

11 February 2021

# Eyeopener

## Record rise of budget deficit in December

Global mood more less stable  
Record budget deficit reported at the end of 2020  
Zloty weaker, slower rise of EURUSD  
Minor changes on domestic bonds  
Toda weekly US labour market data

The better-than-expected quarterly companies' results, expectations for the fiscal package in the USA and low US inflation reading helped the European stock indices to stay close to local maxima, while US equities set fresh records. Most commodity prices went up. January CPI in the USA remained at December level, which was interpreted by the market as a sign of lack of inflationary pressure and sign that rates may remain flat for longer. Fed chair Jerome Powell said at Economic Club meeting in New York that the whole society has to mobilise in order to restore full employment as the USA is far from this state; apart from accommodative monetary policy, the government input is necessary (both short-term actions and long-term investment plan). Powell said nothing about need to control debt and possible rise in inflation which signals that monetary policy will not be tightened anytime soon. End of lockdown in Germany, which started in mid-December, was moved to 7 March from 14 February. Restaurants, cultural institutions and a major part of trade remain closed, but lands can decide to reopen schools.

The **budget deficit** in 2020 equalled PLN 85bn, while in the December alone it grew by PLN 72bn reaching the highest level in history. The jump in the deficit in December was mainly a function of expenditures which stood at PLN 109bn vs the range of PLN 40-60bn in a few previous years December. As we have suggested in our comments to the Budget Acts for 2020 and 2021 it is a result of moving some of the expenditures from 2021 to 2020 in order to improve the current year's fiscal parameters at the cost of the previous year ones. The whole 2020 revenues stood at PLN 419.8bn vs the plan of PLN 398.7bn and this improvement is pretty surprising in light of the pandemic and related restrictions. In December alone, the revenues were firm in VAT (increase by c.11% y/y), CIT (up 18.4%/y however this is a volatile time series) and PIT (up 14.0% y/y). In our opinion, the public sector deficit, which is less prone to manipulation, stood in 2020 at around 8% GDP, the most since the Global Financial Crisis of 2008.

**MPC's Łukasz Hardt** said that in the case of moer lockdowns the central bank should potentially boost the QE size rather than cut interest rates. In the positive scenario, he thinks the QE program should be maintained, reserve requirement ratio should be normalized and only then interest rates should be raised but no higher than 0.50% for the main refi rate.

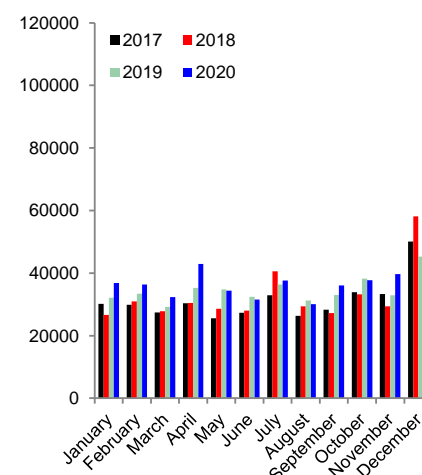
**EURUSD** increased yesterday for a 4th session in a row but the move was significantly smaller than on Tuesday. The currency pair reached a daily maximum at 1.214. After the move the EUR made up almost half of the losses versus the USD since the start of the year. The 4-day cumulative percentage change is the highest since the early December 2020 which suggests that EURUSD rise might slow down a bit in the nearest term.

**EURPLN** rose to 4.48 from 4.47 and then recorded another upside leg to 4.49. Today in the morning, the exchange rate is at 4.495, so still holding within the 4.47-4.505 range observed in the last couple of days. USDPLN reached 3.70 during the European session and then added another PLN0.01. Continuation of the zloty depreciation in the second part of the day made it underperform its CEE peers.

Among **other CEE currencies**, the Czech koruna for the second day in a row saw profit taking from its recent appreciation. EURCZK rose by 0.3%, temporarily above 25.8, but we could also watch a quick reduction of the scale of the daily rise. The forint started trimming losses and EURHUF fell 0.4%, temporarily to 356 and cancelled over 50% of the upward move from the first week of February. USDRUB was hovering near 73.8.

In the Polish **interest rate market** bond yields and IRS rates rose slightly by 1-2bp. 10Y asset swap spread dropped to -10bp. In the core markets, Bund yield was stable near -0.45% (spread vs Polish benchmark rose above 170bp) and UST yield fell by 2bp to 1.14% thanks to the data about US inflation.

Government spending by months, PLNmn



Source: Finance Ministry, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.4932	CZKPLN	0.1741
USDPLN	3.7043	HUFPLN*	1.2569
EURUSD	1.2127	RUBPLN	0.0502
CHFPLN	4.1627	NOKPLN	0.4382
GBPPLN	5.1308	DKKPLN	0.6040
USDCNY	6.4557	SEKPLN	0.4454

\*for 100HUF

### Last session in the FX market

10.02.2021

	min	max	open	close	fixing
EURPLN	4.469	4.493	4.473	4.487	4.481
USDPLN	3.681	3.705	3.690	3.699	3.697
EURUSD	1.211	1.214	1.212	1.213	-

## Interest rate market 10.02.2021

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.14	-1
DS0725 (5Y)	0.50	2
DS1030 (10Y)	1.28	2

### IRS on the interbank market\*\*

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	0	-0.55
2L	0.38	0	-0.52
3L	0.54	0	-0.50
4L	0.71	0	-0.46
5L	0.88	0	-0.41
8L	1.23	0	-0.23
10L	1.40	0	-0.12

## WIBOR rates

Term	%	Change (bps)
O/N	0.09	-1
T/N	0.08	0
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	0.20	2
6x9	0.22	1
9x12	0.24	0
3x9	0.26	3
6x12	0.29	1

## Measures of fiscal risk

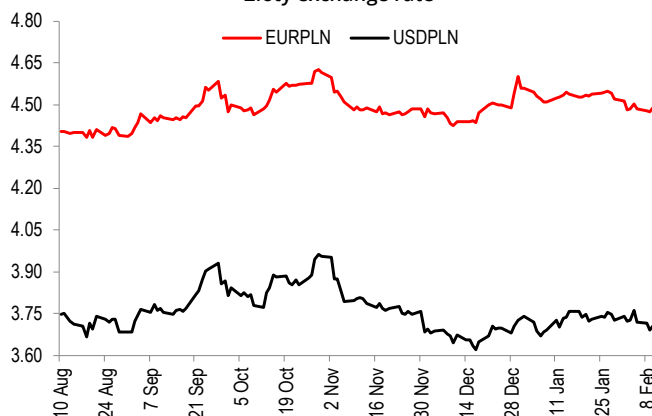
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	50	171
France	8	22
Hungary	64	290
Spain	40	58
Italy	49	96
Portugal	26	51
Ireland	11	33
Germany	9	-

\* 10Y treasury bonds over 10Y Bunds

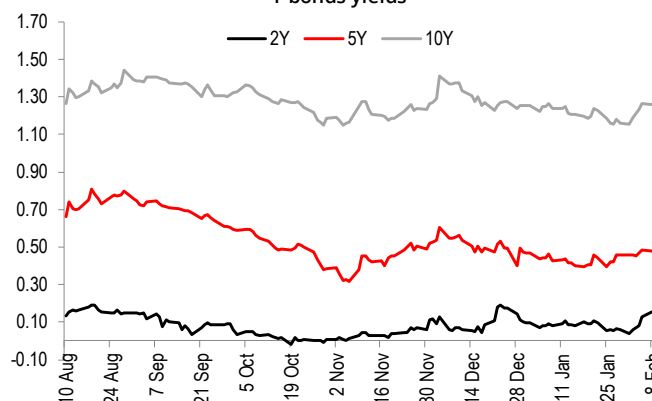
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

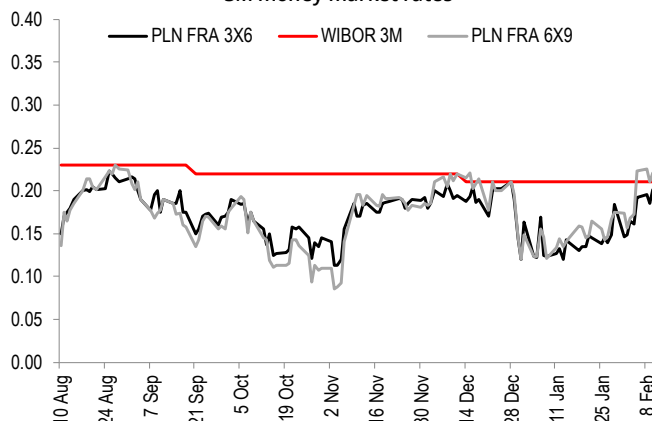
## Zloty exchange rate



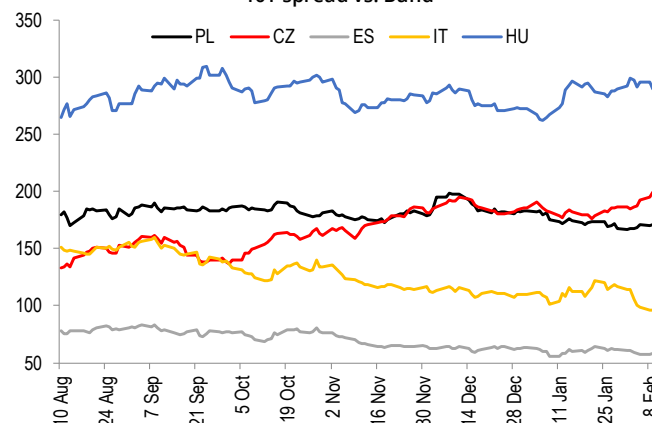
## T-bonds yields



## 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	1.4
14:30	US	CPI	Jan	% m/m	0.3	-	0.3	0.4
THURSDAY (11 February)								
14:30	US	Initial Jobless Claims	week	k	757	-	-	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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