

19 January 2021

Eyeopener

Minor market changes

Quiet day on financial markets due to US holiday
Zloty and EURUSD stable
Domestic yields and IRS rates down intraday, up on close
Today German inflation and ZEW index

On Monday the volatility and activity on the financial markets was subdued due to market holiday in the USA. The yield of 10Y Bund rose by 1bp to -0.53%, exchange rates of EM currencies were almost unchanged. In China, better-than-expected GDP data for 4Q20 were released, but its breakdown looks uneven – manufacturing seems to be doing very well, fuelled by exports, while private consumption is lagging behind. Chinese data for December were showing a similar pattern: industrial output accelerated from 7% to 7.3% y/y (positive surprise), while retail sales slowed from 5% to 4.6% (disappointment). Today volatility may rise due to the vote in Italian Senate, where the PM Conte will seek support for his government after the ruling coalition breakdown.

In the opinion of **Eryk Łon from the MPC** interest rates probably will remain unchanged till the end of the term of the current MPC, however there might be cuts in 1Q21 in case of worryingly low GDP growth. Interest rates increases are ruled out, in his opinion, due to low readings of consumer confidence indices. **MPC member Lukasz Hardt** said he was against interest rate cuts and any cuts below zero would be challenging from the legal perspective. He also said that zloty depreciation is currently supporting exports in a much weaker fashion than it used to and in his opinion it was a mistake that a sentence regarding FX market (about the insufficient zloty depreciation) was added in the middle of 2020 to the post-meeting statements. Mr Hardt thinks that it is not yet time for interest rate increases. If at some point the economy regains enough strength to allow monetary policy normalisation then in his view a hike of the reserve requirement ratio should come first, while at a later stage hikes of policy rates should send the reference rate to c.0.50% and not towards the pre-pandemic level of 1.50%

Core inflation ex food and energy prices fell to 3.7% y/y in December from 4.3% in November. Such a strong decline is unusual, and happened last time in early 2014. This development was driven by a major weakening of services inflation, especially in transport and insurance the items that caused a spike in CPI one year before. In our view, core CPI is likely to slide below 2% in mid-2021 and be only a bit above 1% y/y near the end of the year. All other three core inflation measures fell in December to the lowest levels of 2020.

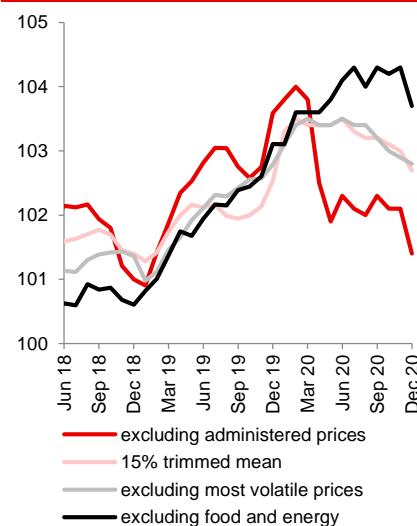
On Monday **EURUSD** was really calm thanks to the US bank holiday. On daily chart the rate went down by 0.1% to 1.207 and was temporarily below 1.205 during the session.

EURPLN was also pretty stable amid no trading in the USA. It started the day at 4.54, the daily peak was seen at 4.55 and closing level was 4.53, 0.2% below the opening.

In case of the **other CEE currencies** EURHUF traded in a similar way to EURPLN. After the exchange rate opened at 360, it rose to 361 but then pulled back to the opening level. EURCZK fell 0.1% to 26.15 and is holding in a range since the beginning of the year. USDRUB was somewhat more dynamic since it rose by 0.8% to 74.15.

On the domestic **interest rate market** the front end was stable with 2Y bond yields and IRS hovering around 0.08% and 0.23%, respectively. In the first part of the day, the demand for bonds was strong, perhaps owing to the Friday NBP governor Glapiński's comment and bond yields fell, 5Y to 0.32% and 10Y to 1.16%. In the second part of the day, profit taking took yields up to 0.35% on the belly and 1.19% on the long end. The 10Y PL-DE bond yield spread closed at 172bp and fell slightly YTD.

Core CPI measures, same period of previous year = 100



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.5268	CZKPLN	0.1729
USDPLN	3.7432	HUFPLN*	1.2597
EURUSD	1.2094	RUBPLN	0.0507
CHFPLN	4.1988	NOKPLN	0.4367
GBPPLN	5.0882	DKKPLN	0.6081
USDCNY	6.4845	SEKPLN	0.4464

*for 100HUF

Last session in the FX market

18.01.2021

	min	max	open	close	fixing
EURPLN	4.524	4.548	4.534	4.530	4.547
USDPLN	3.749	3.773	3.755	3.752	3.770
EURUSD	1.205	1.209	1.208	1.208	-

Interest rate market 18.01.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.10	2
DS0725 (5Y)	0.39	-1
DS1030 (10Y)	1.20	-1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.16	0	-0.55
2L	0.23	1	-0.53
3L	0.34	0	-0.51
4L	0.50	-1	-0.48
5L	0.65	-1	-0.45
8L	1.00	-1	-0.32
10L	1.18	-1	-0.22

WIBOR rates

Term	%	Change (bps)
O/N	0.09	-1
T/N	0.09	-1
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	0.13	-1
6x9	0.16	1
9x12	0.15	1
3x9	0.18	0
6x12	0.18	-1

Measures of fiscal risk

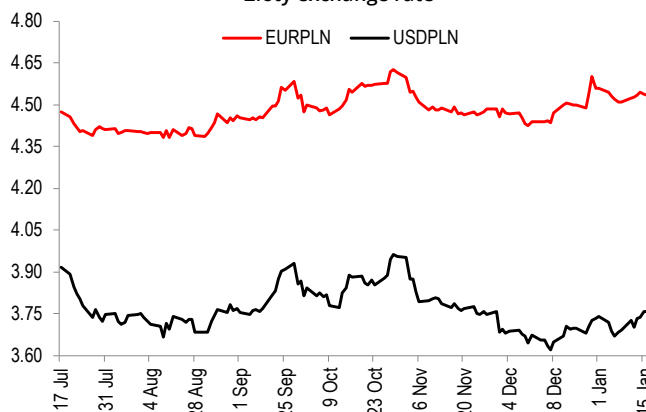
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	172
France	7	23
Hungary	64	291
Spain	43	61
Italy	68	113
Portugal	28	56
Ireland	12	31
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

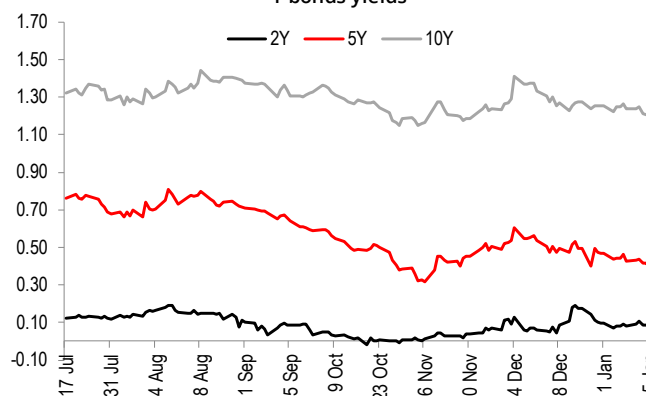
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

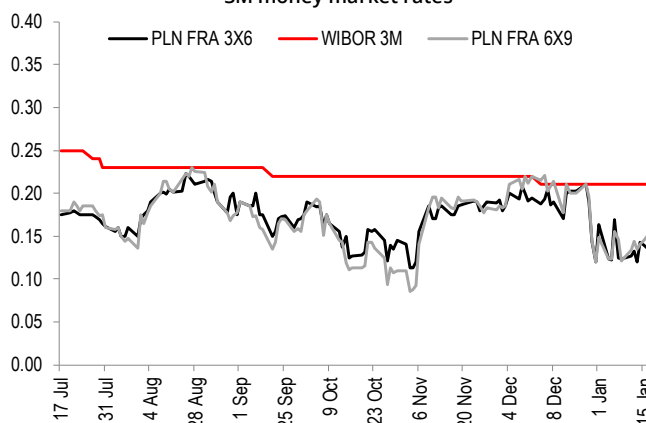
Zloty exchange rate



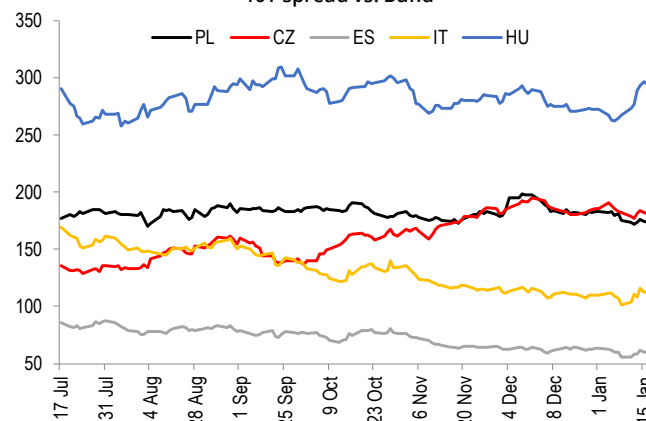
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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	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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