

1 July 2020

# Eyeopener

## Inflation higher, yields lower

Stable moods in global financial markets  
Inflation rose in June to 3.3% y/y  
Zloty stronger after high flash CPI print  
Yields lower, especially in the belly of the curve  
Today, manufacturing PMI, next issuance of BGK bonds

On Tuesday moods on equity markets were stable – European markets were slightly decreasing, while US stocks were in green at the end of the European session. VIX fear index fell by more than 1pp, to 30.9%. Diversity was seen also in emerging markets assets. CEE currencies were gaining. Metal prices were going up, both precious and industrials; gold price breached 1800 level. Inflation in the euro zone rose in June more than expected, by 0.3% y/y. US consumer confidence was much better than expected.

**Polish flash CPI** rose to 3.3% y/y in June, well above market expectations. We were expecting 3.0%, consensus was at 2.8%. It looks that the main upward move came from core components of inflation, as food and energy prices were slightly lower than in May (both -0.1% m/m). Our quick estimate suggests that core inflation could have reached 4.3% y/y – its highest since 2001. It seems that the upward effect of epidemic on prices could be stronger and longer-lasting than we expected previously (partly due to Covid-related fees, it seems). The result does not cancel our call for medium-term disinflation trend, as it will be strongly justified by deeply negative output gap and faltering consumer spending in the nearest quarters (plus high base effects in 2021). We still believe CPI inflation is likely to drop below 2% y/y in 2-3 quarters. Still, the short-term CPI dynamics could at least weaken rumours about possibility of introducing negative interest rates in Poland.

**EURUSD** recorded another quite volatile session on Tuesday. After opening near 1.123 it decreased by almost 0.4% to 1.119 and started rising to 1.126, by 0.6%. The day ended at 1.124, not far from the opening level. We still believe the rate could drop to 1.105 in the near term.

**EURPLN** has been volatile as well. After opening around 4.46, declined 0.2% only to increase by 0.4% to 4.47 in the first reaction post the high CPI print. Next the EURPLN quickly fell temporarily to below 4.44 and closed at 4.44. High intraday volatility might suggest that options markets are short Gamma hence such a whipsaw price behaviour might stay with us for a week or so.

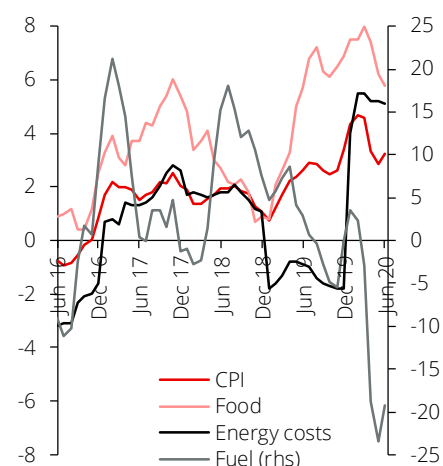
As to the **other regional currencies**, EURHUF, as we expected, paused after many consecutive days of increases and after the second failed attempt at 358,0 the pair abruptly fell, by as much as 0.9%, closing the day at 354.5. The May PPI in Hungary (at 1.7% y/y) turned out much lower than a month ago. Similar price behaviour was observed in EURCZK – after opening at 26.80, abruptly declined to 26.65, by 0.6%. The final Q2 GDP reading has not surprised (-2.0% y/y). The USDRUB was an exception among regional currencies and increased by 1.7% to 71.2.

On the **domestic interest rate market**, yields at the short end of the curve stayed unchanged at 0.14%, while 2Y swaps declined by c.2bp to 0.28%. At the long end of the curve, swaps went down by c.4bp to 0.86% and 10Y bonds from 1.42% to 1.39%. In the final day of the month and quarter there was a large demand for bonds from the belly of the curve (5Y) – their yield decreased by c.5bp to 0.70%.

The **Finance Ministry** informed that a consortium of banks was given a mandate to conduct an issue of 3Y euro-denominated bonds worth EUR2bn. The transaction was conducted yesterday. The bonds were priced 29 bp above mid swap rate (-0.11% in nominal terms). On the domestic market the Ministry plans two tenders this month – on 9 July a switching auction and on 23 July a regular one with planned offer at PLN3-6bn. In 3Q20 there are 1-2 tenders in the plan, with offer at PLN5-12bn and 3-4 switching tenders. The Ministry plans to repurchase papers maturing in 2020 or 2021. Moreover, the public debt was at 45.4% of GDP at the end of 1Q20 and in May foreign investors increased their engagement in Polish bonds by PLN2.5bn.

**NBP** informed that in July it plans to hold two outright buy auctions, on 8th and on 22th. There will also be five standard 7d NBP bill auctions.

Inflation and its selected components, % y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.4417	CZKPLN	0.1662
USDPLN	3.9583	HUFPLN*	1.2511
EURUSD	1.1221	RUBPLN	0.0556
CHFPLN	4.1782	NOKPLN	0.4111
GBPPLN	4.8947	DKKPLN	0.5958
USDCNY	7.0690	SEKPLN	0.4237

\*for 100HUF

### Last session in the FX market

30/06/2020

	min	max	open	close	fixing
EURPLN	4.437	4.470	4.451	4.443	4.466
USDPLN	3.943	3.989	3.961	3.954	3.981
EURUSD	1.119	1.126	1.124	1.124	-

## Interest rate market

30/06/2020

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

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.17	2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.73	-3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.39	2	5.03.2020	DS1029	1.725

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

Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.21	-2	0.26	-1	-0.46	-1
2L	0.28	-2	0.22	-2	-0.38	0
3L	0.35	-2	0.23	0	-0.39	-1
4L	0.45	-2	0.26	1	-0.37	0
5L	0.53	-3	0.32	1	-0.35	-1
8L	0.75	-4	0.52	3	-0.25	0
10L	0.86	-4	0.63	3	-0.17	0

## WIBOR rates

Term	%	Change (bps)
O/N	0.11	1
T/N	0.11	0
SW	0.15	0
2W	0.19	0
1M	0.23	0
3M	0.26	0
6M	0.28	0
1Y	0.30	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	0.21	-3
3x6	0.17	-2
6x9	0.18	-4
9x12	0.19	-4
3x9	0.19	-3
6x12	0.22	-4

## Measures of fiscal risk

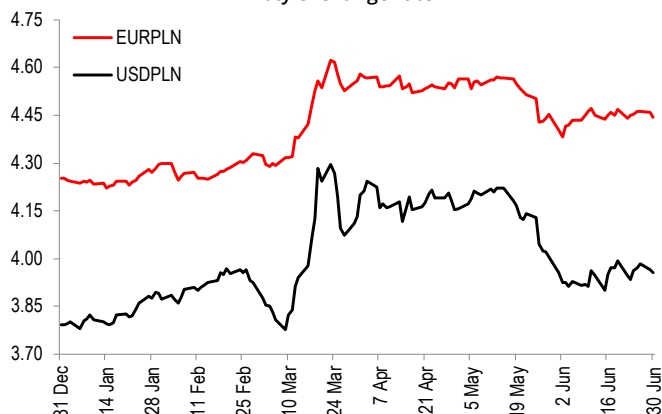
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	185	1
France	13	0	34	0
Hungary	77	0	268	1
Spain	80	0	93	-2
Italy	126	-1	179	-5
Portugal	48	0	95	-1
Ireland	23	0	47	-1
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

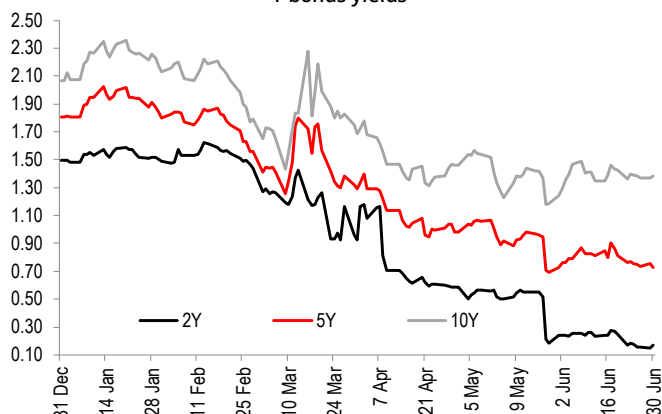
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

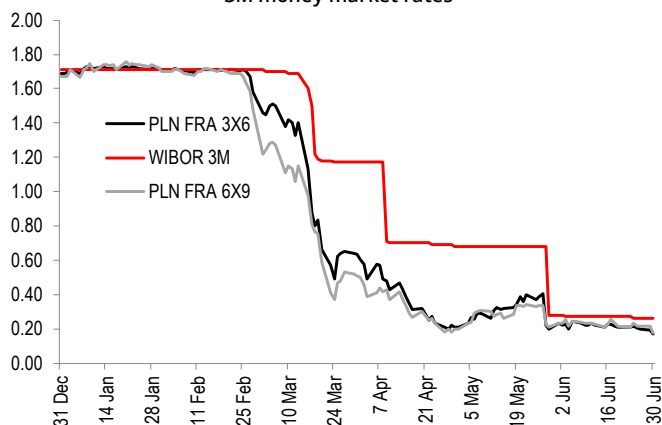
## Zloty exchange rate



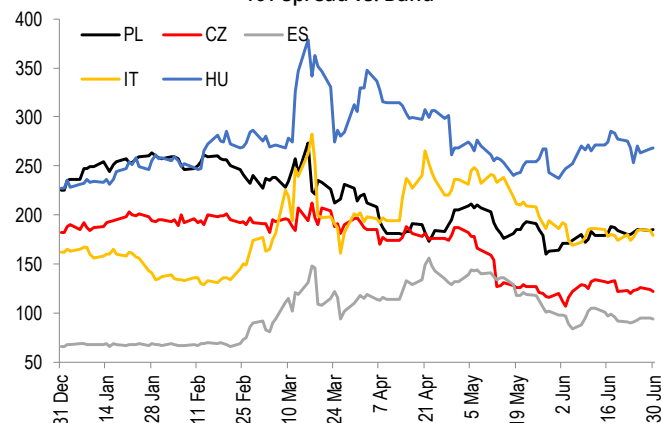
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
<b>FRIDAY (26 June)</b>								
14:30	US	Personal Spending	May	% m/m	9.2		8.2	-12.6
14:30	US	Personal Income	May	% m/m	-6.0		-4.2	10.8
14:30	US	PCE Deflator SA	May	% m/m	0.6		0.5	0.5
16:00	US	Michigan index	Jun	pts	79.2		78.1	78.9
<b>MONDAY (29 June)</b>								
11:00	EZ	ESI	Jun	pct.	80.3		75.7	67.5
14:00	DE	HICP	Jun	% m/m	0.4		0.7	0.0
16:00	US	Pending Home Sales	May	% m/m	19.3		44.3	-21.8
<b>TUESDAY (30 June)</b>								
09:00	CZ	GDP SA	1Q	% y/y	-2.0		- 2.0	-2.0
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jun</b>	<b>% y/y</b>	<b>2.7</b>	<b>3.0</b>	<b>3.3</b>	<b>2.9</b>
11:00	EZ	Flash HICP	Jun	% y/y	0.2		0.3	0.1
16:00	US	Consumer Conference Board	Jun	pts	90.0		91.5	85.9
<b>WEDNESDAY (1 July)</b>								
08:00	DE	Retail Sales	May	% m/m	3.8		13.9	-6.5
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Jun</b>	<b>pts</b>	<b>46.6</b>	<b>46.0</b>	<b>-</b>	<b>40.6</b>
09:55	DE	Germany Manufacturing PMI	Jun	pts	44.6		-	44.6
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	46.9		-	46.9
14:15	US	ADP report	Jun	k	3000.0		-	-2760.4
16:00	US	ISM manufacturing	Jun	pts	49.0		-	43.1
20:00	US	FOMC Meeting Minutes	Jun.20		-		-	0.0
<b>THURSDAY (2 July)</b>								
11:00	EZ	Unemployment Rate	May	%	7.6		-	7.3
14:30	US	Initial Jobless Claims	Jun.20	k	1320.0		-	1480.0
14:30	US	Change in Nonfarm Payrolls	Jun	k	3000.0		-	2509.0
14:30	US	Unemployment Rate	Jun	%	12.5		-	13.3
16:00	US	Durable Goods Orders	May	% m/m	10.45		-	15.8
16:00	US	Factory Orders	May	% m/m	8.0		-	-13.0
<b>FRIDAY (3 July)</b>								
03:45	CN	Caixin China PMI Services	Jun	pts	53.3		-	55.0
09:55	DE	Markit Germany Services PMI	Jun	pts	45.8		-	45.8
10:00	EZ	Eurozone Services PMI	Jun	pts	47.3		-	47.3

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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