

8 July 2020

# Eyeopener

## European Commission cut forecasts

Weaker market sentiments after worse data and new EC forecasts

Zloty again stable ahead of election

Calm day on Polish bonds, auction on Thursday

Today inflation in China, Russia and Hungary, retail sales in Czechia

On Tuesday worse than expected data about German industrial output in May (but also Hungarian and Czech) and lower European Commission's economic forecasts (details below) caused a selloff in equity markets, main European stock indices were lower c.1%-1.5%. In the USA the number of new job openings increased, after reopening of the economy started.

According to the summer edition of **European Commission's forecasts**, euro zone GDP may drop this year by 8.7%, not by 7.7%, as estimated in May, and the rebound in 2021 could be slightly weaker than expected earlier (6.1% instead of 6.3%). The GDP forecasts for EU states became more diversified (for example, forecasts for France, Austria and Slovakia were trimmed by over 2pp, while for Germany, Sweden and Greece were improved). The assessment of economic outlook for Europe was negatively affected by the coronavirus spread in the USA and emerging countries. According to EC, the risks for GDP forecasts are asymmetric to the downside, due to the threat of second wave of pandemic, for example. The estimates did not take into account the possible impact of the proposed Next Generation EU package (it has not been negotiated and approved yet, the next EU summit focused on this issue is planned next week). GDP forecast for Poland has been reduced from -4.3% to -4.6% in 2020 and improved from 4.1% to 4.3% in 2021. CPI forecasts have been barely changed, the estimate for Poland has been lifted from 2.5% to 2.7% in 2020. As regards Poland, the report points to predicted collapse of investments in 2Q20, precautionary holding back of consumer spending, assumed faster rebound of imports than exports leading to more negative net exports.

According to the Ministry of Finance, in June **the central budget deficit** shrank to PLN17bn from PLN26bn recorded in May. The improvement of budget balance was possible because expenditures linked to countering the consequences of the pandemic were pushed outside the central budget (for some time now we are indicating that the informative value of budget data is reduced because of this), PLN7.4bn transfer of NBP profit (the transfer was possible thanks to a change in NBP reserve creation policy, which actually meant resignation from building reserves) and a rebound in tax revenues by 9% y/y in June. A quick rebound of tax revenues is generally good news, but we do not know its breakdown yet. We need to point out that the ministry extended the deadlines for tax paid on annual basis, including the income taxes, which might have changed the seasonal pattern of revenues. We are waiting for full data about central budget for June. We expect to see a record high GG deficit this year, possibly exceeding 10% of GDP, with most of it realised outside the central budget.

**EURUSD** exhibited elevated intraday volatility for another day – after opening at 1.131, another attack higher failed (after just +0.2%), after which the currency pair collapsed 0.7% lower to 1.126 after which it rebounded a bit.

**EURPLN** remained stable for another day and has spent most of the Tuesday session within the 4.46-4.47 range, however more time has been spent towards the upper band (4.47) and this is where it closed. Today EURPLN opens at 4.475.

As for **other CEE currencies**, EURHUF increased 0.4% to 353.8 (and today opened at 355.1) and the poor forint behaviour might partially be attributed to worse-than-expected industrial production print. EURCZK increased just 0.1% to 26.7 but during the day has traded briefly above 26.75 and this is also where it opens. USDRUB had a pretty volatile day, initially increased 0.9% to 72.23 and only then abruptly fell by 1.4% to 71.25. We reckon USDRUB currently trades within a horizontal range of 68.0-72.0.

On the Polish **fixed income market**, the Tuesday session was very stable. The 10Y bond yields hovered around 1.37% while 10Y spread vs Bund narrowed to 179bp. The 2x10 steepness of the IRS curves at 62bp remains near this year's maximum.

**Ministry of Finance** released details about the upcoming Thursday government bond auction, where bonds of 6 series will be sold: OK0722, PS0425, WZ0525, WZ1129, WS0447. 4 series will be bought back: DS1020, WZ0121, PS0421, OK0521.

**Polish Development Fund (PFR)** announced that another bond issuance will take place in second part of July. So far the PFR has issued a total of PLN62bn of which PLN56.8bn has been sent to companies as part of the support programs. What is more, the total issuance of the PFR which was initially announced at PLN100bn, might turn out smaller than that and total PLN85-90bn, according to PFR head Paweł Borys.

### European Commission's economic forecasts

	2020	2021
<b>EU</b>	<b>-8.3(-0.9)</b>	<b>5.8(-0.3)</b>
<b>Euro zone</b>	<b>-8.7(-1.0)</b>	<b>6.1(-0.2)</b>
Germany	-6.3(0.2)	5.3(-0.6)
France	-10.6(-2.4)	7.6(0.2)
Italy	-11.2(-1.7)	6.1(-0.4)
Spain	-10.9(-0.5)	7.1(0.1)
Poland	-4.6(-0.3)	4.3(0.2)
Czechia	-7.8(-1.6)	4.5(-0.5)
Hungary	-7.0(0.0)	6.0(0.0)
Romania	-6.0(0.0)	4.0(-0.2)
United Kingdom	-9.7(-1.4)	6.0(0.0)

Difference versus May 2020 forecasts in brackets

Source: European Commission, Santander

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## FX market

### Today's opening

EURPLN	4.4740	CZKPLN	0.1668
USDPLN	3.9715	HUFPLN*	1.2512
EURUSD	1.1265	RUBPLN	0.0555
CHFPLN	4.2097	NOKPLN	0.4197
GBPPLN	4.9803	DKKPLN	0.5982
USDCNY	7.0218	SEKPLN	0.4287

\*for 100HUF

### Last session in the FX market 07.07.2020

	min	max	open	close	fixing
EURPLN	4.461	4.475	4.462	4.474	4.471
USDPLN	3.942	3.971	3.946	3.961	3.969
EURUSD	1.126	1.132	1.131	1.130	-

## Interest rate market 07.07.2020

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

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.12	-2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.75	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.37	0	5.03.2020	DS1029	1.725

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

Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.20	0	0.25	-1	-0.46	1
2L	0.28	-1	0.21	-1	-0.38	1
3L	0.36	-2	0.23	0	-0.38	1
4L	0.47	-1	0.26	-2	-0.37	0
5L	0.58	-1	0.31	-2	-0.35	0
8L	0.80	-2	0.51	-3	-0.24	0
10L	0.92	-1	0.60	-4	-0.16	0

## WIBOR rates

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

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

Term	%	Change (bps)
1x4	0.23	0
3x6	0.17	0
6x9	0.18	-1
9x12	0.19	-2
3x9	0.21	3
6x12	0.23	1

## Measures of fiscal risk

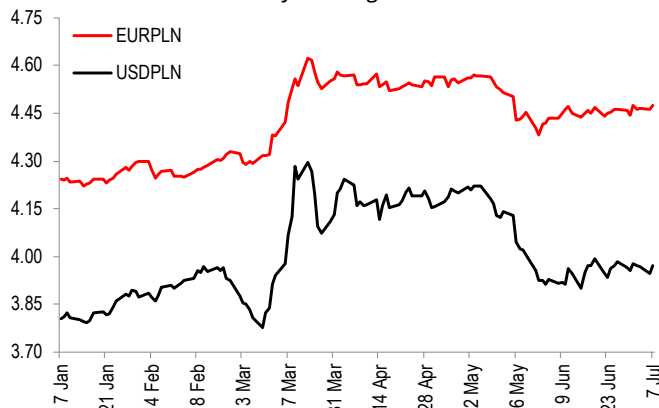
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	179	-1
France	12	0	31	0
Hungary	77	-1	286	9
Spain	73	0	85	-1
Italy	120	0	171	-3
Portugal	41	0	85	-1
Ireland	21	1	44	-1
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

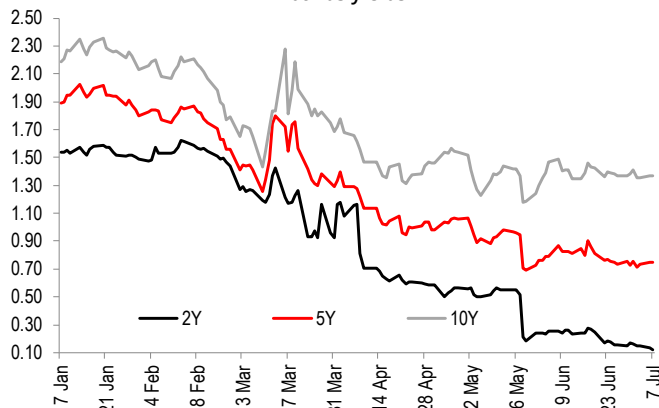
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

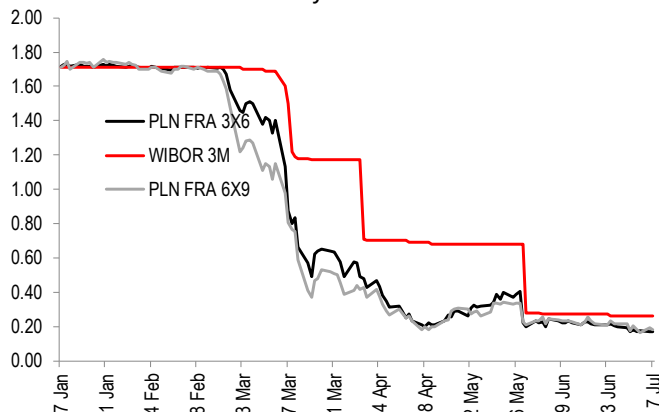
## Zloty exchange rate



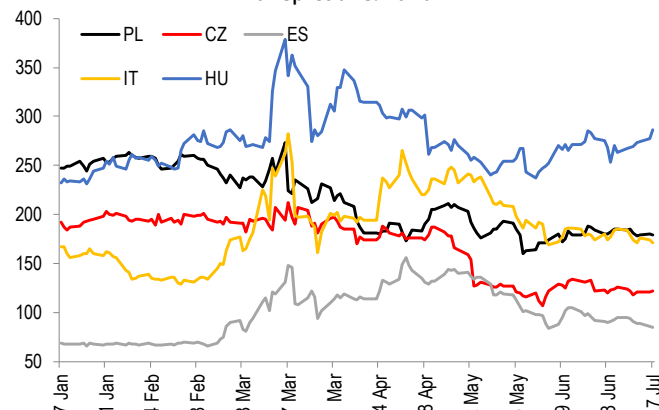
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
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		-2.1	-10.2
11:00	EZ	Retail Sales	May	% y/y	-6.5		-5.1	-19.6
15:45	US	PMI services	Jun final	pts	46.7		47.9	37.5
16:00	US	ISM non-manufacturing	Jun	pts	50.0		57.1	45.4
TUESDAY (7 July)								
08:00	DE	Industrial Production	May	% y/y	-16.9		-19.3	-25.3
09:00	CZ	Industrial Output	May	% y/y	-22.4		-29.5	-33.7
10:00	PL	Foreign Exchange Reserves	Jun	EUR bn			129.0	132.8
10:00	HU	Industrial Production	May	% y/y	-36.6		-24.3	-27.6
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
18:00	RU	CPI	Jun	% y/y	3.2			3.0
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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