curves. As a result, the 10Y bond yields was testing 1.30% yesterday nearing to its August bottom at 1.26%. The 10Y PL-DE bond yield spread narrowed slightly since the Bund was rather stable..

Inflation in CEE region (% y/y)



Source: Refinitiv Datastream, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4628	CZKPLN	0.1639
USDPLN	3.7849	HUFPLN*	1.2432
EURUSD	1.1797	RUBPLN	0.0490
CHFPLN	4.1598	NOKPLN	0.4124
GBPPLN	4.9377	DKKPLN	0.5996
USDCNY	6.7418	SEKPLN	0.4292

*for 100HUF

Last session in the FX market

10/12/2020

	min	max	open	close	fixing
EURPLN	4.462	4.490	4.469	4.475	4.480
USDPLN	3.775	3.803	3.781	3.792	3.793
EURUSD	1.179	1.183	1.182	1.180	-

Interest rate market 10/12/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.03	1
PS0425 (5Y)	0.53	-2
DS1030 (10Y)	1.29	-2

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.17	0.21	-0.53
2L	0.20	0.24	-0.51
3L	0.27	0.27	-0.50
4L	0.38	0.33	-0.48
5L	0.49	0.41	-0.45
8L	0.77	0.66	-0.33
10L	0.93	0.80	-0.23

WIBOR rates

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.10	-2
SW	0.12	-1
2W	0.17	0
1M	0.20	0
3M	0.22	0
6M	0.25	-1
1Y	0.26	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.20	0
3x6	0.16	-1
6x9	0.15	-2
9x12	0.14	-3
3x9	0.19	-2
6x12	0.18	-2

Measures of fiscal risk

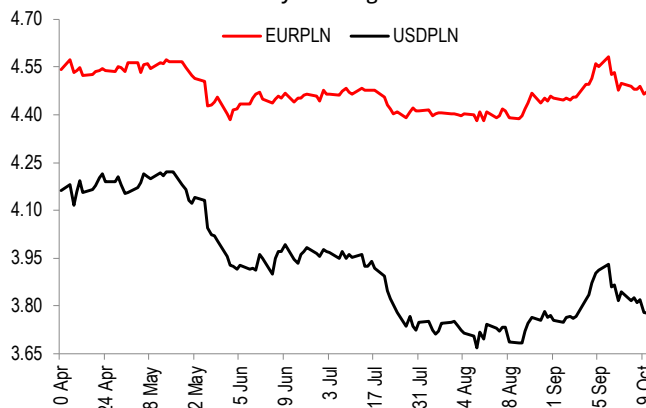
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	59	184
France	10	26
Hungary	65	279
Spain	54	69
Italy	83	122
Portugal	36	70
Ireland	18	33
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

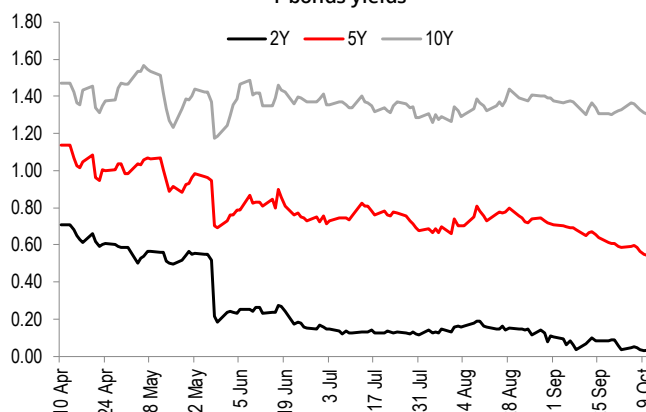
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

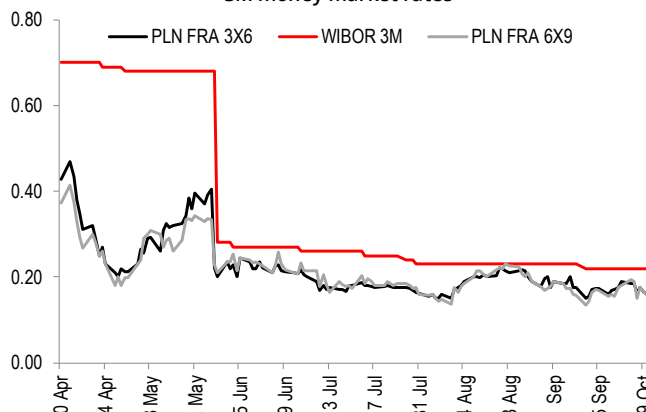
Zloty exchange rate



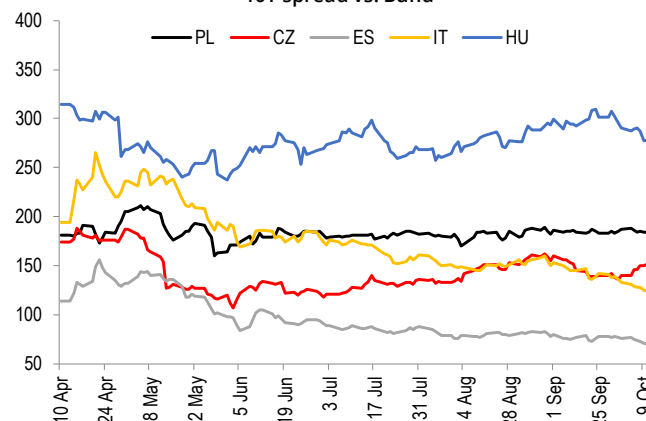
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (9 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	54.3	-	54.8	54.0
MONDAY (12 October)								
09:00	CZ	CPI	Sep	% y/y	3.5	-	3.2	3.3
TUESDAY (13 October)								
08:00	DE	HICP	Sep	% m/m	-0.4	-	-0.4	-0.4
11:00	DE	ZEW Survey Current Situation	Oct	pts	-63.0	-		-66.2
14:30	US	CPI	Sep	% m/m	0.2	-		0.4
WEDNESDAY (14 October)								
11:00	EZ	Industrial Production SA	Aug	% m/m	0.2	-		4.1
14:00	PL	Current Account Balance	Aug	€mn	1 020	1 440		1 590
14:00	PL	Trade Balance	Aug	€mn	921	649		969
14:00	PL	Exports	Aug	€mn	18 078	17 803		19 637
14:00	PL	Imports	Aug	€mn	17 338	17 154		18 668
THURSDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	3.2	3.2		2.9
14:30	US	Initial Jobless Claims	week	k	820	-		840
14:30	US	Index Philly Fed	Oct	pts	14.5	-		15.0
FRIDAY (16 October)								
11:00	EZ	HICP	Sep	% y/y	-0.3	-		-0.3
14:00	PL	CPI Core	Sep	% y/y	4.2	4.2		4.0
14:30	US	Retail Sales Advance	Sep	% m/m	0.7	-		0.6
15:15	US	Industrial Production	Sep	% m/m	0.6	-		0.36
16:00	US	Michigan index	Oct	pts	80.0	-		80.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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