

17 December 2020

# Eyeopener

## Core inflation at the peak again

Flash December PMIs surprised positively  
Core inflation increased again  
Zloty without breakthrough, EURUSD even higher  
Polish bonds stable, lower ASW and spreads vs Bunds  
Today Polish labour market data, numerous US data releases

Morning releases of flash December PMIs for Germany and euro zone had the biggest impact on the yesterday's session. The headline numbers surprised well to the upside, particularly for services where the previous four months saw a decline of activity amid new round of lockdowns. Manufacturing indices resumed an upside trend after a minor drop in November. Manufacturing PMI for Germany reached its highest since February 2018 and for euro zone since May 2018. The market reaction to this data was very positive – stock indexes, EURUSD and core bond yields rose – despite the uncertainty related to Brexit.

At its last meeting this year, **the US Fed** left interest rates and parameters of its QE program unchanged. It declared that interest rates should remain unchanged until late 2023 and the current pace of monthly bond purchases shall be maintained until the progress has been recorded in inflation approaching its target and economy reaching full employment. These conditions were interpreted as extension of the QE horizon. The new Fed forecasts see GDP at -2.4% in 2020 and +4.2% in 2021, PCE inflation at 1.2% and 1.8%, respectively.

**Polish core inflation** ex fuel and energy rose to 4.3% y/y again in November from 4.2%. This year it has already been three times at this level, the highest since late 2001. Given the decline of domestic demand observed this year we believed core inflation would have to trend lower at some point, but so far this has not materialised. Its November rise was caused by acceleration in some services prices like trash collection, hotels and restaurants or communication, but the stubbornly high level is also linked to administered prices as can be seen in the difference between CPI ex food and energy and CPI ex administered prices (the latter staying much lower, at 2.1% y/y). In our view the picture will change as we enter 2021 and by the middle of the next year core inflation ex food and energy will decline to around 2% y/y and spend 2H of the year below this level.

**Data about the foreign trade** from GUS (Polish stats office) for January-October imply, assuming no revisions for the previous months of 2020, that only in October exports in EUR rose 8.5% y/y, including +12% to the EU, and more than 19% to Germany. On the other hand, exports to our region and neighbors outside the EU fell. Implied growth of imports stands at 0.5% y/y accompanied by the first decent rise of deliveries from the EU since the start of pandemic (+10.8% y/y) and still low imports from Russia (c-40% y/y).

**EURUSD** broke the upper end of the consolidation observed during the previous eight sessions and reached 1.22, its highest since April 2018. Robust PMIs were the trigger for this move. After the short evening correction, the exchange rate rose further after the Fed meeting.

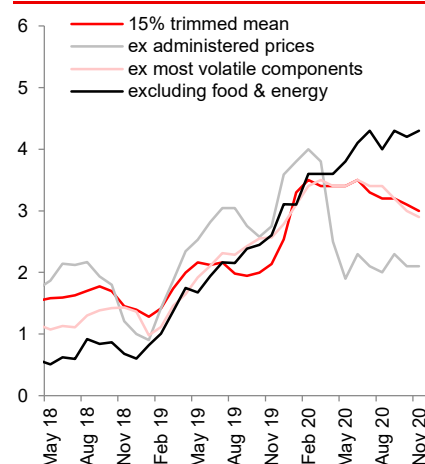
**EURPLN** did not change much yesterday and remained near 4.43-4.44. Zloty did not gain on the clear EURUSD jump and stock markets' rise and a temporary USDPLN drop to 3.625 from 3.65 was the derivative of euro strengthening versus dollar. Today in the morning EURPLN is already below 4.43 and may hold its gains if global sentiment does not deteriorate.

In case of the **other CEE currencies**, the worst performing was the ruble, which did not benefit from the dollar weakening. Appreciation impulse of Russian currency has faded after USDRUB had reached the support 72.0 at the end of last week and since then remains slightly above this level. The Czech koruna was the one that gained most on the global risk appetite (EURCZK down by 0.3%, temporarily even by 0.7% to 26.12, its new December low). EURHUF was fluctuating near its Tuesday's close c.355.

On the **domestic interest rate market** Wednesday saw further narrowing of asset swap spreads (10Y to 10bp) and spread vs Bund (10Y to 186bp). Bond yields rose only slightly, while a clear weakening of German debt after European PMI data has influenced more the Polish IRS rates (5Y and 10Y +5bp)

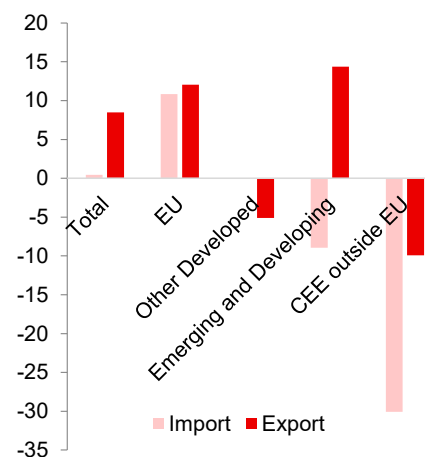
Yesterday we have released the **new MACROscope** with 2021 Outlook. Enjoy reading.

### Core inflation measures, % y/y



Source: NBP, Santander Bank Polska

### Poland's international trade in goods by country groups, October 2020, % y/y



Source: GUS, Santander Bank Polska

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
Piotr Bielski +48 22 534 18 87  
Marcin Luzziński +48 22 534 18 85  
Wojciech Mazurkiewicz +48 22 534 18 86  
Grzegorz Ogonek +48 22 534 19 23  
Marcin Sulewski, CFA +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.4279	CZKPLN	0.1677
USDPLN	3.6201	HUFPLN*	1.2376
EURUSD	1.2230	RUBPLN	0.0496
CHFPLN	4.0989	NOKPLN	0.4197
GBPPLN	4.9088	DKKPLN	0.5951
USDCNY	6.5330	SEKPLN	0.4360

\*for 100HUF

### Last session in the FX market

16/12/2020

	min	max	open	close	fixing
EURPLN	4.427	4.447	4.433	4.440	4.435
USDPLN	3.625	3.658	3.646	3.647	3.633
EURUSD	1.215	1.221	1.216	1.217	-

## Interest rate market 16/12/2020

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

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.08	3
DS0725 (5Y)	0.50	3
DS1030 (10Y)	1.30	2

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

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.21	-1	0.20	0	-0.55	1
2L	0.35	2	0.20	0	-0.53	1
3L	0.46	2	0.25	0	-0.52	1
4L	0.62	4	0.33	0	-0.50	2
5L	0.77	4	0.43	0	-0.47	2
8L	1.06	4	0.74	1	-0.35	3
10L	1.21	4	0.91	1	-0.26	3

### 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	0.21	1
3x6	0.21	1
6x9	0.20	-2
9x12	0.21	-3
3x9	0.24	1
6x12	0.25	-1

### Measures of fiscal risk

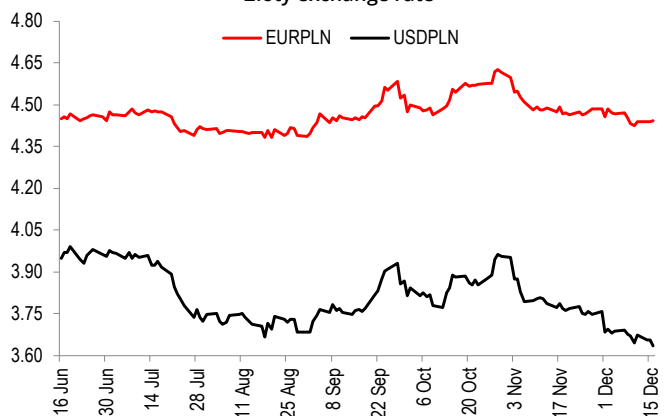
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	187	-2
France	9	0	24	0
Hungary	60	0	275	-5
Spain	46	-2	59	0
Italy	68	-3	107	-2
Portugal	28	0	57	1
Ireland	13	0	29	-2
Germany	8	0	-	-

\* 10Y treasury bonds over 10Y Bunds

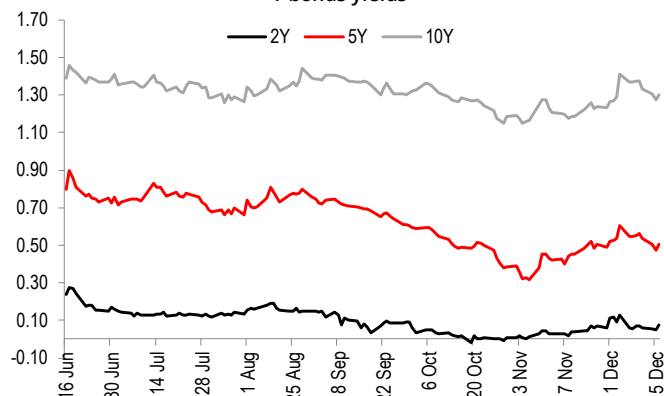
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

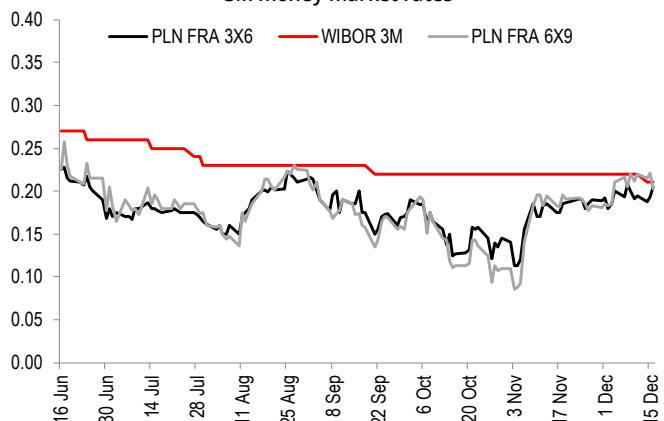
## Zloty exchange rate



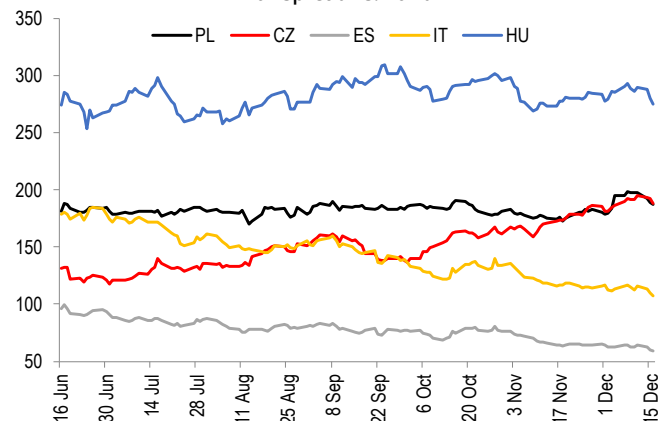
## T-bonds yields



## 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	-	58.6	57.8
09:30	DE	Flash Markit Germany Services PMI	Dec	pts	44.0	-	47.7	46.0
10:00	EZ	Flash Eurozone Manufacturing PMI	Dec	pts	53.1	-	55.5	53.8
10:00	EZ	Flash Eurozone Services PMI	Dec	pts	41.5	-	47.3	41.7
14:00	PL	CPI Core	Nov	% y/y	4.2	4.3**	4.3	4.2
14:30	US	Retail Sales Advance	Nov	% m/m	-0.1	-	-1.1	-0.1
20:00	US	FOMC decision		%	0.25	-	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	800	-		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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.