

17 November 2020

# Eyeopener

## Polish and Hungarian first veto

Positive start of the day amid next vaccination news  
EURUSD and EURPLN stable  
Polish bonds gain only for a while  
Today, Hungarian central bank decision and US data

Markets started the week in very good mood after a multilateral trade agreement, RCEP, was signed at the weekend among many Asian countries, including China, Japan and South Korea. The positive sentiment was maintained thanks to good macro data coming in the morning from Far East countries, e.g. better-than-expected Japanese and Thai GDP. What is more, a news appeared that another company achieved a highly effective Covid-19 vaccine. In the second part of the day, US data (Empire index) slightly worsened the mood, but the UST yield rose to 0.91% nevertheless.

At the yesterday meeting of EU countries' ambassadors, **a qualified majority agreed to link reimbursements from EU budget and the Recovery Funds with compliance with rule of law**. Poland and Hungary expressed disapproval and threatened to veto the 2021-2027 EU budget and Recovery Funds draft, which require unanimity. A video-conference of the European Council to discuss this issue will be held on Thursday and this will be the first (but most likely not the last) opportunity to find a compromise all countries would accept. If no agreement is reached by the end of the year a provisional budget will be needed. The talks could extend to 2021.

**MPC member Łukasz Hardt** said that negative interest rates would be "unreasonable economically and unfavourable for the stability of the financial system". He added, that they might be illegal according to the Polish law (the Constitution as well as the NBP act). Talking about possible scenarios he said that in the case of a hard lockdown NBP might continue purchases within the QE program. On the other hand, in a more optimistic scenario he pointed to the need of increasing rates (by a bit), continuing the QE program and bill discount credit.

**Poland core inflation** ex food and energy fell in October to 4.2% y/y from 4.3% – the highest level since late 2001. This measure was only growing during the severe drop of economic activity in 2Q and is still reluctant to fall significantly as the economy is slipping again on new Covid restrictions. A larger drop should be seen in December due to a base effect (surge of air fares and insurance prices in Dec-19), but unlikely below 3.5% y/y. It seems the negative effect of reduced domestic demand needs more time to become visible in the data. We believe 2021 will look much different in this respect with core CPI dropping systematically and rather quickly for most of the year and possibly stabilising below 1% in 4Q. NBP staff in the latest projection expressed doubts about such fast pace of decline of core CPI, showing 4.2% y/y average still in 4Q20 and a more gradual descent next year to 2.4% in 4Q21.

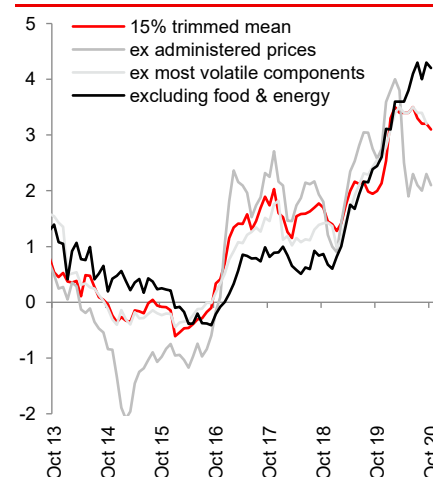
**EURUSD** opened at 1.185 on Monday and during the day increased slightly towards 1.186. At the end of the day, it fell to 1.183 however. The volatility of EURUSD might rise as soon as today in the afternoon when the US retail sales and industrial production data will be published.

**EURPLN** started the week trending lower and reaching 4.46 – the 200-day moving average. In the second part of the day the currency pair bounced higher to 4.48. The USDPLN hovered around 3.78. Due to relatively low risk premium, especially in the context of the ongoing rule of law discussions, we expect that EURPLN will move towards 4.50 in the short term.

**As regards other CEE currencies:** the forint was clearly underperforming the zloty (EURHUF climbed to 359.5). EURCZK, after initial declines, rebounded in the second half of the day and ended the day at 26.42. Only USDRUB managed to go down to 76.5 thanks to higher oil prices. In background of negotiation on the EU financial framework, the Hungarian central bank is taking its decision on interest rates. We are expecting no major changes.

**On the Polish interest market** the 10Y bond yield started the week at 1.20% (equal to Friday close), fell to 1.16% during the day but then rebounded to 1.20% again.

Core CPI, main categories, %y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.4802	CZKPLN	0.1692
USDPLN	3.7831	HUFPLN*	1.2489
EURUSD	1.1848	RUBPLN	0.0496
CHFPLN	4.1443	NOKPLN	0.4162
GBPPLN	4.9930	DKKPLN	0.6016
USDCNY	6.5656	SEKPLN	0.4377

\*for 100HUF

### Last session in the FX market

11/16/2020

	min	max	open	close	fixing
EURPLN	4.458	4.485	4.477	4.471	4.475
USDPLN	3.762	3.791	3.780	3.776	3.778
EURUSD	1.181	1.187	1.185	1.184	-

## Interest rate market 11/16/2020

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

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.03	0
PS0425 (5Y)	0.43	1
DS1030 (10Y)	1.20	0

### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.21	0	0.22	0	-0.53	1
2L	0.29	-1	0.26	1	-0.52	0
3L	0.37	-1	0.31	1	-0.50	1
4L	0.50	-1	0.38	0	-0.48	0
5L	0.64	-1	0.46	0	-0.44	1
8L	0.94	0	0.74	2	-0.32	0
10L	1.11	0	0.89	2	-0.22	0

## WIBOR rates

Term	%	Change (bps)
O/N	0.09	-1
T/N	0.10	0
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.22	0
6M	0.25	0
1Y	0.25	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	0.19	-1
3x6	0.18	-1
6x9	0.18	-1
9x12	0.23	1
3x9	0.22	-2
6x12	0.23	-1

## Measures of fiscal risk

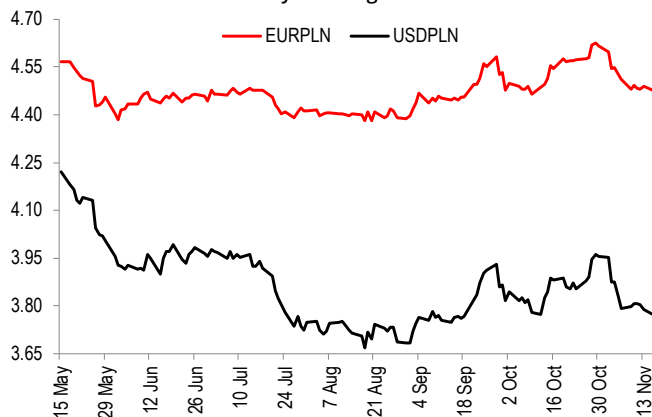
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	54	0	175	-1
France	10	0	24	-1
Hungary	62	0	274	1
Spain	49	-1	65	-2
Italy	77	0	116	-2
Portugal	28	0	63	-2
Ireland	14	0	32	-1
Germany	8	0	-	-

\* 10Y treasury bonds over 10Y Bunds

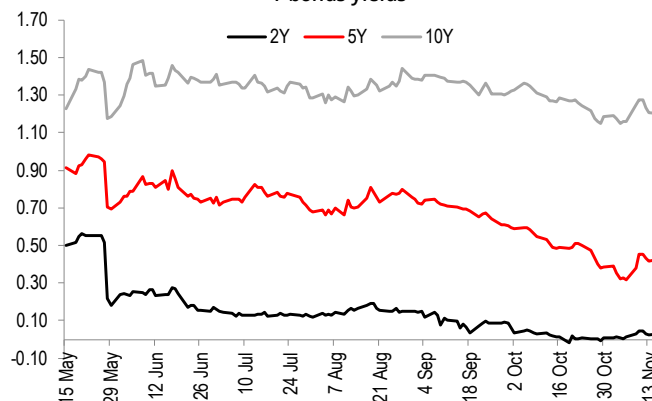
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

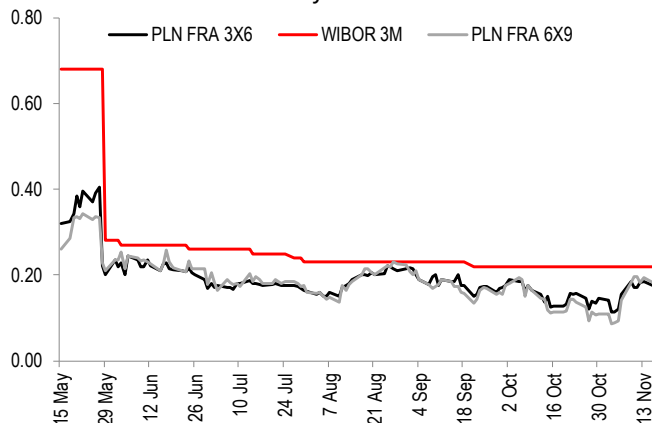
## Zloty exchange rate



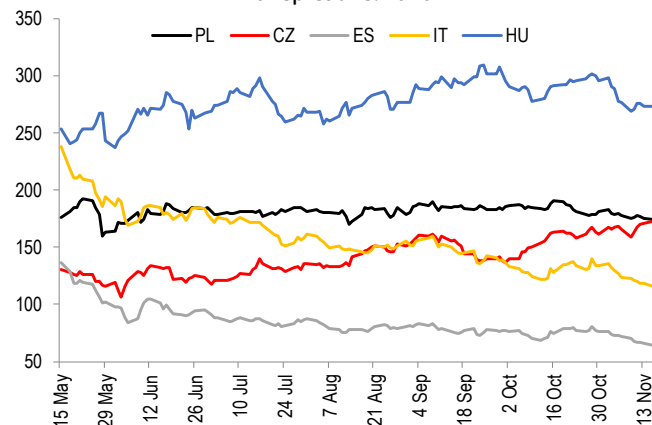
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (13 November)								
09:00	HU	GDP	3Q	% y/y	-5.4	-	-4.6	-13.6
10:00	PL	CPI	Oct	% y/y	3.1	3.1	3.1	3.0
10:00	PL	GDP	3Q	% y/y	-1.8	-1.8	-1.6	-8.2
11:00	EZ	GDP SA	3Q	% y/y	-4.3	-	-4.4	-4.3
14:00	PL	Current Account Balance	Sep	€mn	1 825	1 072	1 275	1 825
14:00	PL	Trade Balance	Sep	€mn	1 519	1 238	898	1 519
14:00	PL	Exports	Sep	€mn	21 068	21 109	18 031	21 068
14:00	PL	Imports	Sep	€mn	19 549	19 871	17 042	19 549
16:00	US	Michigan index	Nov	pts	82.0	-	77.0	81.8
MONDAY (16 November)								
14:00	PL	CPI Core	Oct	% y/y	4.1	4.2	4.2	4.3
TUESDAY (17 November)								
14:00	HU	Central Bank Rate Decision		%	0.6	-		0.6
14:30	US	Retail Sales Advance	Oct	% m/m	0.5	-		1.9
15:15	US	Industrial Production	Oct	% m/m	1.0	-		-0.6
WEDNESDAY (18 November)								
11:00	EZ	HICP	Oct	% y/y	-0.3	-		-0.3
14:30	US	Housing Starts	Oct	% m/m	2.1	-		1.9
THURSDAY (19 November)								
10:00	PL	Employment in corporate sector	Oct	% y/y	-	-0.9		-1.2
10:00	PL	Average Gross Wages	Oct	% y/y	-	3.0		5.6
14:30	US	Initial Jobless Claims	week	k	725.0	-		709.0
14:30	US	Index Philly Fed	Nov	pts	22.0	-		32.3
16:00	US	Existing Home Sales	Oct	% m/m	-1.6	-		9.4
FRIDAY (20 November)								
10:00	PL	Sold Industrial Output	Oct	% y/y	-	-0.2		5.9
10:00	PL	PPI	Oct	% y/y	-	-0.2		-1.6

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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