

15 March 2021

Eyeopener

Bond yields on the rise again

The rise of bond yields worsened market sentiment
 Stronger dollar weighs on EM currencies
 Domestic bond yields higher, following Bunds and Treasuries
 Today Polish February CPI inflation

The last session of the week saw a correction of the positive tendencies on the stock markets, on the EM currencies market and on the debt market. The resumed upward move of US yields could have contributed to declines on the European stock markets and to the USD strengthening. Friday economic data from Europe were quite positive – industrial outputs in Czechia and in the euro zone surprised to the upside. In the afternoon, the US Michigan consumer confidence beat expectations and rose to the highest level in a year. At the same time, inflation expectations measured in this survey declined in comparison to February. Despite stronger dollar, the Brent prices remained flat below 70\$/bbl.

EURUSD on Friday gave back most of the Thursday's increase and on Friday closed slightly above 1.190 vs 1.198 at the open. The dollar has been supported by increasing US bond yields.

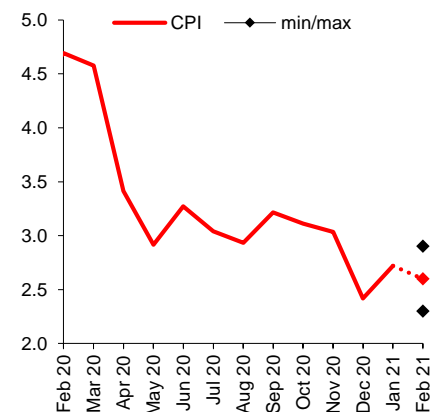
EURPLN on Friday increased in the morning almost to 4.60, however it was gradually moving lower in the later hours of the day and finally hovered around 4.58. USDPLN briefly traded at the 3.85 level, but closed the day near 3.84.

As for the **other CEE currencies**, there was no common trend. The Hungarian forint fared the worst and lost c 0.5% vs the euro which took almost all the Thursday gains back. Today at the open EURHUF trades already above 367.0. USDRUB increased just by 0.1% remaining close to an important support level of 73.0. EURCZK has not changed (26.17).

On the Polish **interest rate market** Friday was marked by rising bond yields and IRS rates. Yield curves moved up 5-10bp, the most in the long end. Polish bonds were selling off more than Bunds (PL-DE spread up by 2bp), but less than UST (PL-US spread lower by 3bp)

This week we will see numerous Polish data: today CPI data are out, tomorrow core CPI and balance of payments, on Wednesday wages and employment, on Thursday industrial production, on Friday retail sales. Our forecast is a mild decline of inflation to 2.6% y/y in February from 2.7% in January. Uncertainty regarding the reading is quite big due to the hard-to-estimate impact of CPI basket weights update. The key event abroad will be the Thursday Fed meeting. For the markets a key issue will be if the central bank signals shrinking tolerance to rising bond yields in a more convincing manner than recently. The zloty did not react positively to the theoretically positive factors: slightly weaker dollar, higher equity indexes or stronger Polish bonds. Meanwhile, the factors ahead are hardly supportive for the currency: the possible increase in the scale of NBP's QE, the approaching Supreme Court ruling on FX-loans (25 March). Summing up, we think 4.60 level will be tested, and most likely breached, in the next 1-2 weeks. It seems that trends on the core markets shall remain key for the Polish bonds. Shall the message from the FOMC be dovish enough to stabilize core yields, the same effect we may see in the domestic market. On Wednesday, the sole (for now) repurchase auction planned for March will be held by the NBP and this would be a good occasion to see to what extent the recent signals from the central bank will translate into any action.

CPI – our forecast and range of local economists' forecasts gathered by Parkiet daily newspaper



Source: Santander, Parkiet, GUS

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FX market

Today's opening			
EURPLN	4.5815	CZKPLN	0.1746
USDPLN	3.8423	HUFPLN*	1.2473
EURUSD	1.1924	RUBPLN	0.0524
CHFPLN	4.1257	NOKPLN	0.4543
GBPPLN	5.3428	DKKPLN	0.6156
USDCNY	6.5070	SEKPLN	0.4511

*for 100HUF

Last session in the FX market						12.03.2021
	min	max	open	close	fixing	
EURPLN	4.577	4.596	4.585	4.579	4.591	
USDPLN	3.830	3.856	3.833	3.831	3.852	
EURUSD	1.191	1.196	1.196	1.195	-	

Interest rate market 12.03.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.10	-3
DS0725 (5Y)	0.93	4
DS1030 (10Y)	1.56	6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.25	0	0.20	1	-0.53	1
2L	0.48	4	0.25	1	-0.49	1
3L	0.73	8	0.44	3	-0.44	2
4L	0.98	9	0.69	4	-0.39	1
5L	1.20	9	0.92	6	-0.32	2
8L	1.57	6	1.42	9	-0.10	4
10L	1.76	8	1.63	10	0.03	4

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	0.21	0
3x6	0.22	0
6x9	0.25	2
9x12	0.32	3
3x9	0.26	-3
6x12	0.30	-2

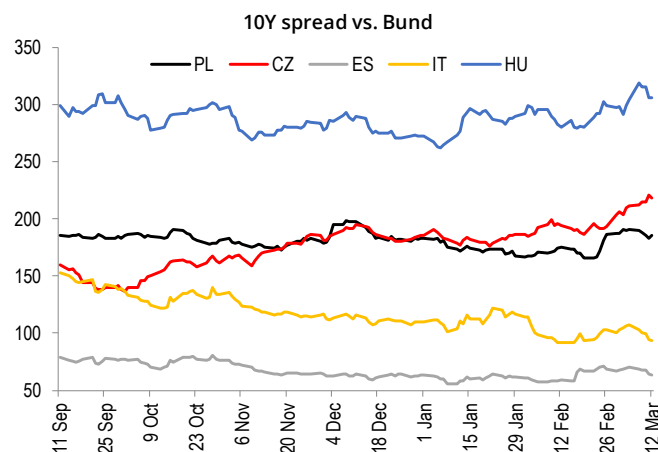
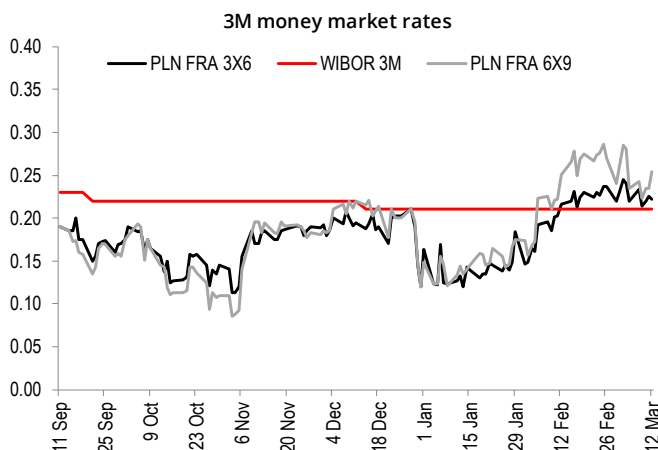
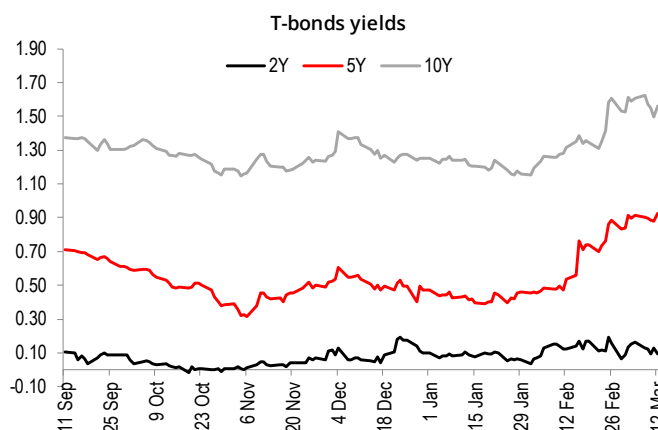
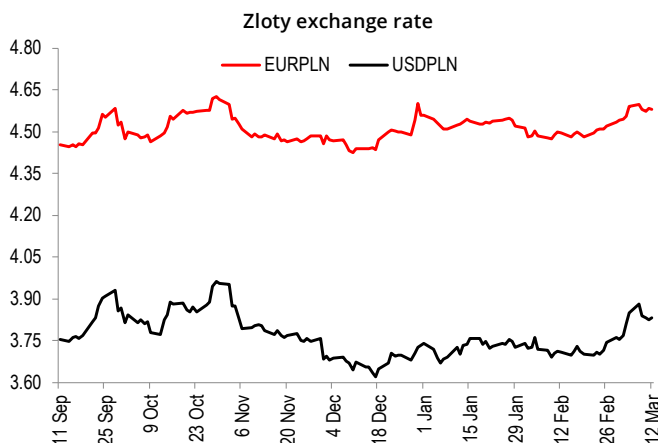
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	186	2
France	7	0	24	1
Hungary	59	0	306	-1
Spain	31	0	63	-1
Italy	42	0	94	-1
Portugal	20	0	51	-1
Ireland	10	0	34	-2
Germany	7	-1	-	-

* 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 VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (12 March)							
08:00	DE	Inflacja HICP	Feb	% m/m	0.6	-	0.6
09:00	CZ	Industrial output	Jan	% y/y	0.6	-	0.9
11:00	EZ	Industrial output	Jan	% m/m	0.2	-	0.8
16:00	US	Flash Michigan	Mar	pts	78.5	-	83.0
MONDAY (15 March)							
09:00	CZ	Retail sales	Jan	% y/y	-4.9	-	3.7
10:00	PL	CPI	Feb	% y/y	2.5	2.6	2.7
TUESDAY (16 March)							
11:00	DE	ZEW index	Mar	pts	73.1	-	71.2
13:30	US	Retail sales	Feb	% m/m	-0.4	-	5.3
14:00	PL	Current account	Jan	€m	2416	3144	430
14:00	PL	Exports	Jan	€m	3.7	1.9	14.8
14:00	PL	Imports	Jan	€m	1.2	-0.6	13.6
14:00	PL	Core inflation	Feb	% y/y	3.6	3.3	3.8
14:15	US	Industrial output	Feb	% m/m	0.5	-	0.9
WEDNESDAY (17 March)							
10:00	PL	Employment in corporate sector	Feb	% y/y	-1.9	-1.8	-2.0
10:00	PL	Wages in corporate sector	Feb	% y/y	4.7	5.3	4.8
11:00	EZ	HICP	Feb	% y/y	0.9	-	0.9
13:30	US	House starts	Feb	k	1 540	-	1 580
19:00	US	Fed decision		%	0.0-0.25	-	0.0-0.25
THURSDAY (18 March)							
10:00	PL	Industrial output	Feb	% y/y	4.5	4.7	0.9
10:00	PL	PPI	Feb	% y/y	1.4	1.2	0.7
13:30	US	Philly Fed index	Mar	pts	-	-	23.1
13:30	US	Initial jobless claims	week	k	-	-	712
FRIDAY (19 March)							
	PL	Rating review by Fitch					
10:00	PL	Retail sales	Feb	% y/y	-9.5	-9.3	-10.0
10:00	PL	Construction output	Feb	% y/y	-2.7	-4.3	-6.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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