

10 February 2021

Eyeopener

Inflation is growing abroad

Market sentiment slightly less positive
NBP may help with fx loans conversion, but sets conditions
Zloty stronger vs the dollar, EURUSD still on the rise
Minor moves on domestic debt market
Today German and US inflation

On Tuesday the global market sentiment weakened somewhat, as given the lack of any new impulses the stock market investors decided to take profit from the recent gains fuelled by prospects for fiscal package in the USA. Equity declines were supportive for core bonds and currencies perceived as safe like the yen of the Swiss franc. Meanwhile the dollar lost. In general moves observed over the last few days were muted and trade was rather calm, which is reflected in the VIX index, which stabilised after a major fall in early February. Today details of German inflation are due for release (flash reading proved much higher than expected) as well as US CPI – if February rise in core market yields was at least partly driven by rising inflation expectations, then these data may gather some attention. Meanwhile in China consumer prices fell by 0.3% y/y versus expectations at 0% y/y and previous reading at +0.2% y/y, but PPI came out in line with expectations at +0.3% y/y – this came after -0.4% y/y previously and -3.7% y/y in May 2020. A further increase of Chinese producer prices inflation may strengthen expectations for a rebound in developed markets' CPIs.

According to **MPC member Cezary Kochalski** the recent data from the economy lowers (however does not send to zero) the probability of the situation in which interest rates would need to be cut. He does not support cutting them to below zero, however. In his opinion, the scenario most likely case is still the one of no rates changes, while there is no rationale for rate hikes. Kochalski assumes that the CPI will remain in 1Q21 near the 2.5% NBP target and slightly above the level in the remaining part of the year, but with core CPI declining significantly.

PM Mateusz Morawiecki said yesterday that 4% GDP growth which is assumed in the Budget Act for 2021 is currently "safe". In his opinion, it is possible that the GDP would rise more than 4% in 2021 however at the moment the uncertainty is elevated. In our **MACROscope monthly report** published at the start of February we kept our 2021 GDP forecast unchanged at 4.6%. PM informed also that local governments budgets instead of the initially planned deficit of PLN 21.2bn (-0.9% GDP) showed in 2020 a surplus of PLN 5.6bn (+0.2% GDP).

NBP Management Board issued a statement about the potential conversion of FX loans debated by the commercial banks, signalling the readiness of the central bank to engage in the conversion, while at the same time listing a number of conditions to be met. The conditions include, among others, large scale of banks' participation, sufficiently high interest from customers, agreement for conversion from the banks' shareholders.

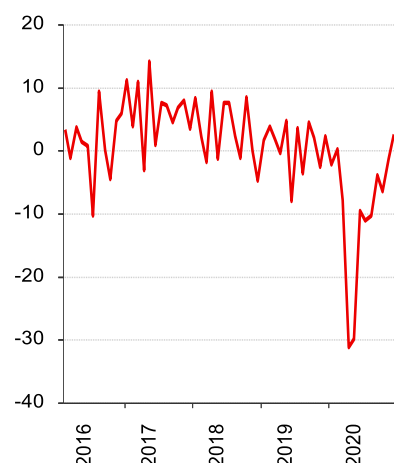
EURUSD was on the rise for the third day in a row and reached 1.21. The euro was supported by the better than expected German exports, while the lower US bond yields worked against the dollar.

EURPLN was hovering for the better part of the day between Monday's low and high holding above 4.47. The zloty tended to appreciate in the second part of the day. USDPLN eased to 3.70 thanks to higher EURUSD. EURPLN fell at the start of the month and is consolidating in a narrow 4.47-4.505 range awaiting a trigger.

Among the **other CEE currencies**, EURCZK rose for the first time in February amid profit taking after the recent noticeable drop. Yesterday, the exchange rate rose 0.2% to 25.72. **EURHUF** was quite volatile since it first rose above 359 and closed the day at 358, slightly below Monday's close. USDRUB was hovering around 74.0.

On the domestic **interest rate market**, IRS rose 1bp on the belly and long end. The 5Y bond yield fell 2bp to 0.43% while the 10Y remained near 1.25%. The 10Y asset swap spread remained at -8bp and the respective PL-DE bond yield spread at c170bp. While the shape of the bond curve has not changed much since January, the IRS curve became steeper – the 2-10 spread reached 99bp, its highest since October 2018.

German exports (% y/y)



Source: Datastream, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4743	CZKPLN	0.1735
USDPLN	3.6910	HUFPLN*	1.2491
EURUSD	1.2123	RUBPLN	0.0499
CHFPLN	4.1380	NOKPLN	0.4372
GBPPLN	5.0979	DKKPLN	0.6014
USDCNY	6.4379	SEKPLN	0.4432

*for 100HUF

Last session in the FX market

09.02.2021

	min	max	open	close	fixing
EURPLN	4.472	4.484	4.477	4.475	4.477
USDPLN	3.694	3.715	3.706	3.697	3.697
EURUSD	1.207	1.212	1.208	1.210	-

Interest rate market 09.02.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.15	0
DS0725 (5Y)	0.48	0
DS1030 (10Y)	1.26	0

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	0.20	-0.54
2L	0.37	0.20	-0.52
3L	0.53	0.28	-0.49
4L	0.70	0.42	-0.45
5L	0.86	0.58	-0.40
8L	1.21	1.02	-0.23
10L	1.37	1.21	-0.12

WIBOR rates

Term	%	Change (bps)
O/N	0.10	2
T/N	0.08	-1
SW	0.11	0
2W	0.16	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	0.20	0
3x6	0.19	-1
6x9	0.21	-2
9x12	0.25	-2
3x9	0.23	-4
6x12	0.27	1

Measures of fiscal risk

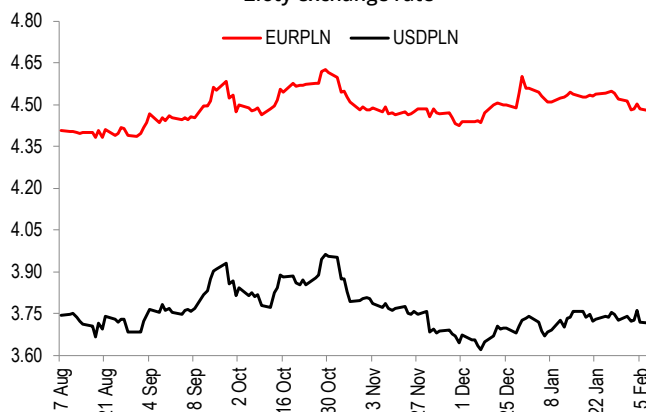
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	170
France	8	22
Hungary	64	295
Spain	41	57
Italy	51	96
Portugal	25	51
Ireland	11	32
Germany	9	-

* 10Y treasury bonds over 10Y Bunds

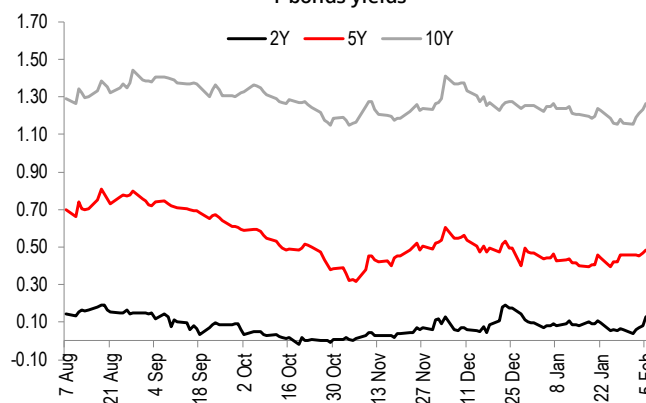
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

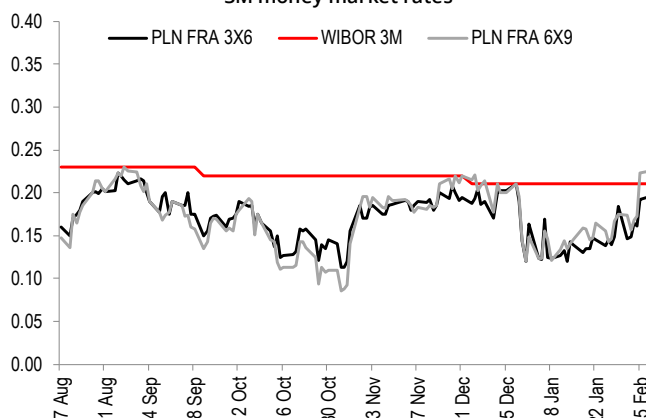
Zloty exchange rate



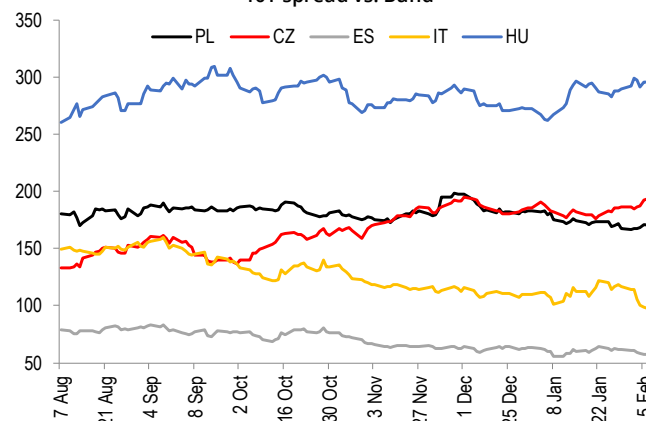
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (5 February)								
08:00	DE	Factory Orders	Dec	% m/m	-1.0	-	-1.9	2.7
09:00	HU	Industrial Production SA	Dec	% y/y	2.0	-	5.8	3.4
14:30	US	Change in Nonfarm Payrolls	Jan	k	50	-	49	-227
14:30	US	Unemployment Rate	Jan	%	6.7	-	6.3	6.7
MONDAY (8 February)								
08:00	DE	Industrial Production SA	Dec	% m/m	0.3	-	0.0	1.5
09:00	CZ	Industrial Production	Dec	% y/y	1.5	-	0.5	0.4
TUESDAY (9 February)								
08:00	DE	Exports SA	Dec	% m/m	-1.0	-	0.1	5.4
WEDNESDAY (10 February)								
08:00	DE	HICP	Jan	% m/m	1.4	-		1.4
14:30	US	CPI	Jan	% m/m	0.3	-		0.4
THURSDAY (11 February)								
14:30	US	Initial Jobless Claims	week	k	830	-	-	779
FRIDAY (12 February)								
09:00	CZ	CPI	Jan	% y/y	1.7	-		2.3
09:00	HU	CPI	Jan	% y/y	0.0	-		2.7
10:00	PL	GDP	4Q	% y/y	-3.0	-2.9		-1.5
16:00	US	Flash Michigan index	Feb	pts	80.5	-		79.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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