

17 July 2020

Eyeopener

Today labor market data

Mixed data from the US, not much new from the ECB
MPC minutes include another suggestion about the exchange rate
EURPLN stable, EURUSD volatile
Polish bonds gain
Today inflation report in Poland as well as labor market data

Optimism observed during the Wednesday's session has clearly weakened on Thursday. The obstacles for further gains in stock markets were mixed quarterly results of US companies and mixed economic data. The weekly number of new jobless claims fell least since March, Philadelphia Fed index decreased in line with expectations, while retail sales surprised positively. ECB meeting did not bring any breakthrough, as we expected. President Lagarde said that European economy still need support from monetary policy and if there is no positive surprises, the ECB intends to use the planned programme of pandemic asset purchases (PEPP) in full, i.e. EUR1.35bn.

MPC minutes from the meeting in June 2020 (no changes in monetary policy parameters) showed that actions taken by so far were viewed by the central bankers as supportive for the economy. The final paragraph with justification of the decision to keep rates on hold stresses that the Council is of the opinion that it has already delivered a significant stimulus in the form of deep cuts and asset purchases. We think that there rates will be kept stable this year and next, and the Council will not rush to restore the pre-pandemic rate levels. MPC member Jerzy Żyżyński said yesterday that rates may be cut to zero, but so far there is no such need. The minutes included reference to the exchange rate issue, mentioned already in the communique after the meeting, stating that majority of MPC members felt that the lack of a more pronounced PLN adjustment is negative for the economic recovery. Moreover, the document reads that the "monetary policy should limit the risk of zloty appreciation against the main currencies". In our view, the MPC is not eager to cut rates further, but willing to keep the zloty weaker. The verbal intervention in June has proved sufficient, and the central banks seems to stick to the dovish message in order to undermine the zloty (e.g. official GDP forecasts proving to be more pessimistic than the market consensus). We would also see a rising risk of market intervention should EURPLN approach 4.40 (the pair was at 4.43 during the June MPC meeting).

Core inflation measures went up in June, with inflation ex food and energy prices at 4.1% y/y, highest since 2001. While core inflation is elevated by short-term epidemic effects (demand overhang, sanitary charges), we are expecting it to follow a downward trend in the upcoming quarters, going down to about 3% y/y at the year-end.

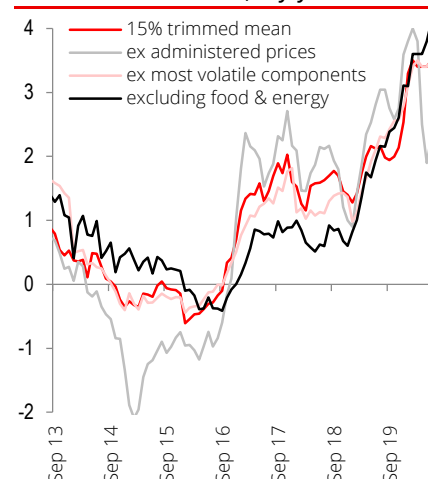
EURUSD dropped in the first phase of the session just below 1.14, but in the following hours the euro was regaining ground and by the end of the day the fx rate was close to 1.144. At night the exchange rate dropped abruptly by 0.6% to 1.138. The scenario of rising EURUSD in the following days remains our view, but depends to a large extent on how EU talks on the support fund today and tomorrow will be going.

EURPLN after the morning rise above 4.49 was moving below the level in the following hours. Apart from the strong move at the opening, the session was calm. USDPLN declined to 3.92 from 3.94 thanks to a rebound of EURUSD. We still think that in the coming weeks EURPLN will be rising slowly, due to local factors (MPC rhetoric, possibly also more visible NBP actions). On Friday morning EURPLN is opening up at 4.48.

In case of the **other CEE currencies**, the ruble lost slightly vs the dollar, the koruna did not move much vs the euro while the forint gained. Still, the session did not bring any significant changes. Since the beginning of June, EURCZK has been the most stable hovering within a 26.47-26.88 range (1.6%). Within this period, EURHUF recorded a temporary rise by 3.7% and USDRUB by 5.4%.

On the **domestic interest rate market** bond yields and IRS fell. On the front end rates moved by c1bp (2Y yield to 0.1%, 2Y IRS to 0.28%). The 10Y IRS fell by c3bp to 0.89% and the respective bond yield ended the day at 1.35% after a similar daily change. Polish bonds were supported by a noticeable strengthening on the core markets (10Y Bund and UST yields fell by c4bp).

Core inflation measures, % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.4754	CZKPLN	0.1663
USDPLN	3.9328	HUFPLN*	1.2569
EURUSD	1.1384	RUBPLN	0.0549
CHFPLN	4.1494	NOKPLN	0.4233
GBPPLN	4.9326	DKKPLN	0.5982
USDCNY	6.9993	SEKPLN	0.4334

*for 100HUF

Last session in the FX market

7/16/2020

	min	max	open	close	fixing
EURPLN	4.473	4.493	4.490	4.478	4.491
USDPLN	3.911	3.946	3.936	3.917	3.942
EURUSD	1.138	1.144	1.140	1.143	-

Interest rate market

7/16/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.14	1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.78	-3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.35	-2	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.21	0.25	-0.46
2L	0.28	0.21	-0.39
3L	0.36	0.23	-0.39
4L	0.46	0.26	-0.38
5L	0.56	0.31	-0.36
8L	0.79	0.49	-0.27
10L	0.90	0.59	-0.19

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.13	0
2W	0.18	0
1M	0.23	0
3M	0.25	0
6M	0.28	0
1Y	0.29	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.23	0
3x6	0.18	0
6x9	0.19	-1
9x12	0.21	-1
3x9	0.22	0
6x12	0.24	-1

Measures of fiscal risk

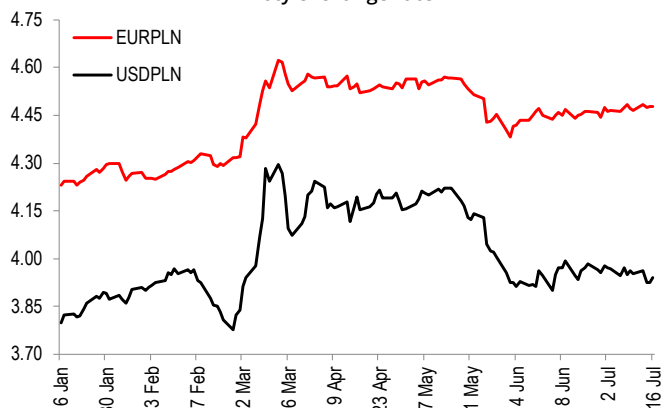
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	58	182
France	12	31
Hungary	76	298
Spain	78	87
Italy	124	171
Portugal	48	90
Ireland	21	44
Germany	10	-

* 10Y treasury bonds over 10Y Bunds

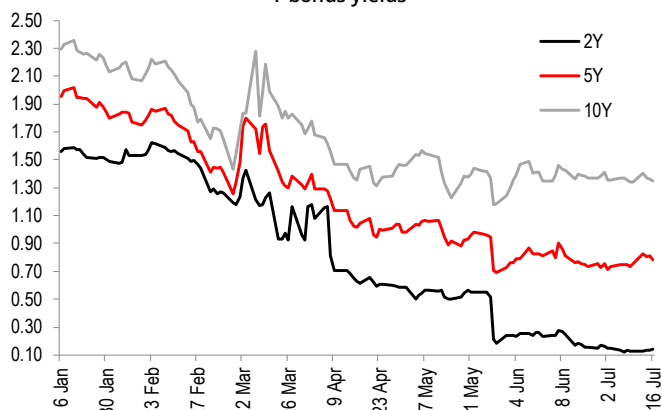
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

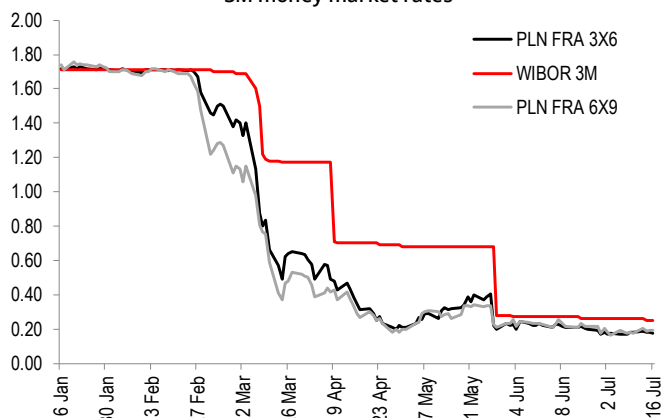
Zloty exchange rate



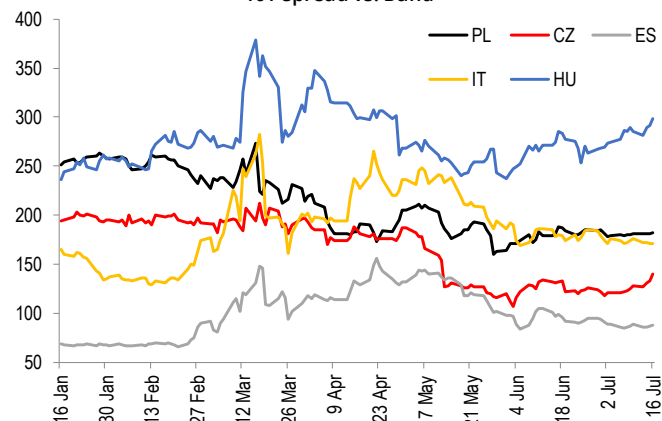
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
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	3.3
15:15	US	Industrial Production	Jun	% m/m	4.8	-	5.4	1.4
THURSDAY (16 July)								
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:00	PL	CPI Core	Jun	% y/y	4.1	4.3	4.1	3.8
14:30	US	Initial Jobless Claims	week	k	1 375	-	1 300	1 310
14:30	US	Retail Sales Advance	Jun	% m/m	5.5	-	7.5	18.2
14:30	US	Index Philly Fed	Jul	pts	20.0	-	24.1	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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