

15 July 2020

Eyeopener

Today final June CPI in Poland

Market optimism wanes due to coronavirus
MPC pessimistic about GDP outlook, does not signal further rate cuts
Zloty regains some of the previous losses, EURUSD marches higher again
Polish and German debt gains
Today in Poland final June CPI, in the US industrial production

Worsening of market sentiment that started at the end of Monday's session in the USA, persisted also on Tuesday during European trading hours. Investors focused on coronavirus pandemic, after the WHO director general Tedros Adhanom said that in some countries there is dangerous rise in the number of Covid-19 cases after relaxation of restrictions, which earlier proved effective in constraining the pandemic. Moreover, German ZEW expectations index disappointed, although the current index was close to expectations. Overall, declines in stocks helped bonds to trim part of Monday's losses.

The **Monetary Policy Council** kept interest rates unchanged, with the main reference rate at 0.1%, Lombard rate at 0.5% and deposit rate at 0.0%. As always in July, the Council received the updated NBP economic projections, with the main results listed in the post-meeting press release. The forecasts assume a deep recession in 2020 and only a limited GDP rebound in 2021, which is a more gloomy scenario than represented by the market consensus or the recent IMF and EC's reports. The central bank also foresees inflation to stabilize well below the 2.5% official target in 2021-22. Apart from the results of the NBP forecasts, the official MPC press release was almost unchanged versus June. The statement that the pace of economic recovery may be limited by "the lack of visible zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP" was repeated. There was no straightforward guidance regarding the next monetary policy decisions in the statement. However, we see the document as a confirmation of the view that after applying large scale monetary adjustment, there is little willingness in the MPC to go towards negative interest rates (unless there is further significant deterioration of economic outlook). We expect main interest rates to remain on hold in 2020-21. We think the NBP may be more active on the non-conventional front (for example, boosting the QE programme).

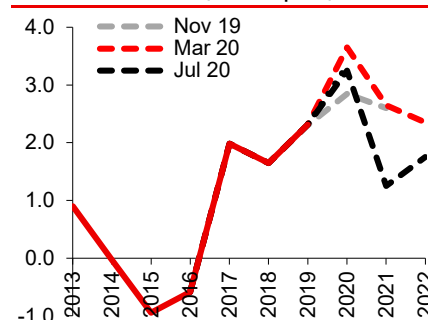
Poland's May current account showed a big surplus of EUR2.46bn (biggest since January 2017), way above market expectations (we: EUR0.9bn, market: EUR0.7bn). Goods imports were the main culprit behind the surprise, as they fell by 27.2% y/y, mostly due to low oil price, as the NBP comment noted. Exports, on the other hand, decreased by 19.8% y/y (as compared to -29.1% in April) and some rebound was possible thanks to improving situation in consumer goods sector, as many European economies opened. This created a massive surplus in trade balance (+EUR1.25bn, the highest comparable data are available). Exports of services slumped by 36.5% y/y, imports of services by 42.3% y/y. We are expecting trade volumes to be rebounding in the months to come, yet they are unlikely to return to pre-covid levels anytime soon. 12-month current account balance improved to 1.8% of GDP. While this number could go up in the months to come, in the medium term we see some deterioration, as improving results of Polish companies will increase income outflows.

EURUSD rose noticeably for the second day in a row and neared 1.14. The exchange rate is near the local peak at 1.142 from mid-June and in our view this level could be tested soon. Dollar did not benefit from gloomier market mood or weaker German data.

EURPLN corrected yesterday more than a half of the Monday's rise and eased to 4.47 for a while vs 4.49 at the opening. Thanks to the EURUSD rebound, USDPLN fell to 3.93 from 3.96. The MPC did not strengthen its rhetoric regarding the exchange rate which helped the zloty to gain despite deterioration of the global market mood. The remaining **CEE currencies** were roughly stable yesterday. We sustain our view that EURPLN may rise slowly in the coming weeks.

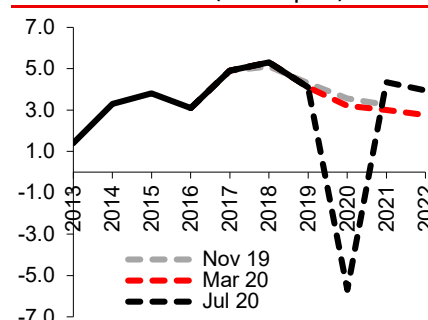
On the **domestic interest rate market** On the domestic interest rate market bonds on the belly and long end of the curve recovered part of the Monday's losses, yields fell by no more than 3bp. The front end of both bond and IRS curves remained stable again. German bonds gained at a similar scale to Polish ones (10Y Bund at -0.43%, respective POLGB at 1.38%) implying spread stable at c 181bp.

NBP's CPI forecasts (central path)



Source: NBP, GUS, Santander

NBP's GDP forecasts (central path)



Source: NBP, GUS, Santander

NBP projection vs other forecasts for Poland

	GDP			CPI		
	2020	2021	2022	2020	2021	2022
NBP	-5.7	4.4	4.0	3.3	1.3	1.8
Santander	-3.8	5.8	2.9	3.3	1.3	2.5
Bloomberg consensus	-4.0	4.1	3.0	3.1	2.4	2.5
EC	-4.6	4.3		2.7	2.8	
IMF	-4.6	4.2		3.2	2.6	
OECD	-7.4	4.8		3.0	1.7	
World Bank	-4.2	2.8				

Source: NBP, Bloomberg, European Commission, IMF, OECD, World Bank, Santander

Economic Analysis Department

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.4703	CZKPLN	0.1660
USDPLN	3.9180	HUFPLN*	1.2472
EURUSD	1.1409	RUBPLN	0.0555
CHFPLN	4.1700	NOKPLN	0.4176
GBPPLN	4.9318	DKKPLN	0.5982
USDCNY	6.9964	SEKPLN	0.4311

*for 100HUF

Last session in the FX market

14/07/2020

	min	max	open	close	fixing
EURPLN	4.467	4.495	4.491	4.473	4.492
USDPLN	3.919	3.966	3.957	3.921	3.957
EURUSD	1.132	1.141	1.134	1.140	-

Interest rate market

14/07/2020

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)	0.81	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.37	-3	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.21	0	-0.44
2L	0.29	-1	-0.37
3L	0.37	-2	-0.37
4L	0.47	-2	-0.36
5L	0.57	-3	-0.34
8L	0.78	-3	-0.25
10L	0.90	-3	-0.18

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.14	0
2W	0.18	-1
1M	0.23	0
3M	0.25	-1
6M	0.28	0
1Y	0.29	0

FRA rates on the interbank market**

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

Measures of fiscal risk

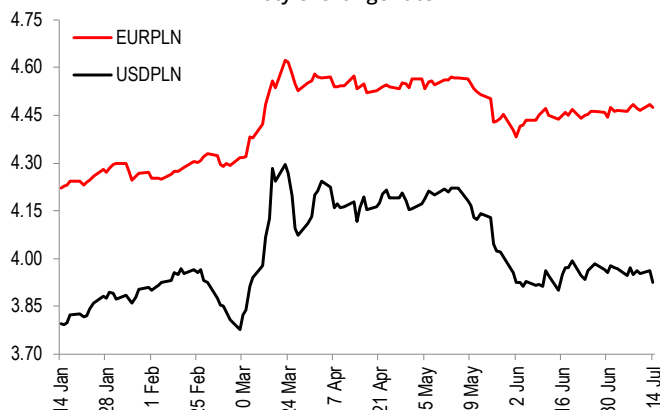
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	58	0
France	12	32
Hungary	76	289
Spain	76	86
Italy	123	172
Portugal	46	87
Ireland	21	43
Germany	10	-

* 10Y treasury bonds over 10Y Bunds

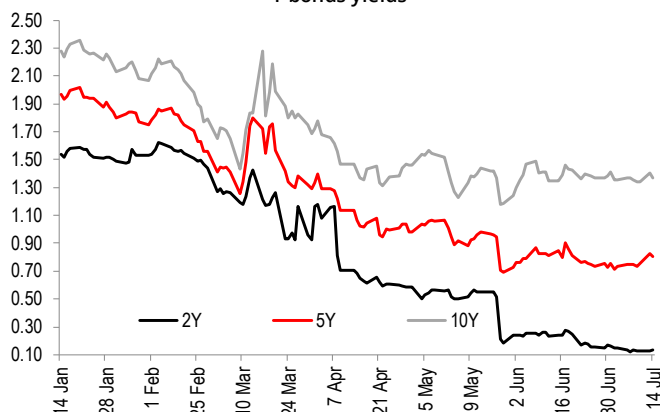
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

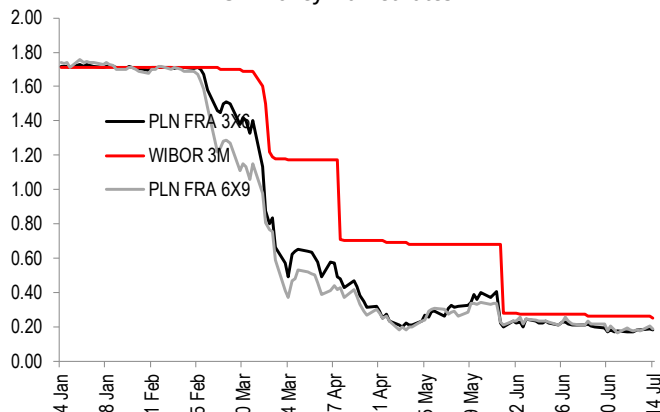
Zloty exchange rate



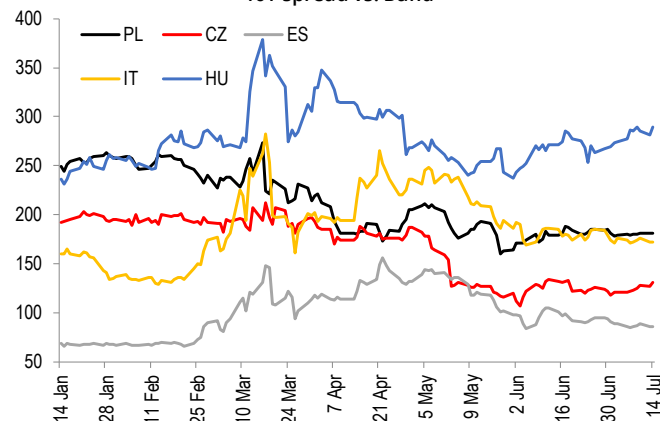
T-bonds yields



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	0.1
08:00	DE	HICP	Jun	% m/m	0.7	-	0.7	0.7
11:00	EZ	Industrial Production SA	May	% m/m	9.0	-	12.4	-18.2
11:00	DE	ZEW Survey Current Situation	Jul	pts	-62.5	-	-80.9	-83.1
14:00	PL	Current Account Balance	May	€mn	772	857	2 455	1156
14:00	PL	Trade Balance	May	€mn	176	-290	1 250	-48
14:00	PL	Exports	May	€mn	15 960	15 427	15 700	13 789
14:00	PL	Imports	May	€mn	15 915	15 717	14 450	13 837
14:30	US	CPI	Jun	% m/m	0.6	-	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	1 375	-		1 314
14:30	US	Retail Sales Advance	Jun	% m/m	5.5	-		17.7
14:30	US	Index Philly Fed	Jul	pts	20.0	-		27.5
FRIDAY (17 July)								
10:00	PL	Publication of „Inflation report“						
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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.