

16 December 2020

Eyeopener

Watch out for the third wave

Small market fluctuations in expectation for Brexit and Fed meeting
 Zloty stable, forint slightly weaker, EURUSD still high
 Polish bonds gained, spread vs Bund lower
 Polish inflation fell to 3.0% in November
 Today, Polish core inflation, abroad flash PMIs and FOMC decision

On Tuesday the stock market indices were rising while fixed income and foreign exchange markets were dominated by expectation for the last-chance talks between EU and UK and for today's FOMC meeting.

During the US presidential campaign the **Federal Reserve** did not signal the necessity or the intention to support the economy through any immediate action. We think that at today's meeting there may be a discussion about potential changes in the ongoing asset purchases programme. In particular, there may be a suggestion about focusing purchases at the long end of the curve. In the context of rising chances for fiscal stimulus and the lack of earlier signals of quick changes in the policy, we do not think that the meeting ends with any major decisions yet. The new CPI and GDP forecasts will be released.

PM Mateusz Morawiecki said that epidemic situation has improved in Poland, but not enough to withdraw autumn restrictions. A day earlier health minister Adam Niedzielski informed that he will recommend extension of the current restrictions to mid-January and wants to show today the consequences of the imposed restrictions. An argument for keeping restrictions in place is worry about third wave of infections after the New Year. The remarks confirm our assessment that the reduced economic activity will carry over to 1Q21.

Polish **November CPI** was confirmed at 3.0% y/y (the level indicated earlier in the flash release) vs 3.1% y/y in October. While inflationary pressure in goods was easing (+1.3% y/y versus 1.5% y/y in October), services prices accelerated again to 7.8% y/y from 7.3% y/y. Stronger growth was visible in transport services, telecommunications, insurance, refuse collection and it seems that core inflation accelerated to 4.3% y/y from 4.2% y/y. We expect inflation to go down in the months to come and to average slightly below 2.5% y/y in 2021. Downward momentum will be mostly driven by food prices, while there could be some upward push due to administered prices.

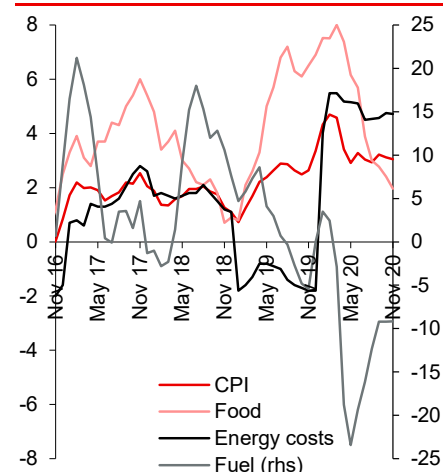
EURUSD did not change much, spending another session around an elevated level of 1.215. Volatility has been decreasing lately, but this could change this evening in reaction to FOMC meeting. A possible reaction should not be strong as UK-EU talks seem a more important issue right now. In our view, after the significant appreciation of the euro in the previous weeks, further upside potential for EURUSD is running out.

EURPLN rose in the first part of the session to 4.45 from 4.43 but by the end of the day it was back to the opening level at c.4.432. USDPLN moved around 3.655. In both cases yesterday did not bring important changes and the fx pairs remained close to the levels around which they are oscillating for several days. The zloty is waiting for an impulse to a more significant move. A conclusion of Brexit talks could be such an impulse. We think that the reaction of the market to an announcement of how the talks ended may be asymmetric – in a positive case EURPLN could fall to 4.38, in a negative one it could rise to 4.50 or even higher.

In case of the **other CEE currencies**, the forint underperformed (EURHUF +0.4% to 355) which might have been due to the uncertainty ahead of the central bank decision. Interest rates were kept unchanged and with regard to the monetary policy outlook, the bank stressed that caution is required when assessing the persistence of inflation trends. The central bank lowered its 2021 GDP forecast to 3.5-6.0% from 4.4-6.8% and average inflation is to reach 3.5%, similar to the previous forecast.

On the **domestic interest rate market** Tuesday saw narrowing of the asset swap spreads owing to further noticeable drop of the bond yields and slight rise of IRS. Polish debt was catching up lack of strengthening last week after the EU budget deal and the ECB's extension of the PEPP program. Another day of stable Bund allowed further spread tightening to slightly below 190bp. We think Polish bonds could gain further but the positive final of Brexit talks would be required.

Selected components of Polish inflation (% y/y)



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4351	CZKPLN	0.1668
USDPLN	3.6474	HUFPLN*	1.2378
EURUSD	1.2161	RUBPLN	0.0497
CHFPLN	4.1183	NOKPLN	0.4182
GBPPLN	4.9043	DKKPLN	0.5951
USDCNY	6.5367	SEKPLN	0.4354

*for 100HUF

Last session in the FX market

15/12/2020

	min	max	open	close	fixing
EURPLN	4.429	4.450	4.432	4.439	4.444
USDPLN	3.645	3.667	3.647	3.651	3.655
EURUSD	1.212	1.217	1.215	1.216	-

Interest rate market 15/12/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.05	-1
DS0725 (5Y)	0.48	-3
DS1030 (10Y)	1.28	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.22	1	0.19	0	-0.56	1
2L	0.32	1	0.20	1	-0.54	1
3L	0.44	1	0.24	0	-0.53	1
4L	0.58	1	0.33	1	-0.52	0
5L	0.73	1	0.43	1	-0.49	0
8L	1.02	1	0.73	0	-0.38	0
10L	1.17	0	0.90	2	-0.29	0

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	0.21	0
6M	0.25	0
1Y	0.25	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.20	-2
3x6	0.19	1
6x9	0.22	1
9x12	0.24	1
3x9	0.23	-2
6x12	0.26	0

Measures of fiscal risk

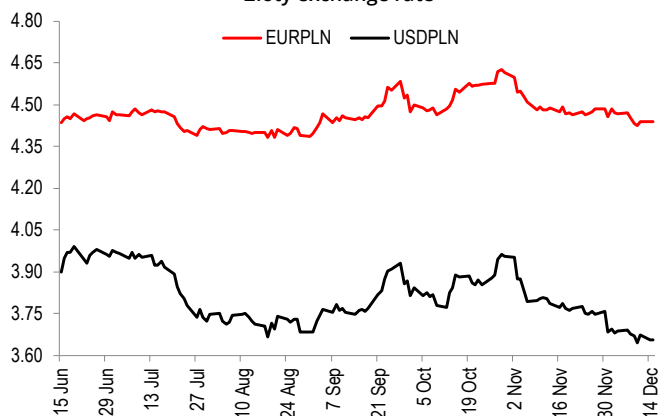
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	189	-4
France	9	1	24	-1
Hungary	60	0	280	-8
Spain	47	0	60	-3
Italy	71	-2	109	-4
Portugal	28	0	56	-3
Ireland	13	0	30	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

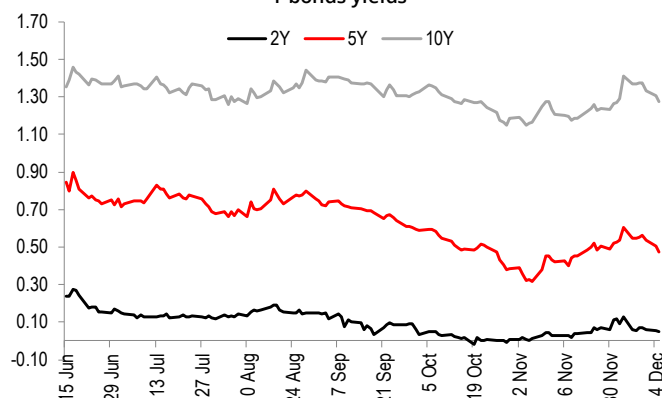
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

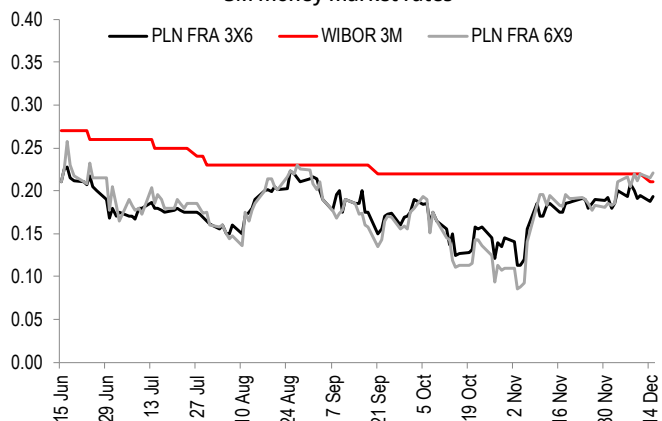
Zloty exchange rate



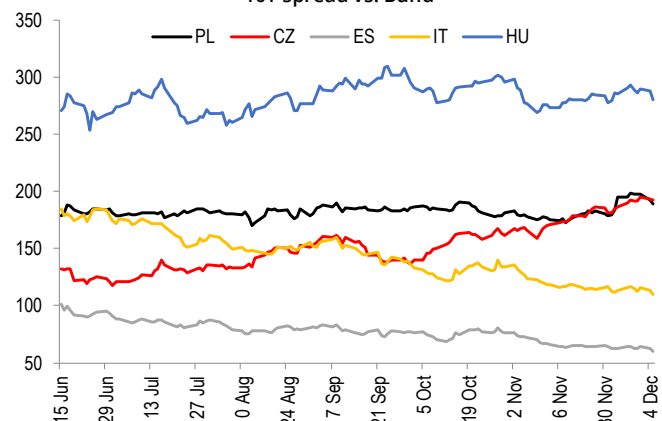
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (11 December)								
08:00	DE	HICP	Nov	% m/m	-0.8	-	-0.8	-0.8
16:00	US	Michigan index	Dec	pts	76.0	-	81.4	76.9
MONDAY (14 December)								
11:00	EZ	Industrial Production SA	Oct	% m/m	1.8	-	2.1	-0.4
14:00	PL	Current Account Balance	Oct	€mn	1 235	1 022	2 241	1 072
14:00	PL	Trade Balance	Oct	€mn	1 114	848	1 732	1 238
14:00	PL	Exports	Oct	€mn	22 448	22 152	22 965	21 109
14:00	PL	Imports	Oct	€mn	21 277	21 304	21 233	19 871
TUESDAY (15 December)								
10:00	PL	CPI	Nov	% y/y	3.0	3.0	3.0	3.1
14:00	HU	Central Bank Rate Decision		%	0.60	-	0.60	0.60
15:15	US	Industrial Production	Nov	% m/m	0.5	-	0.4	0.9
WEDNESDAY (16 December)								
09:30	DE	Flash Germany Manufacturing PMI	Dec	pts	56.5	-		57.8
09:30	DE	Flash Markit Germany Services PMI	Dec	pts	44.0	-		46.0
10:00	EZ	Flash Eurozone Manufacturing PMI	Dec	pts	53.1	-		53.8
10:00	EZ	Flash Eurozone Services PMI	Dec	pts	41.5	-		41.7
14:00	PL	CPI Core	Nov	% y/y	4.2	4.3**		4.2
14:30	US	Retail Sales Advance	Nov	% m/m	-0.1	-		0.3
20:00	US	FOMC decision		%	0.25	-		0.25
THURSDAY (17 December)								
10:00	PL	Employment in corporate sector	Nov	% y/y	-1.5	-1.2		-1.0
10:00	PL	Average Gross Wages	Nov	% y/y	4.7	4.5		4.7
11:00	EZ	HICP	Nov	% y/y	-	-		-0.3
14:30	US	Initial Jobless Claims	week	k	-	-		853
14:30	US	Housing Starts	Nov	% m/m	-0.3	-		4.9
14:30	CZ	Central Bank Rate Decision		%	0.25	-		0.25
14:30	US	Index Philly Fed	Dec	pts	21.7	-		26.3
FRIDAY (18 December)								
10:00	DE	IFO Business Climate	Dec	pts	90.3	-		90.7
10:00	PL	Sold Industrial Output	Nov	% y/y	3.5	3.8		1.0
10:00	PL	PPI	Nov	% y/y	-0.1	-0.5		-0.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

**estimate after detailed CPI inflation data release

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