

6 July 2020

Eyeopener

Zloty stable ahead of election

Equity markets slightly down after enthusiastic Thursday
PMI in services somewhat better, but still below 50pts
Yields stable, but with downward potential
Today services PMI in USA, retail sales in euro zone and Hungary

On Friday the releases of services PMIs for June started. Data from Japan, Australia, China, euro zone and Germany showed a further steady rebound (m/m increases of around 1-3pp) from still low May's levels. However, except for China, the readings were still below the neutral level of 50. Amid lack of other important economic news, market sentiment was gently rebounding after very optimistic Thursday and in Europe equity indices were down c.1%. CEE currencies ended the week with small gains, except the ruble. On Friday energy commodities were losing and zloty was stable near \$1780.

In April the **NBP interest rate cut** was backed by 7 MPC members, with one vote against (Hardt) and two members abset (Gatnar, Zubelewicz).

NBP sold 7d bills worth PLN167.2bn at the Friday's auction. It is the highest amount this year. NBP also announced that the net profit of the banking sector in the first five months of the year reached PLN3.38bn and was lower 42.2% y/y. In April the profit reached PLN896m, and in May PLN1bn.

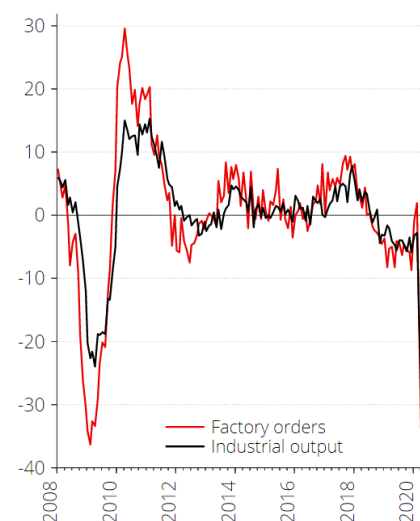
After a pretty volatile week, on Friday **EURUSD** remained relatively calm and closed the day near 1.124 – almost in the middle of the 1.12 – 1.13 range that it moved within over the last 7 days. The option-implied probabilities of an upward move have been increasing on each consecutive day. At the beginning of last week only options with tenors to and including 3M implied such a scenario. At the end of the week even those options with tenors over 6M did. The dollar index have almost not changed. We would rather think the next larger EURUSD move would be towards 1.105. On Monday morning the EURUSD opens at 1.129.

EURPLN after very volatile Wednesday and a correction on Thursday, on Friday behaved quietly and oscillated most of the day within a tight 4.46-4.47 range. Lack of significant macroeconomic data in the calendar may serve as an explanation. Over the last 2 weeks the currency pair traded within 4.44-4.48 range. We expect EURPLN to remain rangebound towards the second round of the presidential elections. The behaviour of FX options markets suggest increased demand for downside strikes (meaning stronger zloty), which possibly is related to investors positioning ahead of the elections.

In **other CEE countries**, as we expected EURHUF has started to rise after three days of consolidation – on Friday it moved up by 0.5% to 352.8. We believe EURHUF can be heading for 360.0 in the medium term, but the possibly high reading of CPI this Wednesday (3.0% y/y expected) may pause the rise for some time. EURCZK performed similarly to EURHUF – it rose in the second part of the day, but by less (+0.3% to 26.67). We expect some weakening of the koruna in the medium term, and market expectations for the Friday reading of June Czech CPI are at 2.9% y/y. On Friday the ruble was exceptionally weak, with daily losses reaching 1.2%. USDRUB closed the day at 71.4. In a broader perspective, if USDRUB does not go above 72 soon then it will remain for some time inside the 68-72 range. June inflation in Russia will be released on Tuesday, with consensus at 3.2% y/y.

On the Polish **fixed income market** the FRA contracts broke the lower band of consolidation channel valid for 3 months (e.g. 0.20-0.40% in case of 9x12) and started to slowly decrease. On Friday 9x12 FRA declined by another 1bp to 0.18%. The IRS have not changed: 2Y still at 0.28%, 10Y at 0.90%. Similarly, the bond yields have not changed much – 2Y just 1bp lower to 0.12%, 10Y to 1.35%. We think that in the coming week the liquidity from the banking sector might be invested further up the curve (in the longer tenors) and the 5Y bond yield might fall to 0.60% by the end of the week.

Orders and output in Germany, % y.y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.4572	CZKPLN	0.1668
USDPLN	3.9492	HUFPLN*	1.2540
EURUSD	1.1289	RUBPLN	0.0556
CHFPLN	4.1853	NOKPLN	0.4178
GBPPLN	4.9325	DKKPLN	0.5982
USDCNY	7.0413	SEKPLN	0.4249

*for 100HUF

Last session in the FX market

05.07.2020

	min	max	open	close	fixing
EURPLN	4.456	4.471	4.459	4.463	4.467
USDPLN	3.963	3.984	3.971	3.971	3.976
EURUSD	1.122	1.125	1.123	1.124	-

Interest rate market

05.07.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.15	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.73	2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.36	0	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ (17.06)
%	Change (bps)	%	Change (bps)
1L	0.21	0	-0.47
2L	0.28	1	-0.39
3L	0.35	0	-0.39
4L	0.45	0	-0.37
5L	0.56	1	-0.35
8L	0.78	1	-0.22
10L	0.90	1	-0.16

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.11	0
SW	0.14	-1
2W	0.19	0
1M	0.23	0
3M	0.26	0
6M	0.28	0
1Y	0.29	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.23	0
3x6	0.18	0
6x9	0.17	-2
9x12	0.17	-2
3x9	0.21	0
6x12	0.21	-1

Measures of fiscal risk

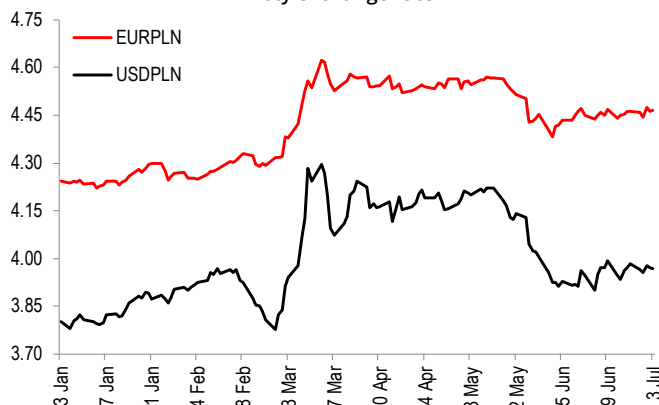
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	179	1
France	14	-1	32	0
Hungary	77	0	274	1
Spain	75	0	89	1
Italy	122	1	176	5
Portugal	43	0	88	-1
Ireland	22	-1	46	2
Germany	10	-2	-	-

* 10Y treasury bonds over 10Y Bunds

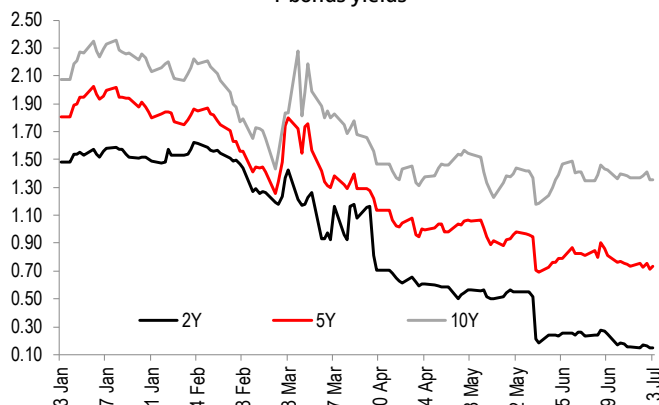
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

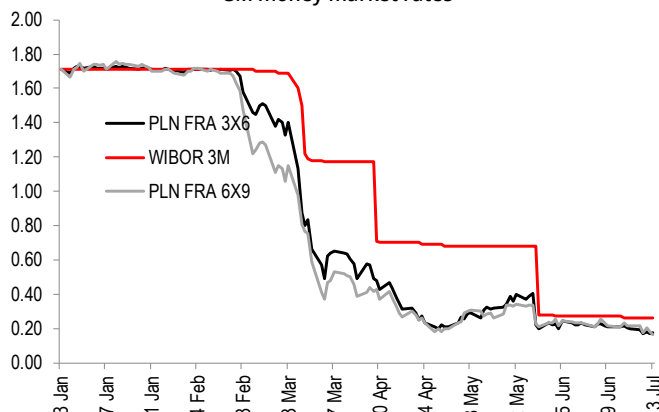
Zloty exchange rate



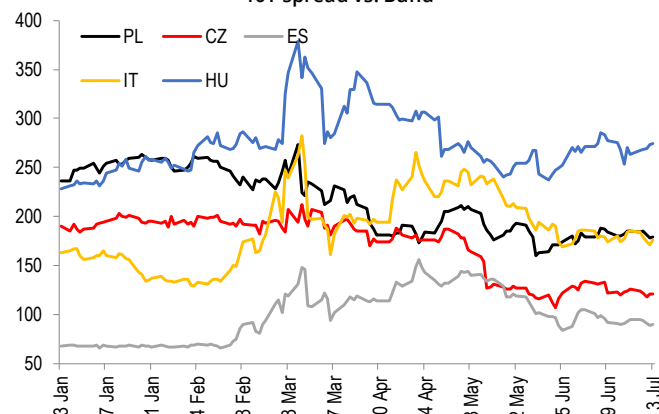
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (3 July)								
03:45	CN	Caixin China PMI Services	Jun	pts	53.3		58.4	55.0
09:55	DE	Markit Germany Services PMI	Jun	pts	45.8		47.3	45.8
10:00	EZ	Eurozone Services PMI	Jun	pts	47.3		48.3	47.3
MONDAY (6 July)								
08:00	DE	Factory Orders	May	% y/y	-26.0		-29.3	-36.0
09:00	HU	Retail Sales	May	%y/y	-3.8			-10.2
11:00	EZ	Retail Sales	May	% y/y	-6.5			-19.6
15:45	US	PMI services	Jun final	pts	46.7			37.5
16:00	US	ISM non-manufacturing	Jun	pts	50.0			45.4
TUESDAY (7 July)								
08:00	DE	Industrial Production	May	% y/y	-19.3			-25.3
09:00	CZ	Industrial Output	May	% y/y	-22.4			-33.7
10:00	PL	Foreign Exchange Reserves	Jun	EUR bn				132.8
18:00	RU	CPI	Jun	% y/y	3.2			3.0
WEDNESDAY (8 July)								
03:30	CN	CPI	Jun	%y/y	2.5			2.4
09:00	HU	CPI	Jun	%y/y	3.0			2.2
09:00	CZ	Retail Sales	May	%y/y	-21.2			-14.7
THURSDAY (9 July)								
08:00	DE	Current Account	May	EUR bn				7.7
08:00	DE	Trade Balance	May	EUR bn				3.6
09:00	HU	Trade Balance	May	EUR bn				-0.56
10:00	CZ	Foreign Exchange Reserves	Jun	USD bn				149.0
14:30	US	Initial Jobless Claims	May	thousand				1427
FRIDAY (10 July)								
03:45	FR	Industrial Production	May	%y/y	-26.2			-34.2
09:00	CZ	CPI	Jun	%y/y	2.9			2.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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