

13 July 2020

Eyeopener

Andrzej Duda wins the second round

Andrzej Duda in the lead, according to incomplete election results
Zloty slightly stronger, bond yields stable with potential to decline further
Today no important data releases, markets awaiting Tuesday's MPC meeting

According to unofficial information from 99.97% of voting precincts, the incumbent **Andrzej Duda won the second round** with 51.21% of votes. Voter turnout exceeded 68%. Re-election of Duda means that status quo was retained and this should be neutral for the financial markets, in our view.

On Friday the European markets ended the day in black with the weekly chart basically unchanged. The dollar index increased during the night from Thursday to Friday, then it fell again and ended the day at 96.5 (-0.3%). EM currencies were displaying various behaviours against the dollar, but CEE currencies were generally gaining. Gold prices jumped above \$1800/oz, while oil price remained flat. In France the May industrial output turned out to be slightly above expectations, but annual growth rates are still deep below zero. Czech inflation in June exceeded expectations: 3.3% y/y vs 2.9% y/y in May and forecasts at 2.9% y/y. US PPI inflation was well below forecasts, declining by 0.6pp to -0.8% y/y.

President of the European Council Charles Michel presented a **draft UE budget proposal** (before this Friday's EU summit) where the distribution of EU funds would be strongly linked to the rule of law. The budget mentions the EUR750bn coronavirus recovery fund and the initially suggested split into grants (EUR500bn) and loans (EUR 250bn) was maintained. The EU budget for years 2021-2027 is to reach EUR1074bn. The newest draft is very similar to the one from end May (the budget was cut by EUR 26bn). The changes have been made to the rules of how the recovery funds would be disbursed: according to the new draft, 70% of funds will be disbursed in years 2021-2022 (and will depend on the unemployment rate and GDP growth from years 2015-2019). The remaining 30% of funds (after 2022) will be a function of the data during the crisis. The "frugal five" countries will obtain a discount in their contributions to the budget.

EURUSD continued the Thursday's drop during the early Friday's trading hours. The exchange rate opened at 1.13 and soon fell 0.4% to c1.125. In the second part of the day, however, the dollar started to depreciate again, gave up most of the morning gains and thus EURUSD closed at 1.131. On weekly basis, EURUSD rose by merely 0.4% but the intraday volatility was noticeable.

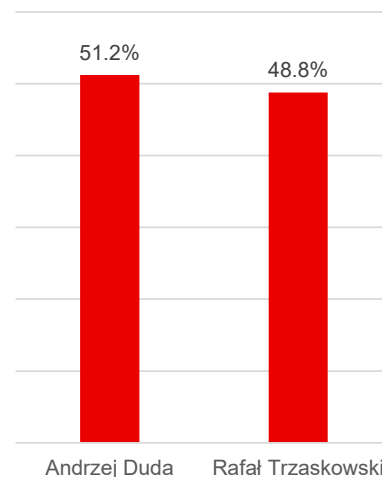
EURPLN was rather stable for a yet another day after it opened at 4.47, rose to 4.48 and closed at 4.465. On Monday opening, EURPLN is at 4.46 amid positive global market mood and morning slight rise of EURUSD.

In **other CEE countries**, EURHUF similar to EURPLN was stable for the whole day, moving around 353.4. The same could be said about EURCZK, which opened at 26.65, rose to 26.70 and returned to the opening level at the end of the day. The Czech June CPI coming at 3.3% y/y - much higher than the previous reading (2.9% y/y) and expectations (2.9% y/y) - apparently did not influence the exchange rate. USDRUB was clearly heading down on Friday - it opened around 71.3 and closed the day at 70.83. We believe that the ruble may strengthen during summer as negative real rates in the USA put upside pressure on commodity prices and encourage searching for higher yield also on emerging markets.

On the **domestic interest rate market**, trading was stable. The FRA curve ahead of the Tuesday MPC meeting is still not pricing any NBP rate changes in two-year horizon. 10Y bond yield ended the week at c.1.33% and this week are likely to keep falling, unless core inflation (due Thursday) proves a major upside surprise.

This week, apart from the official election results, we will have MPC and ECB meetings and some data releases, for example about balance of payments, inflation, wages and employment. We do not expect these to materially change market sentiment.

Unofficial results of presidential elections (based on 99.97% voting precincts)



Source: PKW

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FX market

Today's opening

EURPLN	4.4617	CZKPLN	0.1659
USDPLN	3.9365	HUFPLN*	1.2515
EURUSD	1.1332	RUBPLN	0.0557
CHFPLN	4.1894	NOKPLN	0.4180
GBPPLN	4.9811	DKKPLN	0.5982
USDCNY	6.9986	SEKPLN	0.4300

*for 100HUF

Last session in the FX market

12/07/2020

	min	max	open	close	fixing
EURPLN	4.462	4.479	4.472	4.463	4.475
USDPLN	3.941	3.978	3.967	3.944	3.965
EURUSD	1.125	1.132	1.127	1.132	-

Interest rate market

12/07/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.13	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.76	2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.34	0	5.03.2020	DS1029	1.725

IRS on the interbank market**

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.20	0	0.24	0	-0.46	-1
2L	0.28	0	0.22	0	-0.39	-1
3L	0.35	0	0.23	1	-0.39	-1
4L	0.45	0	0.27	2	-0.38	-1
5L	0.54	0	0.34	2	-0.36	0
8L	0.75	0	0.52	3	-0.26	0
10L	0.87	0	0.62	3	-0.19	0

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	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	0.24	0
3x6	0.18	0
6x9	0.17	-1
9x12	0.19	0
3x9	0.20	2
6x12	0.21	-2

Measures of fiscal risk

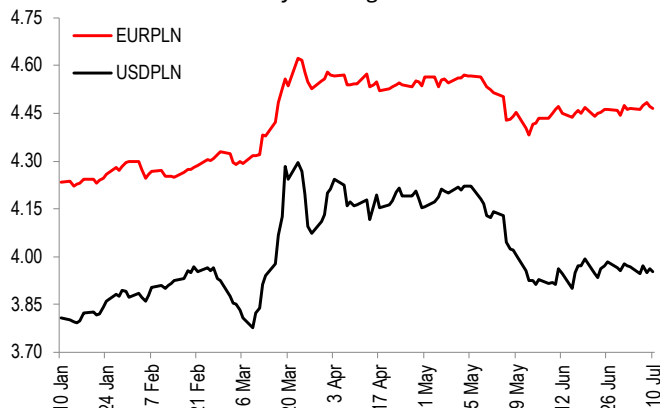
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	181	1
France	12	0	33	1
Hungary	76	0	285	-4
Spain	77	2	89	2
Italy	124	1	176	2
Portugal	46	2	90	2
Ireland	22	0	45	1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

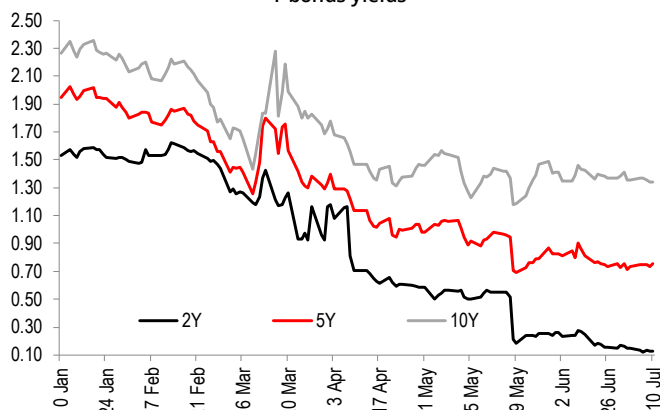
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

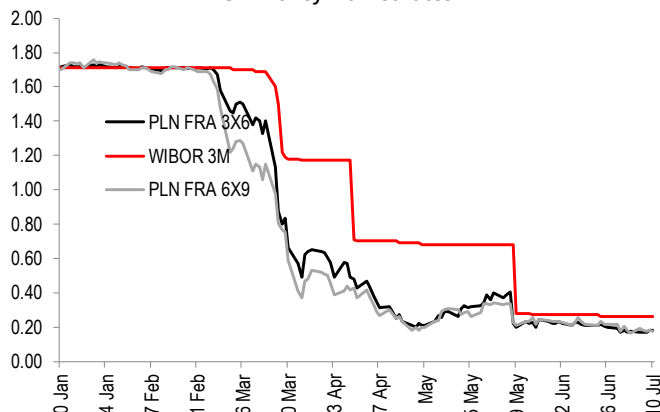
Zloty exchange rate



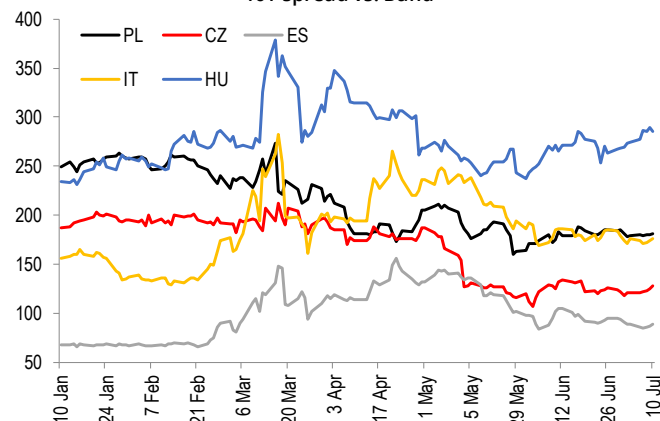
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (10 July)								
09:00	CZ	CPI	Jun	% y/y	2.9	3.3	2.9	
TUESDAY (14 July)								
	PL	MPC decision		%	0.1	0.1	-	0.1
08:00	DE	HICP	Jun	% m/m	0.7	-	0.7	
11:00	EZ	Industrial Production SA	May	% m/m	9.0	-	-17.1	
11:00	DE	ZEW Survey Current Situation	Jul	pts	-62.5	-	-83.1	
14:00	PL	Current Account Balance	May	€mn	772.0	857.2	-	1163.0
14:00	PL	Trade Balance	May	€mn	176.0	-290.0	-	-33.0
14:00	PL	Exports	May	€mn	15960.0	15427.0	-	13779.0
14:00	PL	Imports	May	€mn	15915.0	15717.0	-	13812.0
14:30	US	CPI	Jun	% m/m	0.6	-	-0.1	
WEDNESDAY (15 July)								
10:00	PL	CPI	Jun	% y/y	3.3	3.3	-	3.3
15:15	US	Industrial Production	Jun	% m/m	4.8	-	1.39	
THURSDAY (16 July)								
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	
14:00	PL	CPI Core	Jun	% y/y	4.1	4.3	-	3.8
14:30	US	Initial Jobless Claims	week	k	1375.0	-	1314.0	
14:30	US	Retail Sales Advance	Jun	% m/m	5.5	-	17.7	
14:30	US	Index Philly Fed	Jul		20.0	-	27.5	
FRIDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	-3.9	-3.7	-	-3.2
10:00	PL	Average Gross Wages	Jun	% y/y	1.6	0.6	-	1.2
11:00	EZ	HICP	Jun	% y/y	0.3	-	0.3	
14:30	US	Housing Starts	Jun	% m/m	21.15	-	4.3	
16:00	US	Michigan index	Jul	pts	80.0	-	78.1	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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