

4 January 2021

Eyeopener

Poland in ZIRP club?

Positive mood at the end of 2020
MPC members suggest rate cut in 1Q21
Zloty pressured by central bank interventions
Polish yields stable, IRS down
Today manufacturing PMIs in euro zone, Germany and Poland

At the end of the year the sentiment on the global financial markets was quite positive thanks to agreement on the US fiscal package and the last-minute UK-EU trade agreement. Stock market indices rose, but bond yields in the core markets were stable (UST 0.93%, Bund -0.57%), similarly to commodities (Brent oil 51 \$/barrel, gold 1894 \$/oz). The US new jobless claims fell from 883k to 787k and the Michigan consumer confidence index rose.

At the end of 2020 we saw a number of comments from the **Polish central bank pointing to possible further rate cuts**. NBP president **Adam Glapiński** said that the pressure on zloty appreciation is negative for economic recovery and creates room for decisive FX interventions of the NBP. In his view, further rate cut is possible in 1Q21 and the central bank is analysing effects of such move. According to **Rafał Sura**, interest rate hikes are definitely not an option amid global crisis and in future rate (when inflation drops to 2.5%) rate cuts cannot be ruled out. He added the zloty should be much weaker during economic recovery, which will help exports. **Jeży Żyżyński** said he would support rate cut to zero, but is against negative interest rates. **Grażyna Ancyparowicz** thinks that if the zloty appreciates considerably rate cuts should be considered. Rate cuts would be advisable if the FX intervention did now work out as planned. In her opinion the optimal EURPLN rate is at 4.50 or higher. **Eryk Łon** said that in 2021 rates will remain unchanged but this was before other MPC members started to suggest rate cuts. **Eugeniusz Gatnar** said there is no rationale for rate cuts. Without doubt the last days of the 2020 year changed the MPC rhetoric. This was visible not only in the abovementioned quotes but also in the NBP interventions in the FX market. It seems to us the MPC will look in detail into the FX market in the nearest days and will cut the rates only if it deems that the sole FX interventions are not enough to keep the zloty on the weakened level. **Thus, rate cut in 1Q21 cannot be excluded.**

All of the GUS **sectoral business climate indicators** climbed in December thanks to improved expectations amid slight changes in current situation assessment. **M3 money supply** climbed by 16.2% y/y in November as compared to 17% y/y in October. Growth rate of household deposits fell to 9.5% y/y, the lowest since March and of companies deposits to 25% y/y, the lowest since May. Cash in circulation gained pace for the second month in a row, to 36% y/y. Growth of loans, corrected for FX changes, amounted to -0.4% y/y, unchanged versus October. Companies loans fell by 5.4% y/y, PLN consumer loans by 1.3% y/y and PLN mortgage loans added over 10% y/y.

EURUSD was at 1.22 before Christmas. It then set a new annual high at 1.23 in the final days of December, but corrected to 1.22.

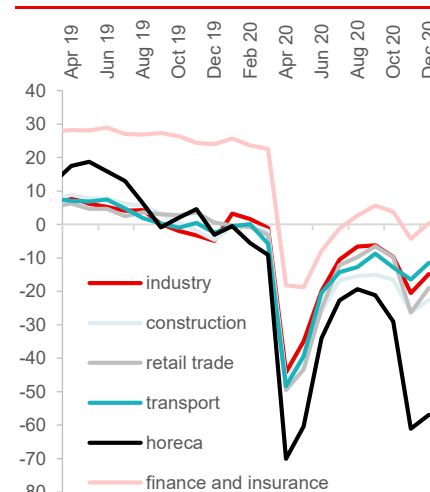
EURPLN rose sharply in the last two weeks pushing above 4.62 at some point due to NBP intervention, from 4.43 in mid-December. In the whole 2020 the rate rose by c.7%

In case of other CEE currencies, from 22 December to the end of the year EURHUF rose 0.8% to 364.6 and in the whole 2020 by 10.3%. EURCZK closed the year at 26.3 (+3.3% in the year). USDRUB finished the year at 74.7, 20.5% above the January opening.

On the domestic interest rate market, after the remarks of the MPC members the IRS curve moved by more than 10bp lower on thin liquidity (10Y to 1.08%, 5Y to 0.61%). FRA contracts changed less, e.g. 1x4 by only 4bp to 0.16%. Government bond yields were relatively stable, 10Y stayed at 1.24% and 5Y at 0.43%.

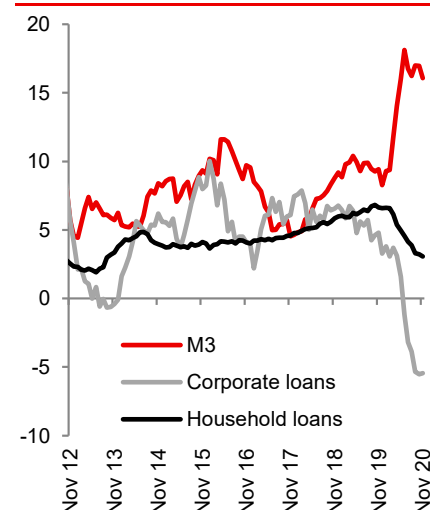
The Ministry of Finance said that in 1Q it could hold 4-5 bond auctions with total supply of PLN25-35bn, out of which PLN9-15bn will be offered at two auctions in January. The ministry does not plan any switch auctions. There were PLN60bn on government accounts at the end of the year, down from PLN113bn a month earlier. 2021 borrowing needs are already covered in more than 30%. The share of foreign investors among POLGB holders rose in November to 17.0% from 16.9% while Polish banks held 55.9%, down from 56.1%. **NBP bond purchase operation** will be held on 20 January. **BGK** does not plan any issuance of Covid bonds in January.

Sectoral business sentiment indexes



Source: GUS, Santander

Money supply and value of loans (fx-corrected), % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.5285	CZKPLN	0.1735
USDPLN	3.6945	HUFPLN*	1.2371
EURUSD	1.2262	RUBPLN	0.0502
CHFPLN	4.1831	NOKPLN	0.4341
GBPPLN	5.0564	DKKPLN	0.6119
USDCNY	6.4638	SEKPLN	0.4527

*for 100HUF

Last session in the FX market

12/31/2019

	min	max	open	close	fixing
EURPLN	4.536	4.542	4.538	4.538	4.615
USDPLN	3.729	3.737	3.731	3.737	3.758
EURUSD	1.212	1.217	1.213	1.214	-

Interest rate market 12/31/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.10	0
DS0725 (5Y)	0.47	0
DS1030 (10Y)	1.25	0

IRS on the interbank market**

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.15	0	0.19	0	-0.55	0
2L	0.21	0	0.20	0	-0.52	0
3L	0.32	0	0.24	0	-0.51	0
4L	0.47	0	0.32	0	-0.49	0
5L	0.61	0	0.42	0	-0.46	0
8L	0.92	0	0.75	0	-0.34	0
10L	1.08	0	0.92	1	-0.27	0

WIBOR rates

Term	%	Change (bps)
O/N	0.11	2
T/N	0.10	1
SW	0.12	1
2W	0.17	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	0.16	0
3x6	0.16	4
6x9	0.15	3
9x12	0.14	1
3x9	0.17	1
6x12	0.20	3

Measures of fiscal risk

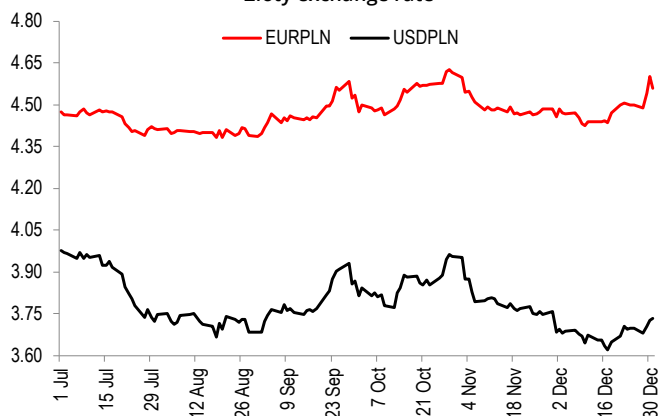
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	182	0
France	9	0	23	0
Hungary	64	0	272	-2
Spain	45	0	63	0
Italy	67	0	110	0
Portugal	28	0	62	0
Ireland	13	0	28	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

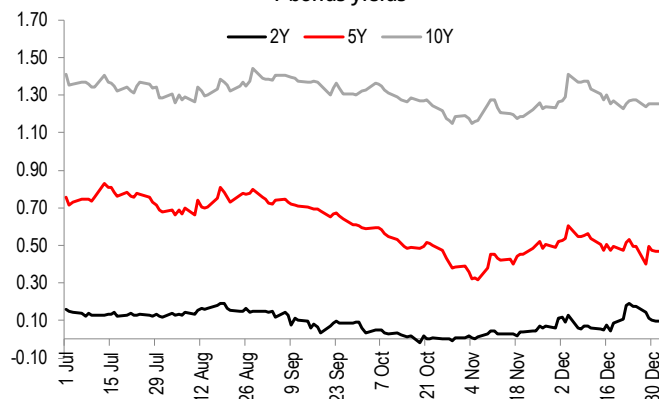
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

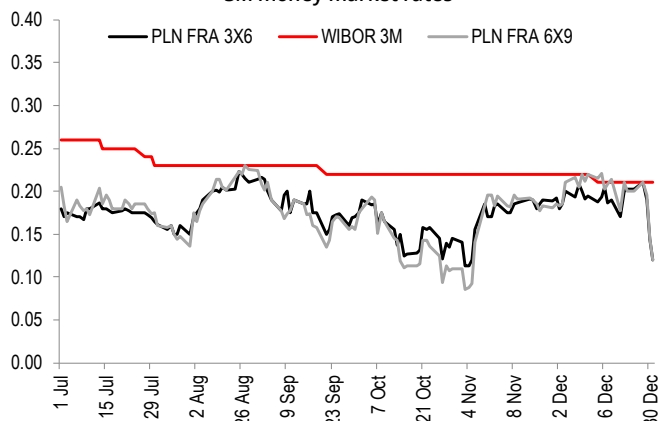
Zloty exchange rate



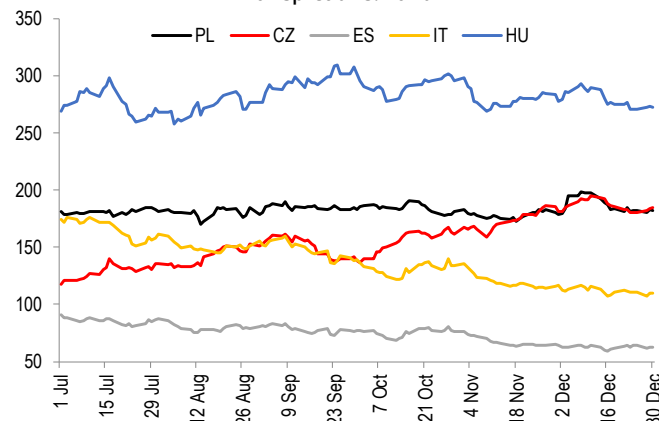
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*
				MARKET	SANTANDER	VALUE	
MONDAY (4 January)							
09:00	PL	Poland Manufacturing PMI	Dec	pts	51.3	51.2	50.8
09:55	DE	Germany Manufacturing PMI	Dec	pts	58.6	-	58.6
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	55.5	-	55.5
TUESDAY (5 January)							
16:00	US	ISM manufacturing	Dec	pts	56.5	-	57.5
WEDNESDAY (6 January)							
02:45	CN	Caixin China PMI Services	Dec	pts	58.0	-	57.8
09:55	DE	Markit Germany Services PMI	Dec	pts	47.7	-	47.7
10:00	EZ	Eurozone Services PMI	Dec	pts	47.3	-	47.3
14:00	DE	HICP	Dec	% m/m	0.7	-	-1.0
14:15	US	ADP report	Dec	k	75	-	307
16:00	US	Durable Goods Orders	Nov	% m/m	-	-	0.9
16:00	US	Factory Orders	Nov	% m/m	0.75	-	1.0
20:00	US	FOMC Meeting Minutes					
THURSDAY (7 January)							
08:00	DE	Factory Orders	Nov	% m/m	-1.2	-	2.9
10:00	PL	Flash CPI	Dec	% y/y	2.6	2.6	3.0
11:00	EZ	Flash HICP	Dec	% y/y	-0.2	-	-0.3
11:00	EZ	Retail Sales	Nov	% m/m	-3.0	-	1.5
11:00	EZ	ESI	Dec	pct.	89.5	-	87.6
14:30	US	Initial Jobless Claims	week	k	835	-	803
16:00	US	ISM services	Dec	pts	54.5	-	55.9
FRIDAY (8 January)							
08:00	DE	Exports SA	Nov	% m/m	1.0	-	0.9
08:00	DE	Industrial Production SA	Nov	% m/m	0.7	-	3.2
09:00	CZ	GDP SA	3Q	% y/y	-5.0	-	-5.0
09:00	CZ	Industrial Production	Nov	% y/y	-0.3	-	-1.3
09:00	HU	Industrial Production SA	Nov	% y/y	-	-	2.69
11:00	EZ	Unemployment Rate	Nov	%	8.5	-	8.4
14:30	US	Change in Nonfarm Payrolls	Dec	k	85	-	245
14:30	US	Unemployment Rate	Dec	%	6.8	-	6.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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