

21 December 2020

Eyeopener

NBP weakened the zloty

US stimulus package agreed
 Surprising NBP fx intervention – EURPLN hits 4.50
 Domestic debt unchanged
 Today Polish construction output and retail sales

At the end of the week, we observed pause or slowdown of the tendencies observed on the markets in the previous days. Stock indexes and EURUSD stabilized near their local peaks while core bonds did not move much either. German Ifo index rose unexpectedly in December and confirmed positive signals from flash PMIs released on Wednesday. On Friday evening, markets started discounting a breakthrough in the US fiscal support talks and on Sunday the agreement on USD900bn worth package was announced. The facility includes unemployment benefits, direct transfers for the majority of citizens and support for business. On the negative side, there are mounting worries related to the new mutation of the coronavirus detected in the UK. European countries, including Poland, introduced restrictions in individual movement from the UK. Many European economies are still registering record numbers of new Covid-19 cases.

Poland **industrial production** rose 5.4% y/y in November, which partly was a result of the positive effect of the number of working days (after the seasonal adjustment growth amounted to 3.5% y/y vs 3.8% y/y in October). Nevertheless, the performance of industry confirms our call that the second wave of pandemic does not curb activity much and the coming months should bring further growth fueled mainly by the foreign demand.

Budget deficit after 11M rose to PLN13.2bn from 12.1bn. Tax revenues in Nov alone were rising 10.3% y/y despite restrictions, while spending was up 20.5%, although the subsidy for the social security was the lowest year to date. In December the deficit is likely to jump to c. PLN100bn together with a transfer of money to social security aimed at financing 2021 expenditure.

EURUSD corrected on Friday half of the Thursday's rise and was close to 1.223 at the end of the day. Weekend US fiscal package deal pushed the exchange rate further down even below 1.22. We think that perspective of the year-end and lower liquidity could prompt to take profit after the recent rally but for EURUSD this does not have to be a start of a broader correction.

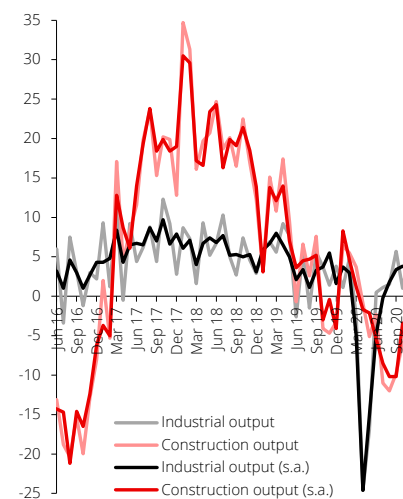
EURPLN was underperforming other EM currencies on Friday. The sharp jump to 4.516 in the second part of the day was, according to PAP (quoting the source close to the central bank) caused by the NBP FX intervention. Without a comment from the NBP it is hard to understand its motivation, especially that the achieved currency weakening is quite small to meaningfully impact the economy's competitiveness. The MPC member **Jerzy Żyżyński** commented that the intervention was aimed at supporting exports and the aim was to push EURPLN towards 4.50. He also admitted the Council has not discussed the issue and the action was not consulted with the MPC. It is exceptionally challenging to forecast the exchange rate in the final days of the year amid illiquid market, the uncertainty related to Brexit and the risk of further actions of the central bank. It seems that the market is to some extent already pricing in the positive final of the UK-EU talks since there has been no pressure on the Polish or UK assets (before the NBP's intervention). As a result, we think EURPLN could drop to 4.41 for a while in case of a Brexit happy-end and rise at least to 4.60 when there is no agreement. The downside potential could be limited by the central bank's activity. Today in the morning EURPLN again reached 4.50 amid declining EURUSD.

The other **CEE currencies** were under pressure of a weaker zloty. EURCZK rose the less (0.2% holding within the Thursday's trading range), while EURHUF and USDRUB rose 0.7%. The former reached its fresh weekly peak at c358 while the latter remained in a consolidation slightly above the 72.0 support level. The central bank of Russia left main interest rate unchanged at 4.25%. According to the governor Elvira Nabiullina, if inflation declines where this could be a factor behind a rate cut but for now there is no reason to ease monetary policy further. According to the bank's forecasts, inflation will rise to 5% in 1Q21 and decline to the 4% target only later in the year. The weekend USD appreciation is putting negative pressure on the CEE currencies today.

On the domestic **interest rate market** on Friday IRS and bond yields rose slightly but, similarly to the core markets. Liquidity on the Polish bond market dries up in the final days of the year. The year-end period may mean that we will see a window-dressing activity on the Polish bond market. We expect Polish mid- and long-term bond yields might descend gradually in the remainder of the year provided there is no adverse outcome of the EU-UK talks.

In the coming days market activity will be gradually fading, which does not mean it will be boring time. Volatility could jump amid thin liquidity, especially when the central bank enters the market. In the calendar for the coming week we will find Polish construction output and retail sales, economic confidence while abroad the US GDP, real estate, consumer incomes and spending will be published. However, the other events could be more important than the data: Brexit (final?), or... more action of the NBP?

Poland output (% y/y)



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4998	CZKPLN	0.1709
USDPLN	3.6978	HUFPLN*	1.2431
EURUSD	1.2172	RUBPLN	0.0494
CHFPLN	4.1605	NOKPLN	0.4222
GBPPLN	4.9053	DKKPLN	0.6045
USDCNY	6.5510	SEKPLN	0.4414

*for 100HUF

Last session in the FX market

18.12.2020

	min	max	open	close	fixing
EURPLN	4.434	4.516	4.436	4.475	4.449
USDPLN	3.617	3.686	3.624	3.659	3.632
EURUSD	1.222	1.227	1.224	1.223	-

Interest rate market 18.12.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.09	4
DS0725 (5Y)	0.50	2
DS1030 (10Y)	1.27	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	0.20	-0.54
2L	0.34	0.19	-0.52
3L	0.46	0.25	-0.51
4L	0.61	0.34	-0.49
5L	0.76	0.44	-0.46
8L	1.06	0.76	-0.35
10L	1.22	0.94	-0.26

WIBOR rates

Term	%	Change (bps)
O/N	0.10	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	0.19	0
3x6	0.19	0
6x9	0.21	1
9x12	0.25	1
3x9	0.23	-1
6x12	0.26	-1

Measures of fiscal risk

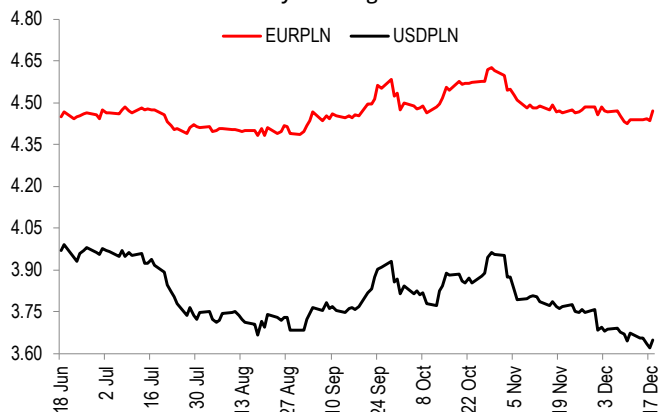
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	184
France	9	24
Hungary	60	275
Spain	45	62
Italy	68	111
Portugal	28	62
Ireland	13	30
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

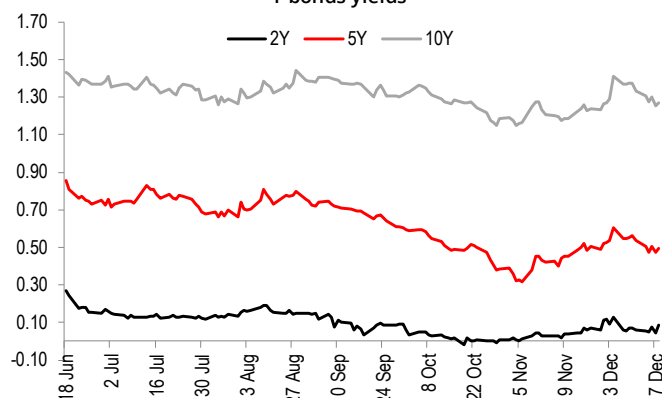
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

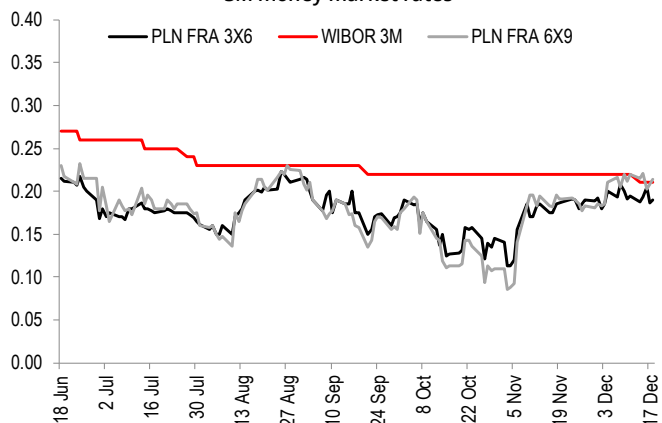
Zloty exchange rate



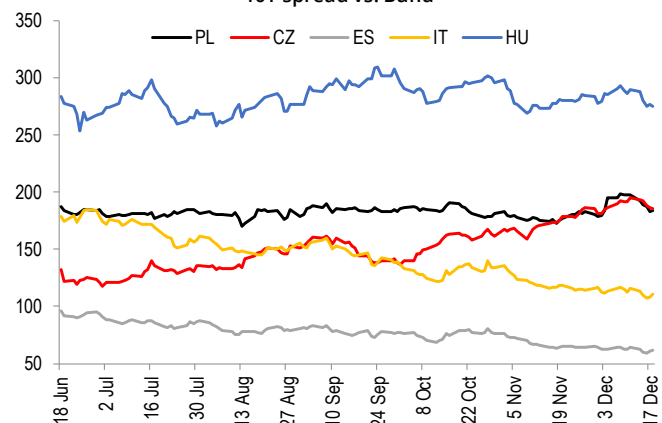
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (18 December)								
10:00	DE	IFO Business Climate	Dec	pts	90.3	-	92.1	90.9
10:00	PL	Sold Industrial Output	Nov	% y/y	3.5	3.8	5.4	1.0
10:00	PL	PPI	Nov	% y/y	-0.1	0.0	-0.2	-0.4
MONDAY (21 December)								
10:00	PL	Construction Output	Nov	% y/y	-	-5.5		-5.9
10:00	PL	Retail Sales Real	Nov	% y/y	-	-8.1		-2.3
TUESDAY (22 December)								
14:00	PL	Money Supply M3	Nov	% y/y	16.7	15.1		17.0
14:30	US	GDP Annualized	3Q	% q/q	33.1	-		33.1
16:00	US	Consumer Conference Board	Dec	pts	-	-		96.1
16:00	US	Existing Home Sales	Nov	% m/m	-1.8	-		4.3
WEDNESDAY (23 December)								
10:00	PL	Unemployment Rate	Nov	%	6.2	6.1		6.1
14:30	US	Personal Spending	Nov	% m/m	0.3	-		0.5
14:30	US	Personal Income	Nov	% m/m	-0.3	-		-0.7
14:30	US	PCE Deflator SA	Nov	% m/m	0.0	-		0.0
14:30	US	Durable Goods Orders	Nov	% m/m	0.7	-		1.3
14:30	US	Initial Jobless Claims	week	k	-	-		885
16:00	US	Michigan index	Dec	pts	79.0	-		81.4
16:00	US	New Home Sales	Nov	% m/m	-1.4	-		-0.3
THURSDAY (24 December)								
No important data releases								
FRIDAY (25 December)								
No important data releases								

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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