

Eyeopener

MPC unimpressed by the NBP projections

Strong US data scared markets only temporarily
 Adam Glapiński cooled down rate hike expectations
 Bond yields and IRS rates lower after the NBP governor speech
 Zloty weakest against euro this year, EURUSD keeps falling
 Today publication of the Inflation Report

At the start of the Friday session the markets were still under the influence of the Thursday Jerome Powell's speech. The Fed chairman disappointed the markets by not presenting a clear strategy regarding if and how the US central bank wants to respond to the rapid growth of UST yields. On Friday, the strengthening of the dollar, the declines on stock exchanges and the loss of value of EM currencies were all seen only in the early stage of the session. The hours that followed saw market stabilisation ahead of the US labour market report. The report brought positive surprises – non-farm payrolls increased much more than had been expected. As a result, the 10Y US bond yield set a new weekly high, the dollar index measuring its strength vs the developed markets currencies reached the highest level since November and CEE currencies weakened. The changes were however relatively small.

During the Friday's videoconference the **NBP governor Adam Glapiński** was trying to lower market expectations for future policy tightening. He said explicitly that the market is wrong pricing-in rate hikes and the most likely scenario is interest rates stability until the end of the MPC's term of office. In his view the probability of rate hikes is virtually zero, as the headline inflation will remain very close to the official target and the core inflation will be falling (CPI driven mainly by exogenous factors: prices of oil, energy, waste management). In Glapiński's view, rate hikes could be considered only when the economy is back on the sustainable fast growth path. He added that the NBP will act exactly the same way as the Fed or the ECB, remaining very patient. He repeated that the scenario of rate cuts could be back on the table in case of worsening of economic outlook, but currently a recovery is expected. Glapiński said the central bank is ready to intervene in the FX market and that the zloty's appreciation is not welcomed when the economy needs accommodative monetary policy. The NBP governor asked about rising bond yields said they reflect rising optimism regarding economic outlook and did not signal any intention to boost the NBP's QE to tame the trend. He said, however, that perhaps the central bank will never stop buying bonds. Overall, no surprise at all – the monetary policy bias remains neutral. The probability of interest rate change until mid-2022 is indeed very low, in our view. **Minutes from the MPC's February meeting** showed that there are supporters of rate hikes in 2H21 in case inflationary pressure strengthens, but they remain in minority.

EURUSD was falling on Friday for the third day in a row, but the move was just a half of the Thursday one. Still, the exchange rate went below 1.19 for a while, making this downside correction of EURUSD larger in terms of price change than the one from September-October. This may mean that it will be now more difficult for the fx rate to return to the upward trend.

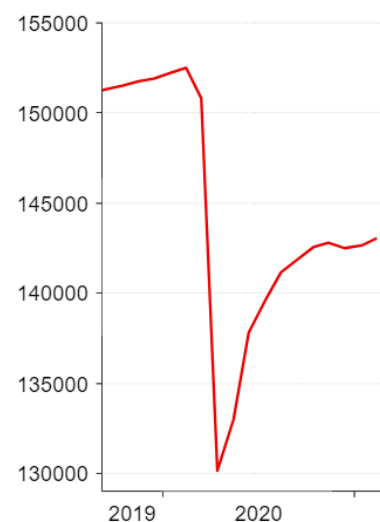
EURPLN increased on Friday by 0.7% to almost 4.60 setting a new high year-to-date. The zloty was under pressure due to the firmer dollar, weaker Polish bonds and the fact that the resistance at 4.56 was broken. USDPLN increased for a second day in a row by 1%, on Friday traded through 3.85 and as a result managed to reach the highest level since early November 2020

As for the **other CEE regional currencies**, forint and koruna weakened while the rouble was pretty stable. The EURHUF increased by 0.7% to almost 368, highest since the end of October 2020, which might have resulted from weaker than expected industrial production data and more Covid-19 restrictions announced earlier in the week. EURCZK gained 0.45% to 26.35 which is slightly above this year's YTD.

Friday was very dynamic on the **Polish interest rate market**. In the first phase of the session bond yields and IRS rates were climbing despite calmer situation on the core market. At the end of the day bonds managed to trim their losses while IRS rates fell below Thursday close thanks to a dovish message during the NBP president's video conference.

This week will start with a publication of NBP *Inflation Report* and a presentation of the new NBP projections. Apart from that, the calendar mostly includes events abroad: data on inflation (Czechia, Hungary, Germany), production (Germany, Czechia, Eurozone) plus the ECB meeting and possibly the final decisions regarding the next US fiscal package (current social benefits expire on 14 March). Particularly important may be the latter two events: the ECB response to the current market situation, the final shape of the US stimulus package and its approval may determine whether the recent rise of yields will be maintained or reversed. In our view the former is more probable. The general sentiment in the global financial markets (rising yields, falling equities, stronger dollar) is not favourable for EM currencies. We do not rule out that EURPLN may test 4.65 in the coming days.

Monthly nonfarm payrolls in the US (k)



Source, Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5838	CZKPLN	0.1737
USDPLN	3.8540	HUFPLN*	1.2386
EURUSD	1.1893	RUBPLN	0.0521
CHFPLN	4.1296	NOKPLN	0.4508
GBPPLN	5.3238	DKKPLN	0.6163
USDCNY	6.5144	SEKPLN	0.4507

*for 100HUF

Last session in the FX market						05/03/2021
	min	max	open	close	fixing	
EURPLN	4.558	4.599	4.563	4.588	4.579	
USDPLN	3.812	3.863	3.815	3.850	3.839	
EURUSD	1.189	1.196	1.196	1.191	-	

Interest rate market 05/03/2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.16	1
DS0725 (5Y)	0.91	2
DS1030 (10Y)	1.61	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.26	-3	0.19	-2	-0.53	0
2L	0.54	-7	0.24	1	-0.49	-1
3L	0.81	-5	0.41	0	-0.45	-1
4L	1.04	-5	0.65	1	-0.39	-1
5L	1.25	-3	0.89	1	-0.33	0
8L	1.63	-1	1.41	2	-0.11	1
10L	1.82	-1	1.61	1	0.02	0

WIBOR rates

Term	%	Change (bps)
O/N	0.10	1
T/N	0.10	0
SW	0.10	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	0.22	0
3x6	0.22	-2
6x9	0.24	-5
9x12	0.34	-9
3x9	0.26	-4
6x12	0.36	-4

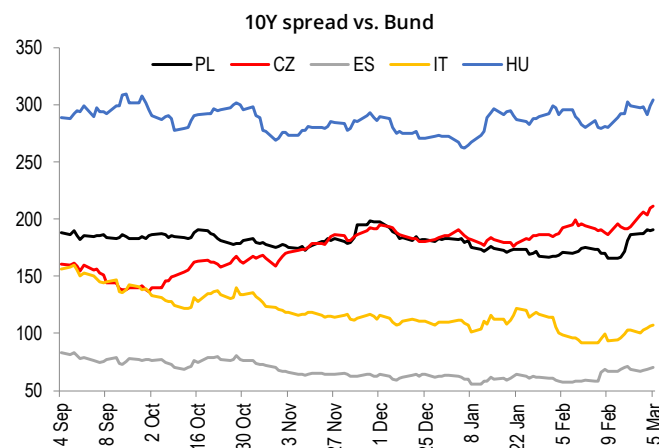
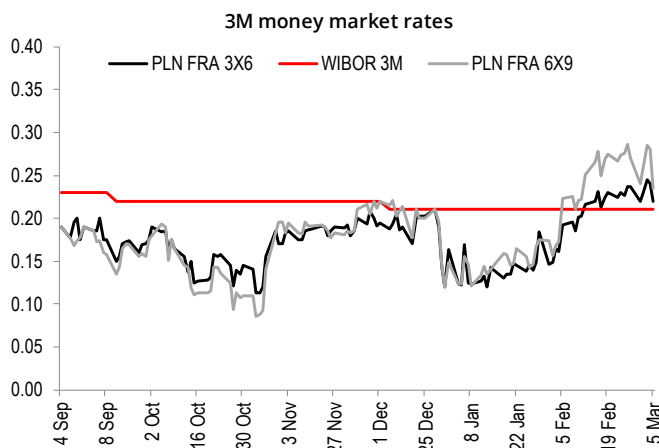
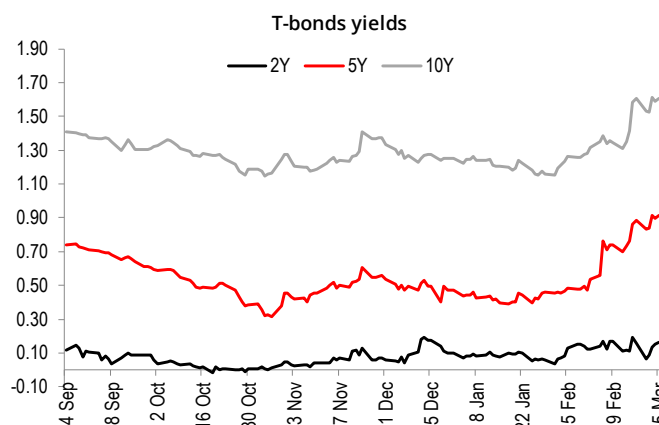
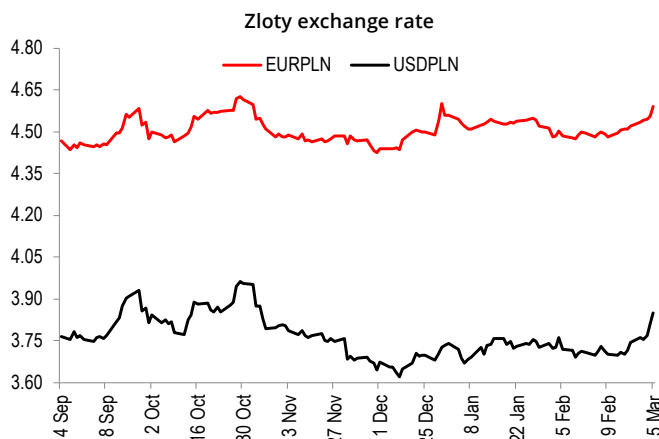
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	191	1
France	8	0	26	1
Hungary	59	0	304	5
Spain	34	-1	70	1
Italy	46	0	107	0
Portugal	20	0	60	1
Ireland	10	0	37	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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (5 March)								
08:00	DE	Factory Orders	Jan	% m/m	0.5	-	1.4	-1.9
09:00	HU	Industrial Production SA	Jan	% y/y	-3.5	-	-6.7	5.8
14:30	US	Change in Nonfarm Payrolls	Feb	k	197	-	379	166
14:30	US	Unemployment Rate	Feb	%	6.3	-	6.2	6.3
MONDAY (8 March)								
08:00	DE	Industrial Production SA	Jan	% m/m	-0.4	-	-2.5	0.0
10:00	PL	NBP Inflation Report						
TUESDAY (9 March)								
08:00	DE	Exports SA	Jan	% m/m	0.0	-		0.4
09:00	HU	CPI	Feb	% y/y	3.1	-		2.7
11:00	EZ	GDP SA	4Q	% y/y	-5.0	-		-5.0
WEDNESDAY (10 March)								
09:00	CZ	CPI	Feb	% y/y	2.2	-		2.2
14:30	US	CPI	Feb	% m/m	0.4	-		0.3
THURSDAY (11 March)								
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	750	-		745
FRIDAY (12 March)								
08:00	DE	HICP	Feb	% m/m	0.5	-		0.6
09:00	CZ	Industrial Production	Jan	% y/y	-4.5	-		5.8
11:00	EZ	Industrial Production	Jan	% m/m	-0.5	-		-1.6
16:00	US	Flash Michigan index	Mar	pts	78.5	-		76.8

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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