

7 December 2020

Eyeopener

Dollar in search of stability

US data below consensus, but stock indexes keep rising
 EURPLN still moving sideways, EURUSD marginally higher
 Domestic bonds sell-off
 Today Czech retail sales, second in a row solid rise of German output

On Friday European stock market indices remained near their local peaks and the dollar kept weakening (dollar index is the lowest since 1H2018). Bigger moves took place in the bond markets, where despite weaker than expected data from the US labour market yields have increased. November's non-farm employment growth was the smallest since the restrictions after the first US lockdown have been eased, and moreover the October's peak has been revised slightly lower. The unemployment rate has decreased slightly, though. The Brent oil price temporarily reached \$50 per barrel on Friday. This morning we have positive surprises with German production (+3.2% y/y plus a solid upside revision of the previous reading) and Chinese exports (+21.1% y/y in USD, the strongest rise since early 2018).

November **MPC meeting's minutes** underscored the uncertainty regarding the economic outlook. The council agreed that the risks to the current economic projection are to the downside - deterioration of business conditions in Poland's trading partners and lack of zloty's further depreciation during the pandemic were noted as reasons. Majority of the MPC agreed on CPI projection showing CPI at the inflation target (2.5%) next year, however some of the members had doubts and thought the inflation would be higher due to minimum wage hike and possible maintained high inflation of services prices. The paragraph on monetary policy prospects remained unchanged.

Fitch Ratings analyst Arvind Ramakrishnan assumes Poland and EU will find a compromise regarding the rule of law, EU budget and Recovery Fund, on pragmatic grounds. He said that the possible veto by Poland will not translate directly and immediately to Poland's rating decrease.

EURUSD on Friday has risen for a 4th day in a row but the rate of change was the smallest one within the series. The exchange rate managed to break Thursday's maximum and reach almost 1.218 however at the end of the day it was close to 1.214 only slightly above the Friday open, and today in the morning is already below that level. EURUSD might remain at the elevated level before this Thursday's ECB meeting but by the end of the week we see a risk of EURUSD correcting lower.

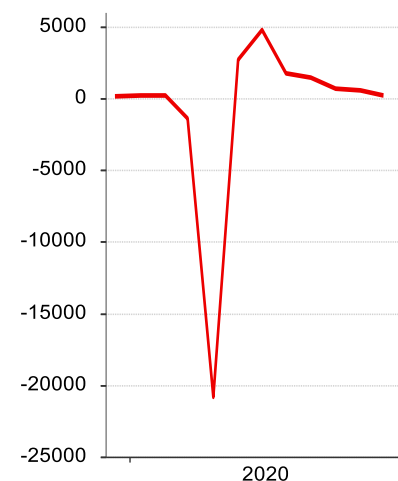
EURPLN climbed to 4.48 from 4.465 in the first part of the day, but at the end of the session went back to 4.47. USDPLN has spent almost the entire day around 3.675 and temporarily rebounded to 3.69. There were no general changes how the zloty was traded. The Polish currency is moving in a horizontal trend despite comments of EU representatives and Polish PM suggesting that their negotiation stances on the EU budget did not come closer together. We expect EURPLN to remain range-bound for the better part of the week. The level of EURPLN at the end of the week will depend on the market reaction to the ECB meeting (stronger dollar usually does not support the zloty) as well as to the results, if any, of the EU summit. In case of negative news for Poland, the zloty will weaken. If, however, the summit is inconclusive - then EURPLN is more likely to remain range-bound awaiting the outcome of the talks.

In case of the **other CEE currencies**, the korona underperformed again and lost for the sixth session in a row vs the euro (EURCZK rose 1% so far in December; EURPLN and EURHUF are stable, USDRUB c3% lower). On Friday, the forint gave up half of Thursday's gains vs the euro and the ruble gained vs the dollar amid rising oil price.

On the domestic **interest rate** market the end of the week saw a substantial steepening of curves, plausibly in part due to investors reducing their positions ahead of the EU summit and taking profits ahead of the year end. The 5Y bond yield jumped 7bp (to 0.54%) and 10Y 12bp (to 1.40%, intraday it was even 1.45%, its highest since August). The IRS curve moved +10bp (belly and long end). In case of lack of negative news from Brussels, part of the move might retrace if core yields do not rise at that time. On Friday, the 10Y Bund yield rose 2-3bp and UST 7bp. The 10Y PL-DE bond yield spread rose by more than 10bp to 195bp, its highest since mid-May.

This week we will again take a rest from macro data and investors' focus will likely be on ECB meeting (Thursday) and European Council summit (Thursday-Friday), where the EU budget and Brexit are to be discussed. ECB was clear about its willingness to broaden the support for the European economy at this. The key issue for Poland at the European Council summit will be the EU budget negotiations. Poland and Hungary are against conditioning the EU funds on the rule of law. In recent days, instead of news about nearing compromise, we have seen hardening positions on both sides. Another possible scenario is that the summit may be prolonged and we will not see any breaking news before the weekend.

Change in US nonfarm payrolls (k)



Source: Refinitiv Datastream, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4686	CZKPLN	0.1685
USDPLN	3.6848	HUFPLN*	1.2385
EURUSD	1.2124	RUBPLN	0.0496
CHFPLN	4.1339	NOKPLN	0.4178
GBPPLN	4.9380	DKKPLN	0.6002
USDCNY	6.5409	SEKPLN	0.4351

*for 100HUF

Last session in the FX market

04.12.2020

	min	max	open	close	fixing
EURPLN	4.463	4.481	4.464	4.467	4.473
USDPLN	3.669	3.689	3.674	3.681	3.677
EURUSD	1.213	1.218	1.215	1.214	-

Interest rate market 04.12.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.13	4
DS0725 (5Y)	0.61	7
DS1030 (10Y)	1.41	12

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	0.21	-0.55
2L	0.33	0.22	-0.53
3L	0.45	0.27	-0.52
4L	0.62	0.37	-0.49
5L	0.77	0.48	-0.45
8L	1.10	0.80	-0.33
10L	1.29	0.97	-0.24

WIBOR rates

Term	%	Change (bps)
O/N	0.10	2
T/N	0.10	0
SW	0.11	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	0.21	1
3x6	0.20	2
6x9	0.21	3
9x12	0.24	5
3x9	0.23	1
6x12	0.27	4

Measures of fiscal risk

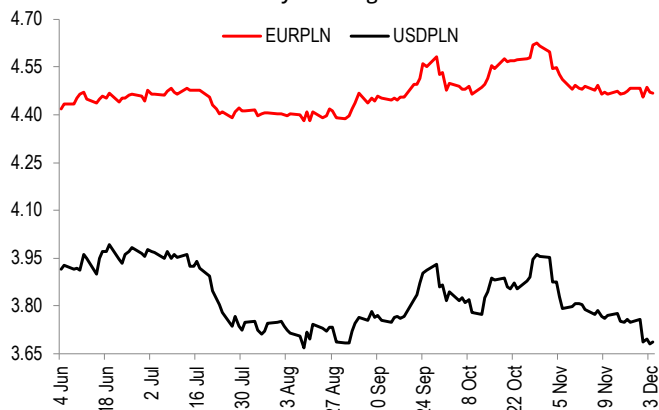
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	195
France	9	24
Hungary	60	285
Spain	48	63
Italy	73	113
Portugal	28	59
Ireland	13	29
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

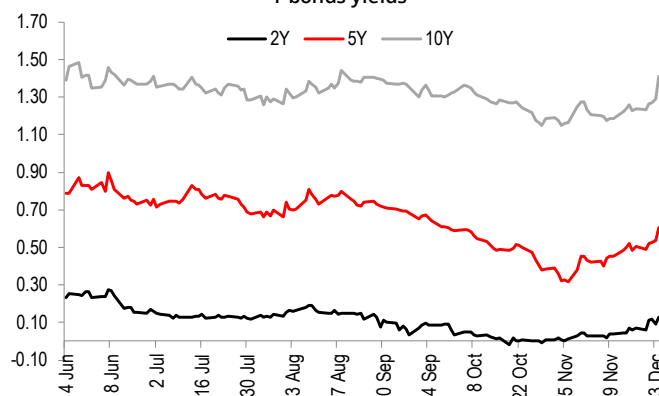
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

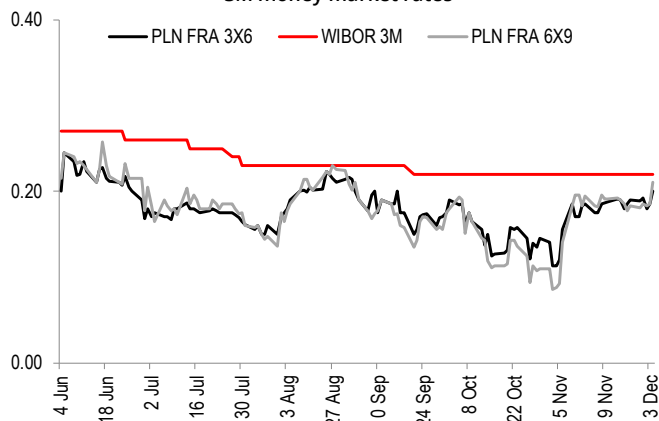
Zloty exchange rate



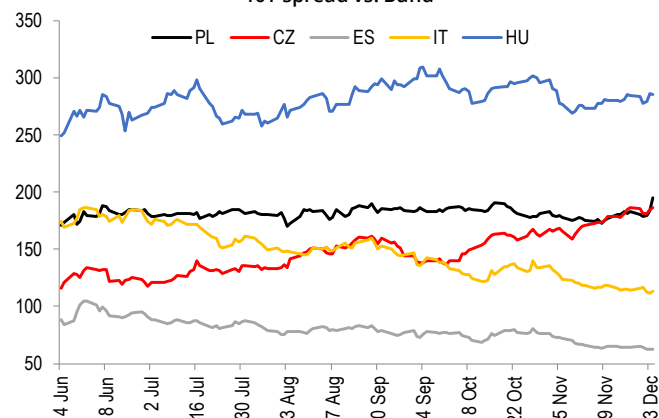
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (4 December)								
08:00	DE	Factory Orders	Oct	% m/m	1.4	-	2.9	1.1
09:00	HU	Industrial Production SA	Oct	% y/y	0.5	-	0.6	-1.0
14:30	US	Change in Nonfarm Payrolls	Nov	k	478	-	245	610
14:30	US	Unemployment Rate	Nov	%	6.8	-	6.7	6.9
16:00	US	Durable Goods Orders	Oct	% m/m	1.3	-	1.3	1.3
16:00	US	Factory Orders	Oct	% m/m	0.8	-	1.0	1.3
MONDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.7	-	3.2	2.3
09:00	CZ	Retail sales	Oct	% y/y	-3.3	-		0.4
TUESDAY (8 December)								
09:00	CZ	Industrial Production	Oct	% y/y	-2.2	-		-1.5
09:00	HU	CPI	Nov	% y/y	2.9	-		3.0
11:00	EZ	GDP SA	3Q	% y/y	-4.4	-		-4.4
11:00	DE	ZEW Survey Current Situation	Dec	pts	-65.5	-		-64.3
WEDNESDAY (9 December)								
08:00	DE	Exports SA	Oct	% m/m	1.0	-		2.3
THURSDAY (10 December)								
09:00	CZ	CPI	Nov	% y/y	3.0	-		2.9
13:45	EZ	ECB Main Refinancing Rate		%	-	-		0.0
14:30	US	CPI	Nov	% m/m	0.1	-		0.0
14:30	US	Initial Jobless Claims	week	k	700	-		712.0
FRIDAY (11 December)								
9:00	HU	Industrial production	Oct	% y/y	-	-		0.6
16:00	US	Michigan index	Dec	pts	76.3	-		76.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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