

19 March 2021

Eyeopener

Disappointing production but plenty of PPI

Bank of England and Bank of Japan without aggressive action against higher yields
EURUSD decline, EURPLN up

Domestic and core market bond yields higher

Today Polish retail sales and construction output, Fitch may update Polish rating

On day after the FOMC meeting the main European stock indices rose somewhat, but in the USA the main S&P index fell by 0.4% during the European trading hours and eventually lost c.1.5%. The Asian session was also predominated by losses. The dollar has almost offset its whole 0.6-percent loss recorded on Wednesday. Core yields continued to go up – UST +8bp to 1.73% and Bund +3bp to -0.26%, but at the end of the day a correction was starting. Prices of industrial metals went up, while oil price declined (Brent down by 4% to USD65.2/bbl). The Bank of England did not change its interest rates and its asset purchases – it does not intend to hike rates before reaching the inflation target at 2%. The Turkish central bank hiked interest rates to 19% from 17%, topping expectations at 18%, as – according to its assessment – rising oil prices and volatile lira increased the inflation risks. Due to this decision USDTRY fell by 2.8%. The Bank of Japan did not change rates or target for 10Y bond yield, but increased the allowed trading range for the latter, giving the market a signal to get used to higher volatility. In the USA we got to see mixed macro data – on one side Philadelphia Fed was the highest in almost 50 years (better orders, high prices index), on the other the initial jobless claims rose to 770k while a reading of 700k had been expected.

MPC member **Eryk Lon** said that the probability of the rate cuts in Poland has decreased, one cannot however completely rule out such a scenario in case the pessimistic economic growth scenario materialized. On the other hand the probability of rate hikes is in his view negligible. He pointed to the fact that it is worth acting to prevent the bond yields from rising "significantly and permanently" because of the public debt servicing cost. In his opinion, NBP with the help of an increased QE, could slow the yields increase or even decrease them. Another MPC member **Eugeniusz Gatnar** said that interest rates will remain low (the main one in the 0.1-0.5% range) for a long time while the inflation is a problem of secondary importance at the moment.

PIS spokesperson Anita Czerwińska said yesterday that the **presentation of the party's new economic plan (called Polish New Deal) will not take place on March 20**, as planned, but has been postponed. The new date has not been revealed yet. The reason for change was said to be the epidemic situation.

In February Polish **industrial output** grew by 2.7% y/y vs 4.5% y/y market consensus and our 4.7% forecast, most likely softened by supply shortages. However in SA terms the growth remained solid (4.5% y/y). **PPI** inflation spiked in February to 2.0% y/y from 1.0% y/y in January, beating the market consensus at 1.4% y/y. Further rises in PPI could create some upward pressure on CPI. More in [Economic comment](#).

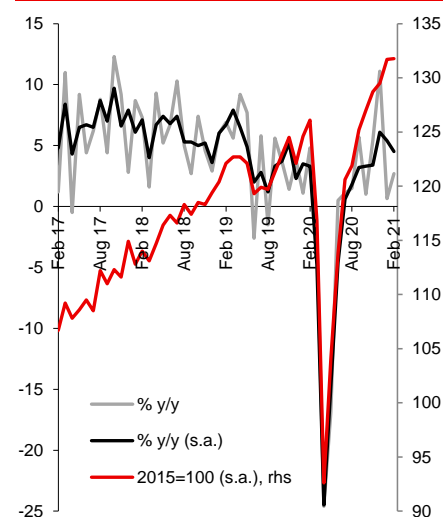
EURUSD after FOMC meeting on Wednesday increased to 1.20 however on Thursday the situation changed and EURUSD was falling for most of the day (closed at 1.193, or 0.5% lower).

EURPLN on Thursday opened slightly below 4.60 however during the day the currency pair increased and passed the previous day's local maximum and set a new local one at 4.629. At the end of the day EURPLN declined towards the Wednesday high at 4.618.

In case of the **other CEE currencies**, EURHUF, just like EURPLN, started to day low (slightly above 366) but yet before afternoon was testing important resistance at 368. In our view, the exchange rate may rise further. EURCZK also reversed the previous day's decline and returned to 26.15. After a noticeable sell-off on Wednesday driven by the threat of the US sanctions, on Thursday USDRUB traded stable in the first part of the day but in the second half it resumed the upside trend and reached 74.

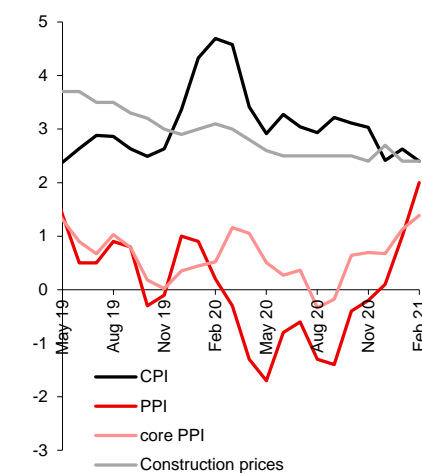
On the domestic **interest rate market** the IRS curve shifted up 2-4bp following core yields (2Y rate to 0.48%, 5Y to 1.22%, 10Y to 1.79%). Bond yields also moved 3bp up, 5Y to 0.88%, 10Y to 1.53%. The 10Y PL-DE bond yield spread reached 179bp. The 10Y asset swap spread fell to -0.26%, its multi-year low. We think that given the increased QE program in Poland and rising yields abroad we shall see rather negative asset swap spreads in the coming months.

Industrial output



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6167	CZKPLN	0.1764
USDPLN	3.8711	HUFPLN*	1.2413
EURUSD	1.1924	RUBPLN	0.0522
CHFPLN	4.1785	NOKPLN	0.4559
GBPPLN	5.3917	DKKPLN	0.6207
USDCNY	6.5056	SEKPLN	0.4550

*for 100HUF

Last session in the FX market						18.03.2021
	min	max	open	close	fixing	
EURPLN	4.593	4.628	4.595	4.620	4.622	
USDPLN	3.831	3.885	3.841	3.876	3.871	
EURUSD	1.191	1.199	1.196	1.192	-	

Interest rate market 18.03.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.08	1
DS0725 (5Y)	0.90	3
DS1030 (10Y)	1.53	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.24	0	0.20	0	-0.54	0
2L	0.48	1	0.27	3	-0.49	1
3L	0.73	2	0.44	3	-0.45	1
4L	1.00	4	0.69	4	-0.39	0
5L	1.22	4	0.94	4	-0.32	1
8L	1.61	5	1.49	7	-0.09	1
10L	1.79	5	1.69	5	0.06	2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.10	-1
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	-1
6x9	0.24	-1
9x12	0.30	-1
3x9	0.29	0
6x12	0.33	1

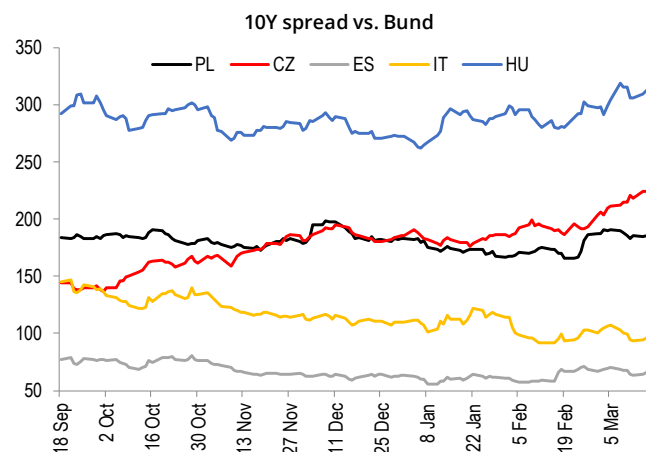
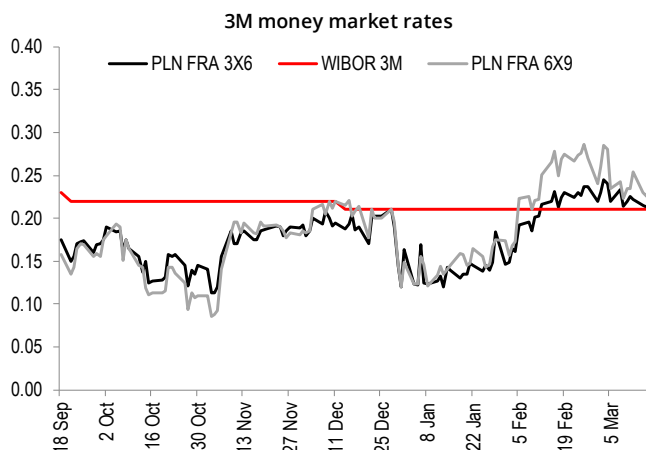
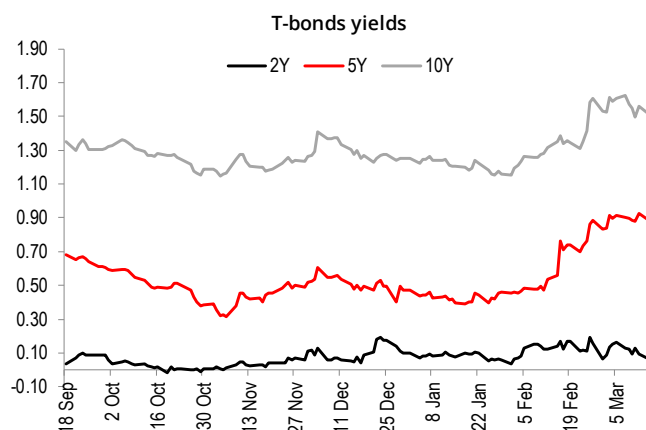
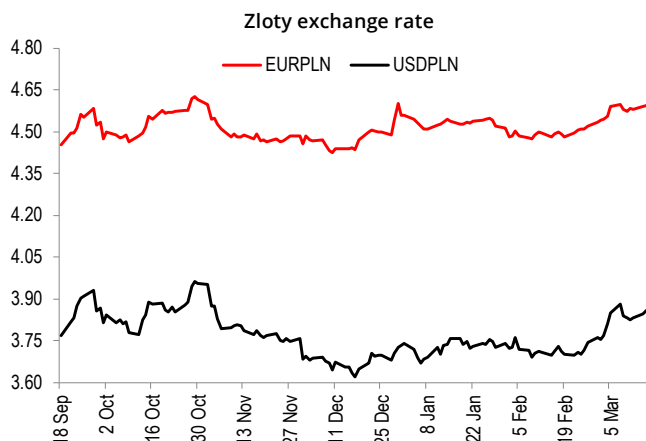
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	180	0
France	6	0	25	-1
Hungary	59	0	311	0
Spain	31	-1	65	-3
Italy	43	-2	95	-4
Portugal	20	-1	53	-2
Ireland	10	0	35	0
Germany	7	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	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
CET								
FRIDAY (12 March)								
08:00	DE	Inflacja HICP	Feb	% m/m	0.6	-	0.6	0.6
09:00	CZ	Industrial output	Jan	% y/y	0.6	-	0.9	2.5
11:00	EZ	Industrial output	Jan	% m/m	0.2	-	0.8	-0.1
16:00	US	Flash Michigan	Mar	pts	78.5	-	83.0	76.8
MONDAY (15 March)								
09:00	CZ	Retail sales	Jan	% y/y	-5.8	-	-9.0	3.7
10:00	PL	CPI	Feb	% y/y	2.5	2.6	2.4	2.6
TUESDAY (16 March)								
11:00	DE	ZEW index	Mar	pts	74.0	-	76.6	71.2
13:30	US	Retail sales	Feb	% m/m	-0.5	-	-3.0	5.3
14:00	PL	Current account	Jan	€m	3052	3144	3258	430
14:00	PL	Exports	Jan	€m	20.3		19.1	19.8
14:00	PL	Imports	Jan	€m	19.5		18.3	19.5
14:00	PL	Core inflation	Feb	% y/y	3.6	3.3	3.7	3.8
14:15	US	Industrial output	Feb	% m/m	0.5	-	-2.2	0.9
WEDNESDAY (17 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	-1.9	-1.8	-1.7	-2.0
10:00	PL	Wages in corporate sector	Feb	% y/y	4.9	5.3	4.5	4.8
11:00	EZ	HICP	Feb	% y/y	0.9	-	0.9	0.9
13:30	US	House starts	Feb	k	1 560	-	1421	1 584
19:00	US	Fed decision		%	0.0-0.25	-	0.0-0.25	0.0-0.25
THURSDAY (18 March)								
10:00	PL	Industrial output	Feb	% y/y	3.8	4.7	2.7	0.9
10:00	PL	PPI	Feb	% y/y	1.5	1.2	2.0	0.7
13:30	US	Philly Fed index	Mar	pts	23.3	-	51.8	23.1
13:30	US	Initial jobless claims	week	k	700	-	770	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

** estimate after CPI data

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