

20 July 2020

# Eyeopener

## EU summit is still going on

Low volatility on equity markets the dollar slightly weaker  
 US data worse than expected  
 EURPLN stable, EURUSD higher  
 Polish bonds gain for another day  
 Today in Poland industrial production and PPI

On Friday markets were not much volatile awaiting potentially important weekend news, from the EU summit in particular. Most of the stock indices changed by not more than 0.5% on the day. Emerging market currencies were not volatile either. The prices of oil and gold have not changed much. The final reading of the inflation in the Eurozone was not changed vs the initial reading (0.8% y/y). Data from the real estate market in the US (housing starts, building permits) were worse than expected, as was also the July reading from the University of Michigan US consumer sentiment indices. Perhaps that is why the 10Y US yields declined even more, reaching 0.60% on Friday, while the dollar lost.

The expectations regarding the possibility of agreement at the weekend **EU summit** were low to start with, after Angela Merkel (and earlier Christine Lagarde) tamed the expectations. The talks themselves took the whole weekend and will be continued this afternoon. According to the new early Monday morning proposal from the EU Council President Charles Michel, the amount of grants would equal EUR 390bn (vs EUR 500bn initially suggested), while the whole program might be slightly smaller (EUR 700bn vs EUR 750bn). The discussions also touched on the ways the national programs based on the funds would be approved.

Poland's **labour market** data showed a slight rebound in June, with employment rising by 0.2% m/m (-3.3% y/y) and wage growth jumping to 3.6% y/y from 1.2% y/y in May. Both readings were better than expected (market: -3.9% y/y and +1.6% y/y, respectively). It seems that the labour market situation is normalising quicker than we had expected and this is positive news for the expected consumption path.

**The NBP-expected CPI path** seems rather far above zero, the lowest point is 1.3% y/y in 1Q21. The risk of going below zero in the course of 2021-2022 is around 20%. The far part of the CPI projection has a slight upward slope, and gets to 2.2% (vs 2.5% target) in 2H22. It seems that the new NBP forecasts should not be a reason for further easing of monetary policy. **The GDP numbers** are below market consensus and our forecasts. The report indicates that no second wave of intensified Covid infections was assumed in the base scenario, so there is a negative bias shown in the balance of risks. Despite lack of second wave of pandemic, the NBP forecast assumes visibly slower economic recovery from -10.6% y/y expected in 2Q20 than most of other forecasts (including ours). The negative difference other forecasts seem to come from NBP's deep decline of investments in 2020 and no rebound in 2021 – NBP stressed very high degree of uncertainty and financial distress of many companies.

**Lukasz Hardt from MPC** in an interview for Rzeczpospolita daily said that the CPI in 2021 might turn out above the new NBP forecasts. The CPI converging with the NBP inflation target in a slow growth environment would not be a good reason for rate hikes. Commenting on the remark about insufficient zloty weakness in the Council's communique, the MPC member acknowledged that he is not convinced that weaker zloty is what Polish economy needs.

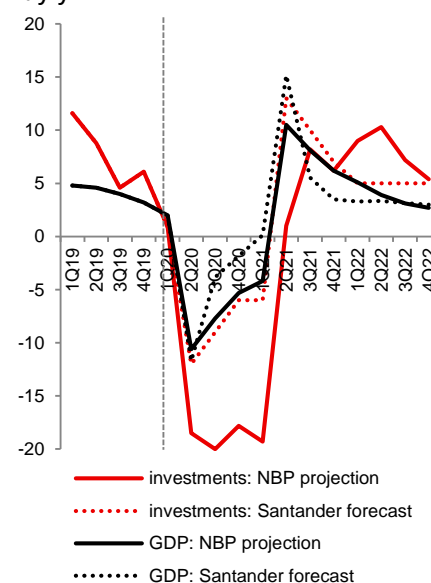
**EURUSD** volatility remained elevated. After the rate slumped 0.6% to 1.138 overnight between Thursday and Friday, on Friday it reversed almost all that decrease and this morning, after the new proposal regarding the European budget, it jumped to 1.146.

**EURPLN** was stable on Friday – opening and close at 4.483 and small intraday amplitude. This week the calendar of domestic data releases is quite full. The data can help the exchange rate establish a direction. We think the zloty is most likely to weaken. USDPLN decreased to its lowest since mid-June, amid weakening dollar.

In case of **other CEE** countries volatility was also very low – EURHUF did not change and closed at 353.6, similarly to EURCZK – close at 26.67. Only the RUB basket was rising (ruble was depreciating) and reached almost 76.5, i.e. the local high from 7 July. Amid stable crude oil, the factor that could have contributed to weaker ruble was expectation for interest rate cut at CBP meeting this Friday.

On the domestic **interest rate market** the short end of the curve decreased even further: 2Y IRS to 0.27%, by 1bp, and 2Y government bond yields fell for the first time below 0.1%. 5Y IRS fell 2bp, to 0.54% and 10Y IRS by over 4bp, to below 0.86%. 10Y bond yield fell slightly less, by 2bp to 1.33% amid stable Bund, which caused narrowing of the spread to 178bp. We expect to see continuation of downward trends in Polish fixed income market and any yield spikes we would see as temporary corrections in the mid-term downward trend.

NBP projection: GDP and investments, % y/y



Source: NBP, GUS, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://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	4.4778	CZKPLN	0.1663
USDPLN	3.9110	HUFPLN*	1.2670
EURUSD	1.1448	RUBPLN	0.0543
CHFPLN	4.1598	NOKPLN	0.4214
GBPPLN	4.9054	DKKPLN	0.5982
USDCNY	6.9866	SEKPLN	0.4331

\*for 100HUF

### Last session in the FX market

19.07.2020

	min	max	open	close	fixing
EURPLN	4.474	4.484	4.479	4.477	4.483
USDPLN	3.914	3.941	3.933	3.915	3.926
EURUSD	1.138	1.144	1.139	1.144	-

## Interest rate market

19.07.2020

### 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)	0.76	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.32	-3	5.03.2020	DS1029	1.725

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

Term	PL	US	EZ
%	Change (bps)	%	Change (bps)
1L	0.21	0	-0.45
2L	0.28	0	-0.39
3L	0.35	-1	-0.39
4L	0.45	-2	-0.37
5L	0.54	-2	-0.35
8L	0.76	-3	-0.25
10L	0.86	-3	-0.17

## 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	0.21	-2
3x6	0.18	0
6x9	0.18	-1
9x12	0.20	0
3x9	0.22	0
6x12	0.21	-3

## Measures of fiscal risk

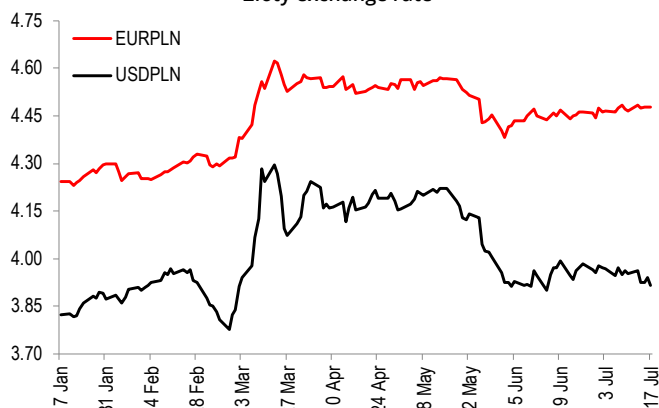
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	177	-5
France	12	0	31	0
Hungary	75	0	290	-8
Spain	77	-1	86	-1
Italy	123	-2	169	-2
Portugal	46	-2	88	-2
Ireland	21	0	44	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

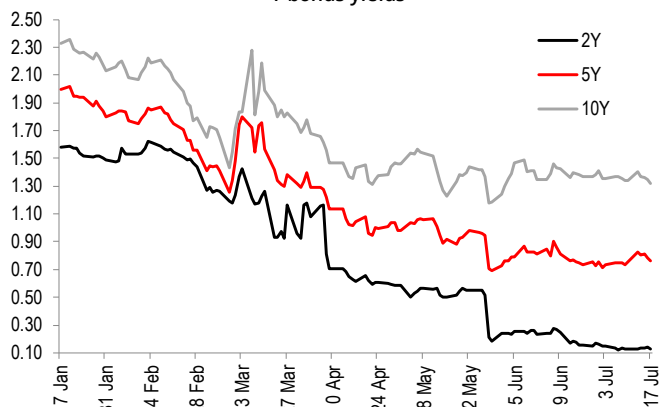
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

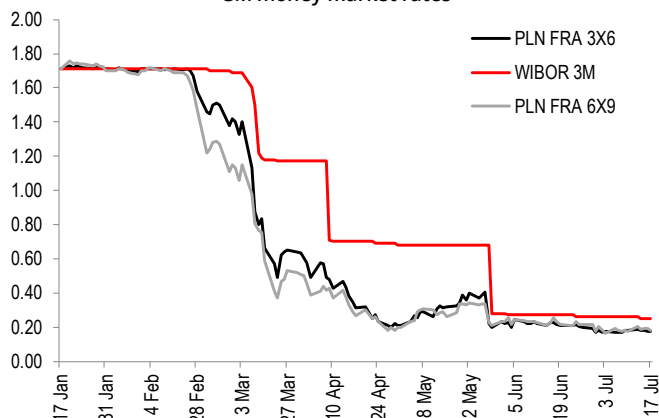
## Zloty exchange rate



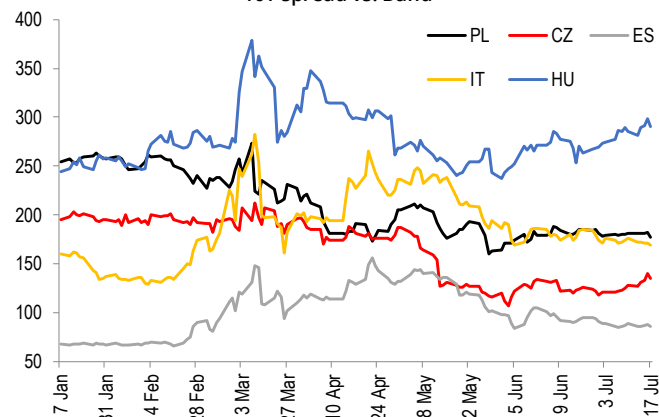
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	-3.9	-3.66	-3.3	-3.2
10:00	PL	Average Gross Wages	Jun	% y/y	1.3	0.61	3.6	1.2
11:00	EZ	HICP	Jun	% y/y	0.3		0.3	0.3
14:30	US	Housing Starts	Jun	% m/m	22.1		17.3	8.2
16:00	US	Michigan index	Jul	pts	79.0		73.2	78.1
MONDAY (20 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	-6.4	-11.4	-	-17.0
10:00	PL	PPI	Jun	% y/y	-0.9	-1.0	-	-1.5
TUESDAY (21 July)								
10:00	PL	Construction Output	Jun	% y/y	-0.8	-1.9	-	-5.1
10:00	PL	Retail Sales Real	Jun	% y/y	-2.5	-4.1	-	-7.7
14:00	HU	Central Bank Rate Decision	Jul.20	%	0.6		-	0.75
WEDNESDAY (22 July)								
14:00	PL	Money Supply M3	Jun	% y/y	17.3	17.4	-	16.0
16:00	US	Existing Home Sales	Jun	% m/m	22.8		-	-9.7
THURSDAY (23 July)								
10:00	PL	Unemployment Rate	Jun	%	6.2	6.1	-	6.0
14:30	US	Initial Jobless Claims	Jul.20	k	1250		-	1300
FRIDAY (24 July)								
09:30	DE	Germany Manufacturing PMI	Jul	pts	47.0		-	45.2
09:30	DE	Markit Germany Services PMI	Jul	pts	50.0		-	47.3
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	49.3		-	47.4
10:00	EZ	Eurozone Services PMI	Jul	pts	50.5		-	48.3
12:30	RU	Central Bank Rate Decision	Jul	%	4.25			4.50
16:00	US	New Home Sales	Jun	% m/m	3.6		-	16.6

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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](mailto:ekonomia@santander.pl), <http://www.santander.pl>.