

18 January 2021

Eyeopener

NBP head does not exclude rate cuts

Introduction of negative rates could be possible according to Adam Glapiński
 Worse market sentiment
 Zloty stable
 Polish bond yields and IRS rates up intraday, little changed on the day
 Today Polish December core inflation

On Friday, global equity indices declined, the European ones by over 1%, after worse than expected print of US retail sales at the end of 2020 as well as due to uncertainty regarding the implementation of new US president Joe Biden's fiscal spending program proposal. It coincided with announcements regarding the diminished supply of one of the Covid-19 vaccines to Europe. US Treasuries yield declined at the end of the day by 3-4bp while the Bund was stable for most of the day – 10Y at -0.54%. The dollar gained roughly 0.4% and is already at its highest level since mid-December. Commodities declined, including oil and precious metals. Emerging market currencies also declined. Other macroeconomic data from the US were mixed – December industrial production turned out better than expected while the Empire manufacturing index declined. Survey inflation expectations of University of Michigan increased notably and the 1-year ahead ones already stand at 3.0% (up from 2.5% in the previous month).

NBP governor Adam Glapiński said during the video conference aired on Friday 16:00 that he **sees possibility of rate cuts in Poland, even to negative territory**, and the room for reductions is still "large". However it would be possible only if economic situation deteriorates "radically". Meanwhile, the central bank expects situation to improve. This is probably the first such strong statement about the big room for negative rates from the central bank. Earlier in 2020 almost all MPC members were unanimous in their view that negative rates are neither necessary nor good idea, even if economic situation deteriorates. Referring to FX interventions Glapiński said there was no change in FX regime – zloty remains free floating and there is absolutely **no exchange rate level targeted by the NBP**. The conducted interventions were aimed at preventing excessive currency appreciation. On the other hand Glapiński declared the NBP is still ready to act if needed and the central bank "will not allow PLN weakening".

On Friday we got to see **MPC minutes** from the December meeting (2 December). "The majority" of MPC members thought that the lack of a visible and more durable exchange rate adjustment could limit the pace of economic recovery. MPC members also thought that the economy will rebound in 2021 but there is high uncertainty about its pace and scale.

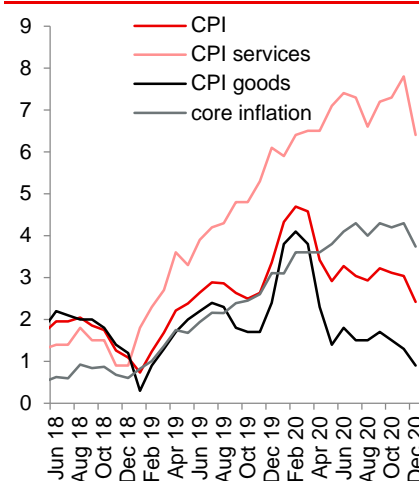
Final December CPI was released at 2.4% y/y (down from 3.0% in November and vs 2.3% in flash reading). Core inflation ex food and energy prices most likely went down to 3.7-3.8% from 4.3% in November. We are expecting 2021 CPI inflation to average slightly below the NBP target at 2.5%, with core inflation going further down. This will be supportive for keeping interest rates unchanged. Recent spikes in FAO food price index pose some upward risk for our forecasts of food prices. GUS preliminary data on November **foreign trade** in goods showed that exports rose by 9.8% y/y thanks to much stronger demand from the euro zone, while the surprisingly strong imports growth at 4.1% y/y was caused by a rise of deliveries from the EU. Read more in [Economic Comment](#).

EURUSD fell 0.6% to 1.209 and is already 2.1% below this year's peak (1.235) seen in the first week of 2021.

EURPLN was surprisingly stable and closed at 4.543 although the other CEE currencies depreciated. The exchange rate did not respond much to the deterioration of the global mood and the central bank governor's press conference. Elsewhere in the **CEE region**, EURHUF rose 0.4% to 360.7, EURCZK +0.2% to 26.2, USDRUB +0.7% to 73.8.

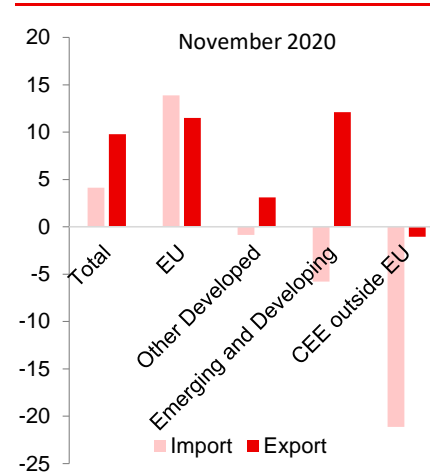
On the domestic **interest rate market**, IRS rates were on the rise since the beginning of the day, for example 10Y by 5bp to 1.23% but at the end of the session this move was neutralized after the Glapiński's comment. Bonds were stable, 10Y at 1.20%. **Polish Development Fund (PFR) sold 7Y bonds** for PLN5.25bn with spread vs POLGBs at 68bp.

CPI – main categories, %/y



Source: GUS, NBP, Santander

Poland's goods trade by country groups, %/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5363	CZKPLN	0.1717
USDPLN	3.7538	HUFPLN*	1.2476
EURUSD	1.2085	RUBPLN	0.0509
CHFPLN	4.2131	NOKPLN	0.4393
GBPPLN	5.0900	DKKPLN	0.6119
USDCNY	6.4839	SEKPLN	0.4471

*for 100HUF

Last session in the FX market

15.01.2021

	min	max	open	close	fixing
EURPLN	4.533	4.550	4.541	4.535	4.548
USDPLN	3.736	3.761	3.740	3.749	3.747
EURUSD	1.208	1.215	1.214	1.210	-

Interest rate market 15.01.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.08	-1
DS0725 (5Y)	0.40	-2
DS1030 (10Y)	1.21	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.16	0	0.20	-1	-0.56	0
2L	0.22	-1	0.20	-1	-0.54	-1
3L	0.34	0	0.27	-1	-0.52	0
4L	0.51	1	0.38	-2	-0.49	0
5L	0.66	1	0.52	-3	-0.46	0
8L	1.01	1	0.90	-4	-0.33	1
10L	1.19	1	1.08	-4	-0.24	0

WIBOR rates

Term	%	Change (bps)
O/N	0.10	1
T/N	0.10	0
SW	0.11	0
2W	0.17	0
1M	0.19	0
3M	0.21	0
6M	0.25	0
1Y	0.25	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.17	0
3x6	0.14	0
6x9	0.14	0
9x12	0.15	0
3x9	0.17	-1
6x12	0.19	1

Measures of fiscal risk

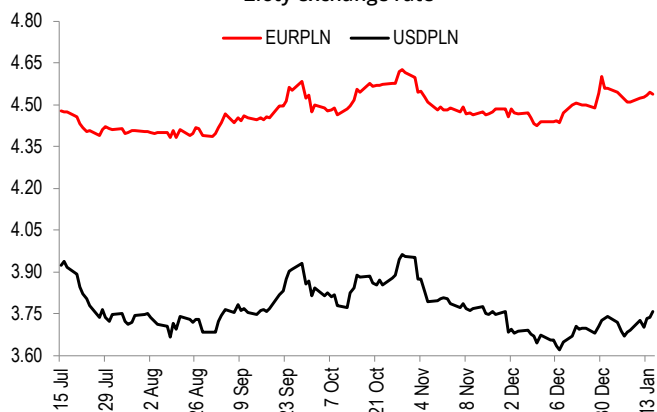
Measures of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	175	-1
France	7	0	22	0
Hungary	64	0	296	3
Spain	43	0	60	-1
Italy	67	-4	113	-4
Portugal	28	0	55	-2
Ireland	12	0	31	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

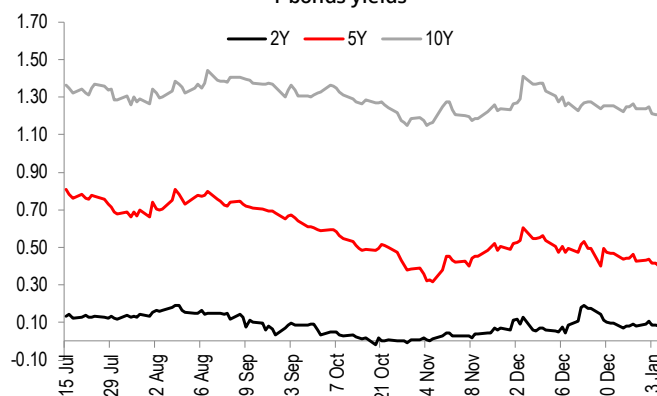
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

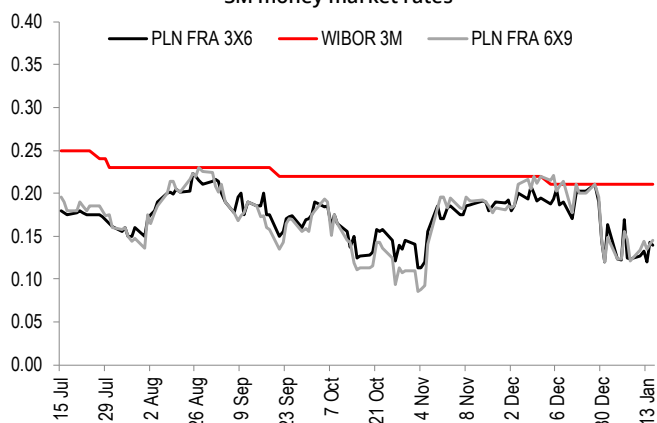
Zloty exchange rate



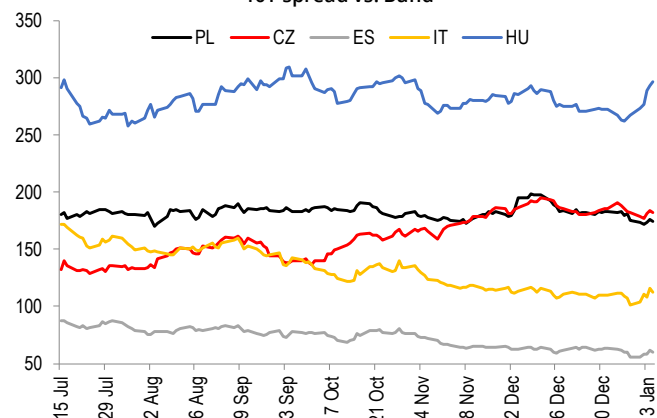
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
FRIDAY (15 January)								
10:00	PL	CPI	Dec	% y/y	2.3	2.3	2.4	3.0
14:30	US	Retail Sales Advance	Dec	% m/m	0.0		-0.7	-1.4
15:15	US	Industrial Production	Dec	% m/m	0.5		1.6	0.5
16:00	US	Michigan index	Jan	pts	79.5		79.2	80.7
MONDAY (18 January)								
14:00	PL	CPI Core	Dec	% y/y	3.7	3.7	-	4.3
TUESDAY (19 January)								
08:00	DE	HICP	Dec	% m/m	0.6		-	0.6
11:00	DE	ZEW Survey Current Situation	Jan	pts	-69.0		-	-66.5
WEDNESDAY (20 January)								
11:00	EZ	HICP	Dec	% y/y	-0.3		-	-0.3
THURSDAY (21 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	-1.1	-1.1	-	-1.2
10:00	PL	Average Gross Wages	Dec	% y/y	4.7	4.7	-	4.9
13:45	EZ	ECB Main Refinancing Rate	Jan.21	%	0.0		-	0.0
14:30	US	Initial Jobless Claims	Jan.21	k	788		-	965
14:30	US	Housing Starts	Dec	% m/m	1.06		-	1.2
14:30	US	Index Philly Fed	Jan		12.0		-	9.1
FRIDAY (22 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	58.0		-	58.3
09:30	DE	Markit Germany Services PMI	Jan	pts	46.0		-	47.0
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	54.9		-	55.2
10:00	EZ	Eurozone Services PMI	Jan	pts	45.5		-	46.4
10:00	PL	Construction Output	Dec	% y/y	-0.6	-3.2	-	-4.9
10:00	PL	PPI	Dec	% y/y	0.0	0.0	-	-0.2
10:00	PL	Retail Sales Real	Dec	% y/y	1.3	-3.8	-	-5.3
16:00	US	Existing Home Sales	Dec	% m/m	-2.1		-	-2.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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