

11 December 2020

Eyeopener

No veto at EU summit, ECB boosts QE

ECB eases monetary policy, Poland and Hungary did not veto EU budget
Zloty and domestic bonds stable
EURUSD still high
Today Michigan consumer sentiment index

On Thursday the global market sentiment was moderately positive thanks to higher chances for a fiscal package in the USA. On the other hand, there was still no progress reported in Brexit talks that are expected to last until Sunday. Stock indexes started to fall. Bond yields remained near Wednesday's closing levels, changes on the FX market were mostly minor, only the pound suffered noticeably. The outcome of the ECB meeting did not surprise.

The first day of **European Council summit** brought a deal on EU budget and launch of the Recovery and Resilience Facility. Neither Poland nor Hungary vetoed. Disposition on tying EU funds with rule of law is to be suspended until CJEU passes a verdict whether it is line with treaties (this can take between a few months to 2-3 years). It was also agreed that the country accused by the European Commission as not abiding by rule of law could call for discussing its issue by the European Council, but it is not clear if it could effectively avoid sanctions this way.

ECB kept interest rates unchanged while the size of the PEPP program, launched in order to help fight the Covid-19 pandemic economic damage, was increased by EUR500bn to EUR 1850bn. The program was extended to at least March 2022. In the communique it has been underscored that the amount might be increased by even more if need be. The APP purchasing program was kept at EUR20bn/month. Also the favourable conditions of TLTRO loans have been extended by 12 months. The reason for the increase of the monetary support for the economy has been the second wave of the Covid-19 and related restrictions. ECB updated its economic and inflation forecasts which are a function of worse economic outlook. The balance of risks to growth remained skewed to the downside.

The report by GUS about the Q3 **labour demand** showed that the labour market behaves pretty well given the economic shock it faces and reacted positively to the temporary improvement of business conditions. In Q3 the pace of job shedding decreased to -24% y/y (during the quarter 64k jobs were destroyed, of which 16k due to Covid-19) from 14.3% y/y in Q2 (93.6k, of which 31k Covid-19 related ones). Job creation was lower by 16.4% than a year earlier, while in Q2 it was as much as 44.2% lower. Also, at the end of Q3 the share of workers working remotely from home equalled 5.8%, while 3 months earlier it was 10.2%.

Head of the **Energy Regulatory Office** (URE) approved the new energy tariffs for 2021 for 3 out of 4 suppliers. Prices for households will go up by c.3.5% on average, which in our view adds 0.1pp to inflation (assuming that the approved hike for the fourth company will be similar). Since January also other energy fees are changing, in particular the "power surcharge", which will additionally boost energy bills – by c.9% in total, according to our estimate (+0.35pp to inflation rate).

The **NBP Governor Adam Glapiński** said in an official recording on the NBP website that the current level of interest rates is appropriate and will remain so for a very long period. According to Glapiński, the low demand for bill discount credit means there is no need to work on new instruments supporting banks' financing. The NBP will conduct the asset purchases as long as and at a scale that are necessary.

EURUSD climbed to 1.213 from 1.208 after four days of declines. The euro managed to maintain its gains from the last few days thanks to the ECB decision not to loosen the monetary policy more than expected and the budget consensus on the European Council summit. The latter factor could push EURUSD upwards, but in our view, but given the today's morning drop, it is more likely to stay in 1.206-1.218 range.

EURPLN was hovering yesterday around 4.43 holding slightly above the Wednesday's low at slightly above 4.42 reached amid hopes for a EU budget compromise. USDPLN eased slightly to 3.64 from 3.66 amid higher EURUSD. The **other CEE currencies** did not move much either intraday. EURCZK, EURHUF and USDRUB remained close to their Wednesday's lows/closing levels.

On the domestic **interest rate market** Thursday's session was calm and there were only little changes of the IRS rates and bond yields. On the European market, there was a profit taking from the strengthening observed in the previous days and so the 10Y PL-DE bond yield spread narrowed 2bp to 197bp.

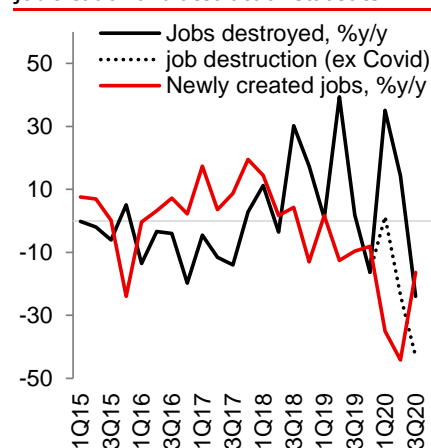
NBP released a calendar of MPC meetings for 2021 which confirmed this week's media reports that next year there will be one-day meetings.

ECB forecasts

	GDP			HICP		
	2020	2021	2022	2020	2021	2022
December	-7.3	3.9	3.2	0.2	1.0	1.1
September	-8.0	5.0	3.2	0.3	1.0	1.3

Source: ECB, Santander Bank Polska

Job creation and destruction statistics



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4257	CZKPLN	0.1666
USDPLN	3.6418	HUFPLN*	1.2327
EURUSD	1.2155	RUBPLN	0.0499
CHFPLN	4.1106	NOKPLN	0.4166
GBPPLN	4.8501	DKKPLN	0.5951
USDCNY	6.5402	SEKPLN	0.4322

*for 100HUF

Last session in the FX market

10.12.2020

	min	max	open	close	fixing
EURPLN	4.417	4.434	4.428	4.425	4.428
USDPLN	3.640	3.668	3.661	3.652	3.657
EURUSD	1.208	1.216	1.209	1.212	-

Interest rate market 10.12.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.07	0
DS0725 (5Y)	0.56	1
DS1030 (10Y)	1.38	0

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	0.20	-0.56
2L	0.34	0.21	-0.55
3L	0.46	0.25	-0.54
4L	0.61	0.34	-0.52
5L	0.77	0.43	-0.49
8L	1.08	0.74	-0.38
10L	1.25	0.90	-0.29

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	0.19	-1
6x9	0.21	-1
9x12	0.24	1
3x9	0.23	-2
6x12	0.25	-2

Measures of fiscal risk

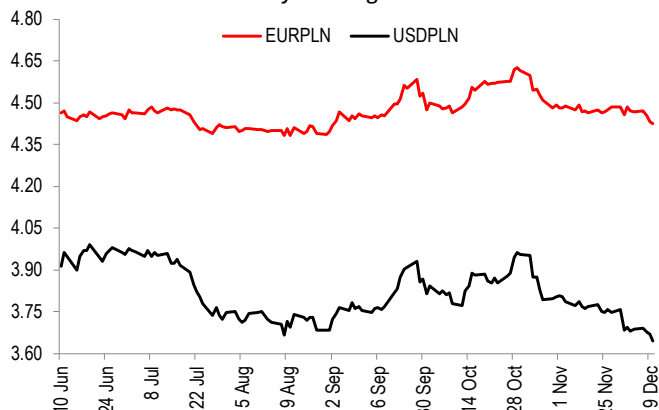
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	198
France	9	24
Hungary	60	286
Spain	47	63
Italy	72	113
Portugal	28	58
Ireland	13	30
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

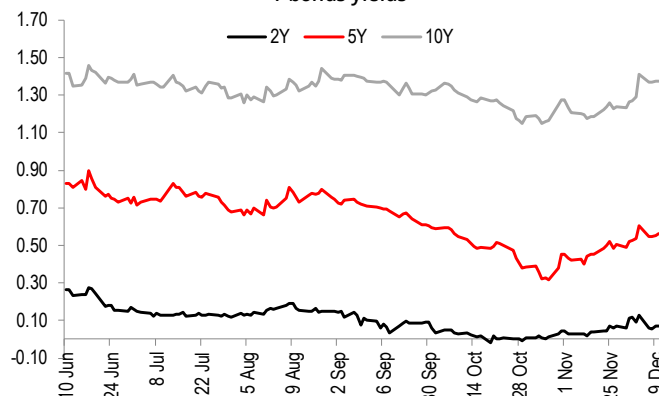
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

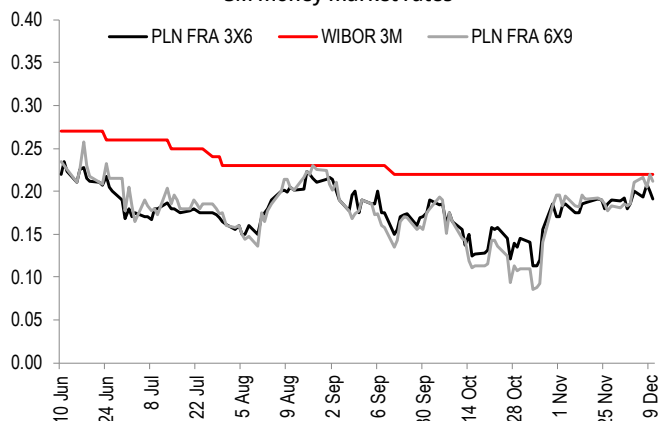
Zloty exchange rate



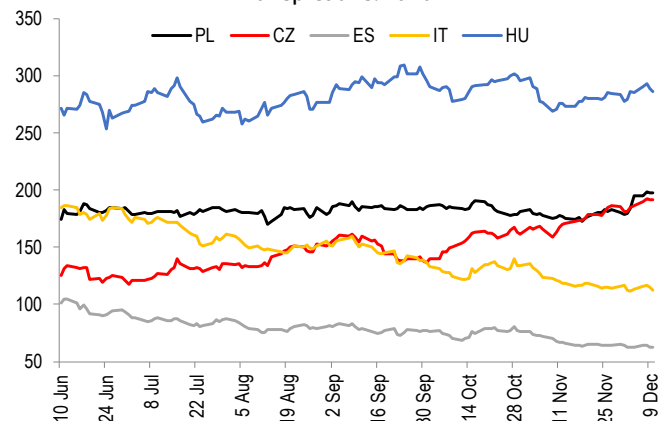
T-bonds yields



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	-	2.7	2.9
13:45	EZ	ECB Main Refinancing Rate		%	-	-	0.0	0.0
14:30	US	CPI	Nov	% m/m	0.1	-	0.2	0.0
14:30	US	Initial Jobless Claims	week	k	700	-	853	716
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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