

26 January 2021

Eyeopener

Double-digit growth rate of industry

Pessimism dominating at the start of the week
 Polish output surprised to the upside
 Zloty and other CEE currencies weaker
 Polish bonds slightly stronger, IRS stable
 Today Hungarian central bank decision, US consumer confidence

On Monday the global market sentiment was not very good. German December Ifo index was worse than expected and the lowest in six months. Extension of lockdown in Germany until mid-February did not improve companies' moods but the worsening versus December was not dramatic. Yesterday the next factor worsening sentiment during the session was information about delays in the vaccine supply.

Polish industrial output rose by 11.2% y/y in December, much more than expected (consensus at 8.7% y/y, our forecast 8.3%). While much of this print was caused by favourable calendar effects, the seasonally adjusted reading was also very strong at 7.1% y/y, compared to c.3% y/y before the pandemic. With all December readings from the Polish economy coming above forecasts we see a chance of 4Q GDP falling by less than 3% y/y. The seasonally adjusted q/q growth could be higher than -1% we indicated earlier. We see a possibility of some moderation of Polish industrial output results at the start of 2021. The preliminary GDP for 2020 due Friday, 29 January will provide the first rough estimate of economic growth in 4Q. Read more in our [Economic comment](#).

In January-November period, **local governments recorded a budget surplus** of PLN17.6bn vs PLN23.8bn deficit planned for the entire 2020. We think this balance could have gone down in December but the whole year could end up with slightly above zero. This supports our forecast that 2020 GG deficit could be below the budget plan and may amount to 8% of GDP.

MPC's Eryk Łon claimed in an article for [wgospodarcze.pl](#) that the monetary policy easing applied so far should be enough to support the economy. He acknowledged the improving economic outlook for Poland and other economies. According to Łon, interest rate cuts would be possible conditional on an occurrence of the deflation of prices or on a noticeable downturn in consumer or business sentiment. **MPC's Grażyna Ancyparowicz** said currently there are no reasons for rate cuts. However, if the situation significantly deteriorates then interest rates might be cut even to below zero. In our opinion, the deflation risks are not imminent (if possible in the nearest months), but consumer and business sentiment depend on the length of the pandemic-related restrictions. **MPC's Kamil Zubelewicz** said in an interview with Polish Press Agency that the likelihood of interest rate hikes is zero. In his opinion the MPC would tighten only if the NBP staff forecasts would imply a CPI in the vicinity of 4%. Zubelewicz also claims that within MPC there would be a majority to support rate cuts if necessary, but he himself is against such a move. He thinks that PLN is undervalued while the latest NBP FX interventions undermined the fundamentals of the economic growth. In a base scenario we expect interest rates to remain unchanged till the end of the current MPC term.

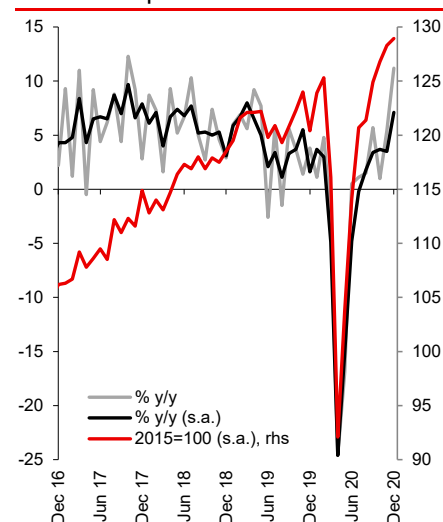
EURUSD moved away yesterday from the previous week's maximum level of 1.219, set on Friday, and closed the session around 1.213. On Monday the euro was under pressure of worsening global market sentiment, but the intraday volatility was relatively low if we take into account the large declines on European stock exchanges.

EURPLN and USDPLN rose somewhat on global risk aversion, but like EURUSD, the reaction of the domestic currency was relatively small. EURPLN remained between the Friday low and top and continued to move sideways. It has been doing so for the last two weeks. Since the December NBP interventions the volatility on EURPLN market is gradually declining – in the past week the min-max range was the narrowest since the middle of August. No reaction of the zloty to the set of better-than-expected local data suggests that in the coming days EURPLN may be slowly going up.

Among **other CEE currencies** the ruble was the worst performer – USDRUB rose for the second day in a row after it had crossed the ceiling of a tightening range. The Russian currency was under pressure of falling oil price and stronger dollar. EURCZK temporarily reached the lowest level since August (c.26.04), but at the end of the day was close to 26.08. The same as in case of EURPLN, the volatility of EURCZK has recently dropped significantly. EURHUF was moving around 357 for the fourth session running, close to the January low.

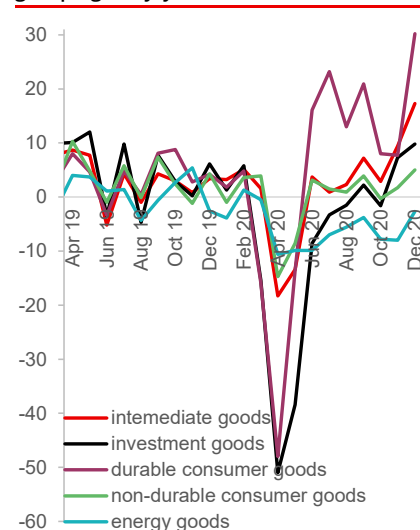
On the domestic **interest rate market** IRS remained stable again while the bond yields fell slightly thanks to strengthening of Bund and Treasuries. The 10Y PL-DE bond yield spread remained above 170bp and the respective asset swap spread slightly above 0bp. We think there is little room for lower yields in the short-term. Shall the global market mood remain not too positive, we see bigger chances for the IRS to decline.

Industrial output



Source: GUS, Santander

Industrial output by main industrial groupings, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5404	CZKPLN	0.1732
USDPLN	3.7477	HUFPLN*	1.2578
EURUSD	1.2119	RUBPLN	0.0496
CHFPLN	4.2118	NOKPLN	0.4360
GBPPLN	5.1055	DKKPLN	0.6102
USDCNY	6.4744	SEKPLN	0.4507

*for 100HUF

Last session in the FX market

25.01.2021

	min	max	open	close	fixing
EURPLN	4.528	4.544	4.537	4.542	4.544
USDPLN	3.720	3.748	3.726	3.743	3.740
EURUSD	1.211	1.218	1.218	1.214	-

Interest rate market 25.01.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.05	-5
DS0725 (5Y)	0.39	-5
DS1030 (10Y)	1.18	-4

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.16	-1	-0.55
2L	0.23	-4	-0.53
3L	0.36	2	-0.51
4L	0.50	0	-0.49
5L	0.65	0	-0.45
8L	0.97	-4	-0.33
10L	1.18	-2	-0.23

WIBOR rates

Term	%	Change (bps)
O/N	0.09	0
T/N	0.09	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	0.19	1
3x6	0.14	-1
6x9	0.16	-1
9x12	0.17	-1
3x9	0.20	1
6x12	0.20	-2

Measures of fiscal risk

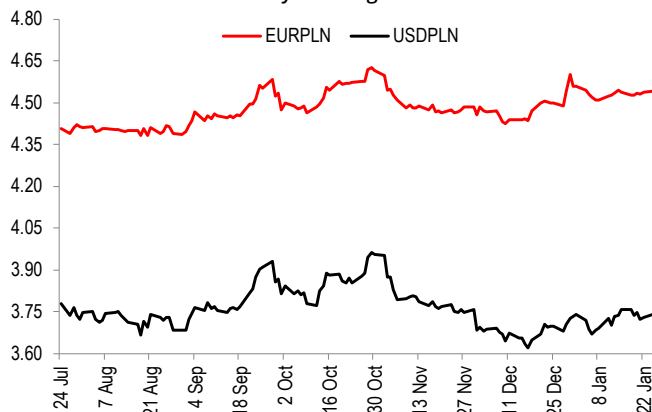
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	173
France	8	23
Hungary	64	285
Spain	43	63
Italy	68	120
Portugal	28	58
Ireland	12	32
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

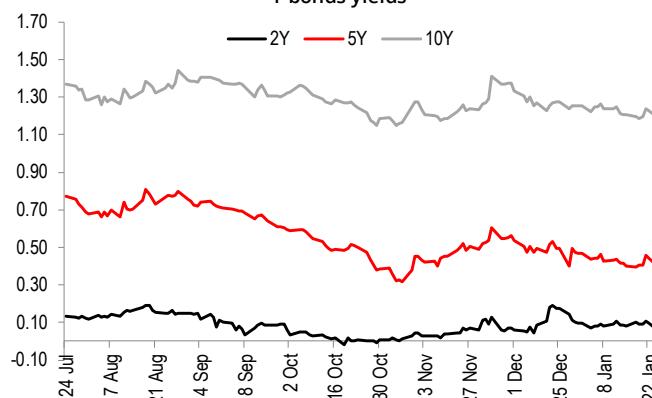
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

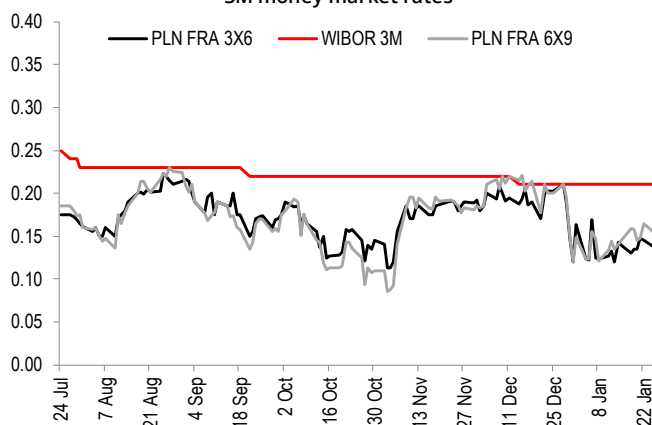
Zloty exchange rate



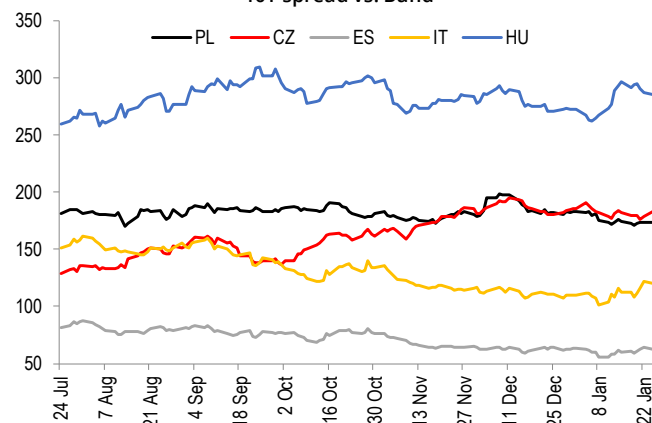
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (22 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	57.5	-	57.0	58.3
09:30	DE	Markit Germany Services PMI	Jan	pts	45.3	-	46.8	47.0
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	54.5	-	54.7	55.2
10:00	EZ	Eurozone Services PMI	Jan	pts	44.5	-	45.0	46.4
10:00	PL	Construction Output	Dec	% y/y	-1.1	-3.2	3.4	-4.9
10:00	PL	PPI	Dec	% y/y	-0.1	0.0	0.0	-0.2
10:00	PL	Retail Sales Real	Dec	% y/y	-1.2	-3.8	-0.8	-5.3
16:00	US	Existing Home Sales	Dec	% m/m	-2.1	-	0.7	-2.2
MONDAY (25 January)								
10:00	DE	IFO Business Climate	Jan	pts	91.8	-	90.1	92.2
10:00	PL	Sold Industrial Output	Dec	% y/y	8.7	8.4	11.2	5.4
TUESDAY (26 January)								
14:00	HU	Central Bank Rate Decision		%	0.6	-		0.6
14:00	PL	Money Supply M3	Dec	% y/y	16.3	16.2		16.1
16:00	US	Consumer Conference Board	Jan	pts	89.0	-		88.6
WEDNESDAY (27 January)								
10:00	PL	Unemployment Rate	Dec	%	6.2	6.2		6.1
14:30	US	Durable Goods Orders	Dec	% m/m	1.0	-		1.0
20:00	US	FOMC decision	Jan.21		0.25	-		0.25
THURSDAY (28 January)								
11:00	EZ	ESI	Jan	pct.	-	-		90.4
14:00	DE	HICP	Jan	% m/m	0.6	-		0.6
14:30	US	GDP Annualized	4Q	% Q/Q	4.7	-		33.4
14:30	US	Initial Jobless Claims	week	k	935	-		965
16:00	US	New Home Sales	Dec	% m/m	1.3	-		-11.0
FRIDAY (29 January)								
08:00	DE	GDP WDA	4Q	% y/y	0.0	-		-4.0
10:00	PL	GDP	2020	% y/y	-2.7	-2.9		4.5
14:30	US	Personal Spending	Dec	% m/m	-0.5	-		-0.4
14:30	US	Personal Income	Dec	% m/m	0.1	-		-1.1
14:30	US	PCE Deflator SA	Dec	% m/m	0.3	-		0.0
16:00	US	Michigan index	Jan	pts	79.2	-		79.2
16:00	US	Pending Home Sales	Dec	% m/m	-1.0	-		-2.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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