

21 July 2020

Eyeopener

Strong Polish macro data and EU deal

Optimism on the equities markets at the start of the week
 EURPLN much lower after strong macro data, EURUSD stable
 Polish bonds weaker after data releases
 Today Polish retail sales, construction output, Hungarian central bank rate decision

On Monday European equity markets were gaining slightly in expectation for positive finalisation of talks on the EU summit, which was to be resumed in the afternoon. VIX index declined below 26.0. Investors' optimism was also visible in currency markets – the dollar has been depreciating for another day, which was supporting EM currencies and gold. Core market bond yields decreased, possibly partly due to data from Germany, where June PPI was lower than expected. 10Y DE-IT yield spread decreased to 156bp – its lowest since early March. Polish bond yields were rising slightly. In the afternoon market optimism increased further after promising news about coronavirus vaccine, developed by the Oxford University.

EU summit ended with agreement, assuming that total size of the Next Generation EU programme (€750bn) and the multi-year budget (€1074bn) were maintained. What was changed is the composition of recovery fund between grants and loans: from the original €500bn/€250bn split to €390/€360bn. For Poland the agreement allocates total sum of €160bn, which was trimmed only slightly, by 3%. The conclusions about a link between the EU funds and the rule of law have been softened somehow, but it looks that such a link has been approved and will not require unanimous support of the European Council.

Industrial production rose 0.5% y/y in June, well above market consensus (-6.4% y/y) and our forecast (-11.4% y/y). The seasonally adjusted output was still below zero, at -4.9% y/y, which shows that the improvement in June was partly the effect of higher number of working days than last year (2 more). But still, the data brought a huge positive surprise, suggesting that the economy started recovering from the Covid-related freeze much stronger and much faster than we thought. In June **producer prices** declined 0.8% y/y, slightly less than expected. More in [Economic Comment](#).

EURUSD did not change vs Friday close and on Monday at the end of the day hovered near 1.144 while the daily price range was 1.141-1.147. The fx pair trades at similar levels also on Tuesday morning after the EU deal has already been struck. Fx option markets still point to higher probability of the EURUSD move higher than lower, however it is worth mentioning that the optimism has waned lately a bit and the longest tenors which suggest this direction of the move have shortened from 8 to 5 months (till December 2020).

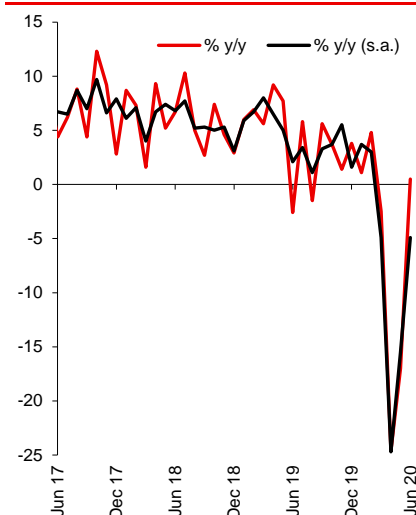
On Monday **EURPLN** opened above the Friday close and in the morning hours rose to above 4.485. However, after the strong industrial production data which surprised to the upside, EURPLN started to collapse, by as much as 0.5% to below 4.46. On Monday close the pair traded at 4.457 while today in the morning trades even lower thanks to the deal at the EU summit. Zloty strength might be further influenced by local factors such as today's data (retail sales, construction output). We expect heightened EURPLN volatility in the nearest days. The USDPLN closed on Monday at 3.90 and today opens at 3.87.

As to the **other regional currencies**, EURHUF a day before the central bank rate decision was a bit volatile: morning gain of 0.2% was followed by a 0.6% decline to 352.0, after which the EURHUF rebounded and closed the day unchanged. Later the forint started to strengthen again and after EU deal news it fell to 351.3 and the pair awaits interest rate decision being slightly on the strong side. Market consensus expects rates to be cut to 0.60% from current 0.75%. Hungarian inflation is increasing and the June reading stood at 2.9% y/y. EURCZK declined 0.2% to 26.62. Ruble basket declined by 0.8% on Monday (stronger ruble), and USDRUB closed at 71.4 (vs 72.0 on Friday). On Tuesday morning USDRUB opens even lower at 70.97.

On the domestic **interest rate market**, yields on the short end did not change much (2Y bond at 0.11%, +1bp) but the long end of the yield curve responded to the better-than-expected Polish macro data. 10Y bond closed at 1.35%, so +3bp. However, the 10Y IRS, quite volatile intraday, ended the day unchanged at 0.86%. German yields declined on Monday and the Polish 10Y spread to Bund widened to 182bp.

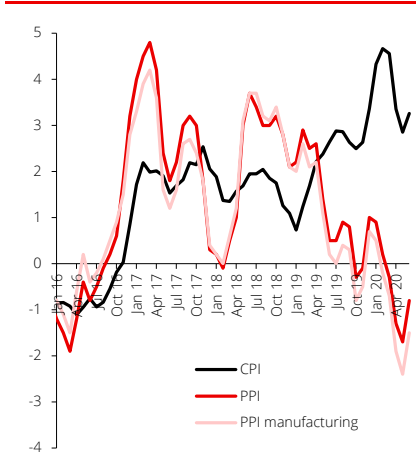
State-owned BGK bank issued more bonds to finance the government Anti-pandemic Fund: 13Y papers (FPC0733 series) worth PLN1.78bn. The maximum size of issuance of this paper is set at PLN5bn. BGK will no longer issue 7Y bonds of which it already sold PLN33.6bn. In total BGK issued PLN66bn of bonds for the Fund. The **Ministry of Finance** informed that as of the end of June public debt is PLN1088.2bn (m/m rise of PLN0.8bn), of which domestic debt is PLN835bn and fx-denominated debt is PLN253.2bn (23.3%).

Industrial output



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4513	CZKPLN	0.1663
USDPLN	3.8880	HUFPLN*	1.2635
EURUSD	1.1448	RUBPLN	0.0546
CHFPLN	4.1452	NOKPLN	0.4217
GBPPLN	4.9328	DKKPLN	0.5982
USDCNY	6.9908	SEKPLN	0.4336

*for 100HUF

Last session in the FX market

20.07.2020

	min	max	open	close	fixing
EURPLN	4.453	4.482	4.478	4.455	4.468
USDPLN	3.889	3.916	3.912	3.893	3.900
EURUSD	1.140	1.147	1.144	1.144	-

Interest rate market

20.07.2020

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)	0.78	2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.34	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	-0.46
2L	0.28	0	-0.39
3L	0.35	0	-0.39
4L	0.44	-1	-0.38
5L	0.54	0	-0.36
8L	0.75	-1	-0.27
10L	0.86	0	-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	0.22	1
3x6	0.18	0
6x9	0.18	0
9x12	0.20	0
3x9	0.22	1
6x12	0.24	3

Measures of fiscal risk

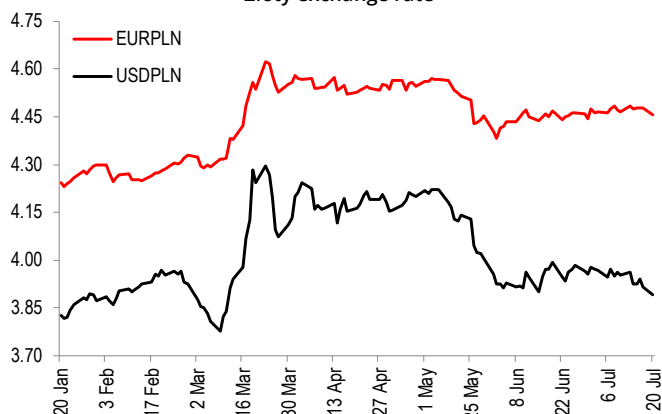
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	180
France	11	30
Hungary	75	277
Spain	75	83
Italy	120	162
Portugal	43	84
Ireland	21	41
Germany	10	-

* 10Y treasury bonds over 10Y Bunds

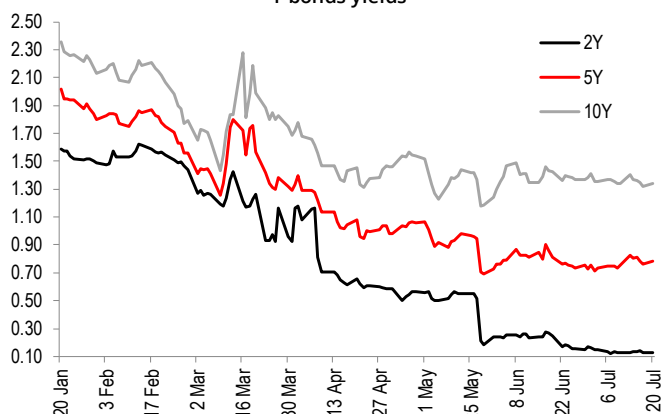
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

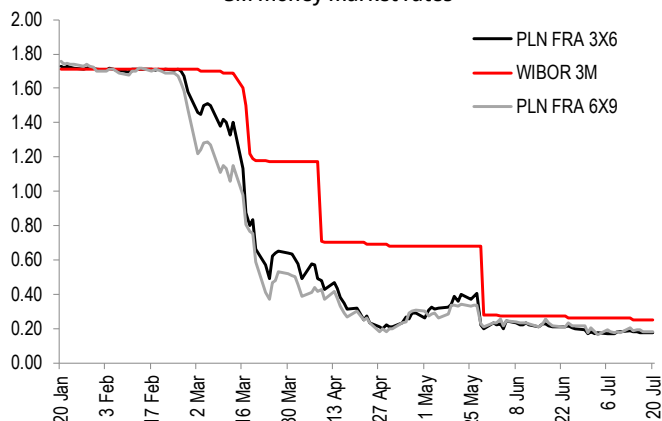
Zloty exchange rate



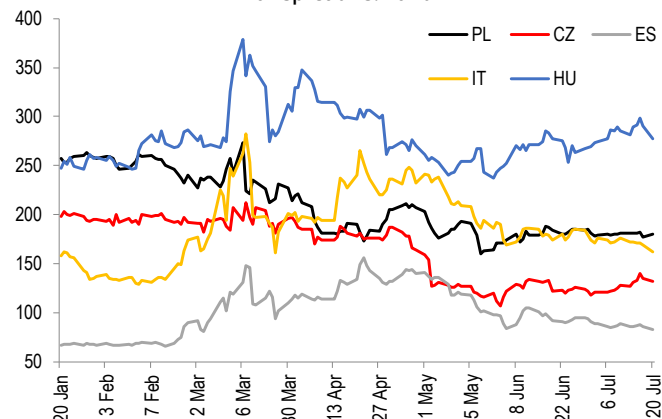
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
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	-6.9	-11.4	0.5	-17.0
10:00	PL	PPI	Jun	% y/y	-0.9	-1.0	-0.8	-1.7
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

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