

10 December 2020

Eyeopener

The summit begins – zloty and forint stronger

Still no breakthrough in Brexit talks
Zloty and forint gain on chances for a deal with EU
Domestic and foreign bonds stable
Today European Council summit, ECB decision

On Wednesday, trading was again calm and stock market sentiment only a bit better than on the preceding two days. On one hand the market is hoping for a swift distribution and start of Covid-19 vaccinations as well as on fiscal package in the USA. On the other hand, there are still no positive news about Brexit. Yesterday the Irish PM said there are 50/50 chances to reach an agreement. The United Kingdom – EU relations after the transition period are to be the main issue of the European Council summit starting today, provided that agreement on EU budget is reached.

One day before the **European Council summit** starting today there were some optimistic news about tentative agreement between Poland, Hungary and the German presidency. Later in the day these news were confirmed by Polish president Andrzej Duda. Angela Merkel spoke in a similar manner but underlined that the positive outcome is not secured yet. Rising chances for a common stance were positive for PLN and HUF yesterday.

Moody's rating agency released a report in which it expressed concerns that the institutional framework will be still deteriorating in Poland in the coming years. **S&P** rating agency said it is not concerned about the Polish fiscal performance even if the debt to GDP ratio does not start to fall before 2023. Any adjustments to the credit rating could rely on the Poland's economic potential – the pace the economy can sustain after the pandemic.

EURUSD fell yesterday to c1.205 from 1.215 at the opening but today in the morning is back close to 1.21. This move did not change the overall situation and the exchange rate is still holding at an elevated level. Today the volatility could rise in response to the ECB decision. The market expects the monetary policy could be eased further, for example, by extending the PEPP program. In our view, the euro could depreciate today after the ECB decision.

EURPLN fell yesterday to 4.415 from 4.445 amid optimistic news flow ahead of the EC summit. **USDPLN** remained near 3.66 since the effect of lower **EURPLN** was neutralized by the down move of **EURUSD**. After breaking 4.45, the next target for **EURPLN** could be 4.38 but we do not expect this could be a persistent move. First, it seems that lack of the zloty's depreciation after the earlier claims of Poland and Hungary about vetoing the EU budget was partly due to the market expectations of a positive result of negotiations. Second, the room for bigger zloty strengthening could be limited by the likely dollar appreciation.

As regards **other CEE currencies**: the forint was outperforming, as it was also supported by positive news on the EU budget. **EURHUF** went down to 355, only slightly above November low below 354. **EURCZK** saw its daily minimum at 26.14, but the koruna gave away most of its gains before the end of the day and the rate rebounded to 26.28 (-0.2% from the opening). The ruble gave away its whole Tuesday strengthening vs the dollar due to appreciation of the USD.

On the Polish **fixed income market** bond yields have not changed much as core market yields also remained relatively stable. **IRS** however increased by 4-5bp and 5Y reached 0.75% (above Friday maximum), while 10Y went up to 1.24% (slightly below last week's maximum). On the Eurozone peripheries the 10Y bond yields slightly declined. Polish government bonds prices have not gone up after positive news about the EU budget. Perhaps in order for bonds to react in a positive manner we will have to wait for the final agreement as well as a dovish ECB meeting outcome.

The **Ministry of Finance** announced that at the tomorrow's switch auction it will offer OK0423, PS0425, WZ1126, DS1030 and WZ1131 bonds, and will repurchase WZ0121, PS0421, OK0521, PS0721 and DS1021.

German ZEW economic sentiment



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.4298	CZKPLN	0.1681
USDPLN	3.6641	HUFPLN*	1.2286
EURUSD	1.2096	RUBPLN	0.0497
CHFPLN	4.1193	NOKPLN	0.4148
GBPPLN	4.8847	DKKPLN	0.5952
USDCNY	6.5478	SEKPLN	0.4323

*for 100HUF

Last session in the FX market

09.12.2020

	min	max	open	close	fixing
EURPLN	4.416	4.451	4.445	4.432	4.445
USDPLN	3.642	3.673	3.664	3.670	3.666
EURUSD	1.207	1.215	1.213	1.208	-

Interest rate market 09.12.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.07	1
DS0725 (5Y)	0.55	0
DS1030 (10Y)	1.37	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	1	-0.56
2L	0.34	2	-0.55
3L	0.47	3	-0.54
4L	0.62	3	-0.52
5L	0.77	3	-0.49
8L	1.09	3	-0.37
10L	1.26	3	-0.28

WIBOR rates

Term	%	Change (bps)
O/N	0.09	0
T/N	0.10	0
SW	0.11	0
2W	0.16	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	0.20	0
3x6	0.20	-1
6x9	0.22	2
9x12	0.23	2
3x9	0.25	2
6x12	0.27	1

Measures of fiscal risk

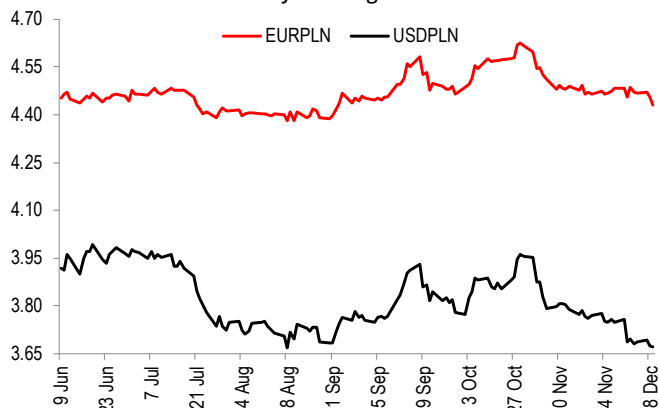
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	198
France	9	24
Hungary	60	289
Spain	47	63
Italy	72	115
Portugal	28	59
Ireland	13	30
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

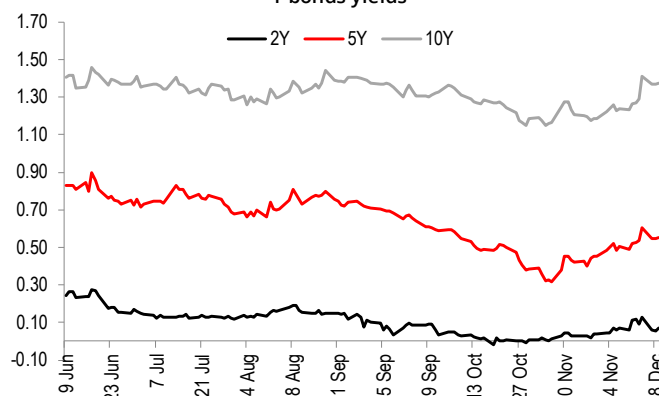
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

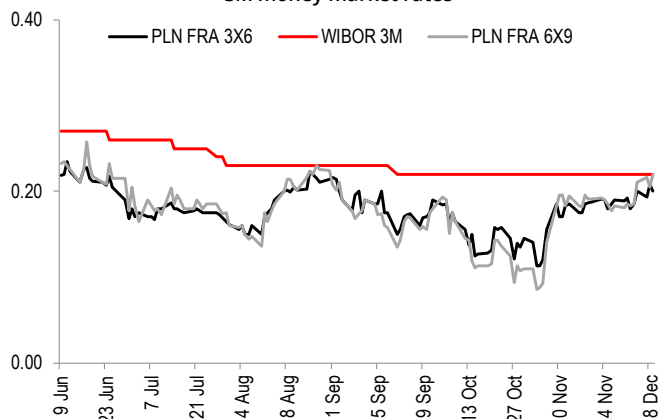
Zloty exchange rate



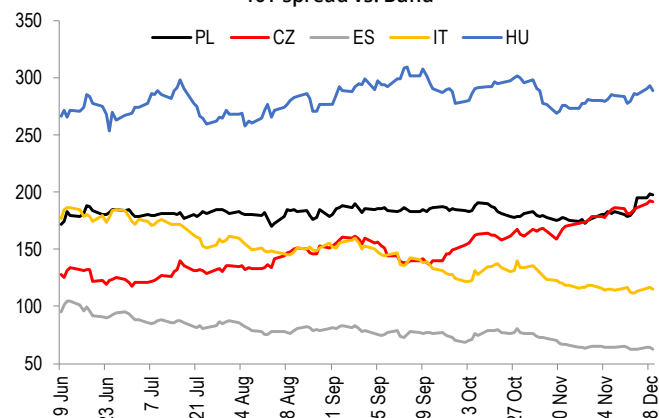
T-bonds yields



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	-	-0.9	0.4
TUESDAY (8 December)								
09:00	CZ	Industrial Production	Oct	% y/y	-2.2	-	1,3	-1.9
09:00	HU	CPI	Nov	% y/y	2.9	-	2,7	3.0
11:00	EZ	GDP SA	3Q	% y/y	-4.4	-	-4,3	-4.4
11:00	DE	ZEW Survey Current Situation	Dec	pts	-65.5	-	-66,5	-64.3
WEDNESDAY (9 December)								
08:00	DE	Exports SA	Oct	% m/m	1.0	-	0.8	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
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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