

22 July 2020

Eyeopener

Second month of strong retail sales recovery

Optimism on equities and emerging markets currencies

Hungarian central bank cut rates to 0.60%, the mini-cutting cycle is likely over

EURPLN down significantly on good data and EU summit success, EURUSD rising

Polish bonds gain, spread vs Bund tightened

Today Polish money supply data, sentiment indexes, in the US existing home sales

On Tuesday after the morning announcement of the deal reached at the EU summit, stock markets reacted positively – main indices in Europe rose 1-1.5% and VIX index fell to 24. Bond yields in core markets did not share the enthusiasm, though – both Bund and UST closed the sessions unchanged. Meanwhile, emerging market currencies did react positively, with the best performing Brazilian real and South African rand (gaining over 1%). Gold price went up once again (Brent up 3%). It seems that the markets may be increasingly focused on the fact that the extra unemployment benefits in the USA are about to expire this week – the Congress has not agreed its extension yet.

In June Polish **retail sales** surprised positively again, declining by only 1.3% y/y in constant prices vs -7.7% y/y in May. This translates into 8.1% m/m rebound in seasonally adjusted terms, after adding 17.4% m/m in May. The y/y growth of durable goods sales turned positive, showing the influence of the demand overhang accumulated during lockdown. **Construction output** fell in June by 2.4% y/y, a bit below market consensus. It looks that the sector, which has been surprisingly immune in the early stage of the pandemic, now gradually starts feeling the hit. Taking together the key June data we should prepare to be positively surprised with 2Q GDP, given our forecasts of its decline by more than 10% y/y. Read more in [Economic Comment](#).

MPC's Kamil Zubelewicz in an interview for Bloomberg said that MPC intends to keep rates near zero even if the risks of pursuing such a policy are increasing with the passage of time (discouraging from savings, risk of speculative bubbles, upside pressure on inflation). He also said the effectiveness of the rate cuts so far is "controversial" (they have not lead to investments increase nor lower financing costs for corporates and households). In his opinion, the current aim of the majority of MPC members is to support economic growth without much consideration for the consequences of ultra-loose monetary policy. The MPC tolerance for CPI readings near 3.5% has increased in his view, and one should not hope for rate hikes anytime soon. Zubelewicz thinks that in 2021 CPI will not decline to 2.1% as the new inflation projection implies, since the money supply increased considerably while the supply of goods and services has remained constant at best. **Eryk Łon** said that it is worth keeping the fx rate at the levels which help exporters and one of the aims of keeping interest rates so low is to prevent zloty from excessive strengthening. In his opinion, there is no need to discuss interest rate hikes given the new inflation projection, even with the currently high core CPI.

EURUSD did not change much on Tuesday since it opened and closed around 1.144 after 0.35% of intraday volatility. Narrow trading range could surprise given the morning information about the successful conclusion of the EU summit. Only in the evening EURUSD rose noticeably (+0.6%) and is near 1.1526 today in the morning.

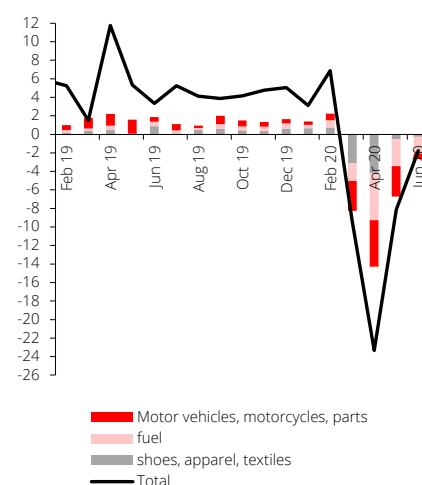
EURPLN opened at c4.46 on Tuesday and closed at nearly 4.43. The exchange rates' down move by 0.6% was recorded after the similar move seen on Monday and the total 2-day drop amounted to c1.1%. This might have been thanks to the better-than-expected macro data and the successful EU summit. Also, the positive mood prevailing on the EM currencies market could have played its role: the yuan is gaining vs the dollar, indicating the direction for its EM peers. EURPLN's 200-day moving average is running at 4.38 and the exchange rate could converge to this level in the coming days.

In case of the **other CEE currencies**, Tuesday was a very favourable day. EURCZK and USDRUB (owing to rising oil price) fell 0.9% to 26.38 and 70.78 respectively. EURHUF dropped by 0.5% to 350.6 despite the 15bp rate cut by the Hungarian central bank. In the last two months, rates in Hungary were cut by 30bp and this mini-cycle could now conclude given the remarks on financial system stability.

On the domestic **interest rate market** short-term bonds did not change again (2Y yield at 0.11%). On the long end, the 10Y IRS eased 1bp to 0.85% and bond yield fell 2bp to 1.33%. The PL-DE bond yield spread fell again, to 179bp.

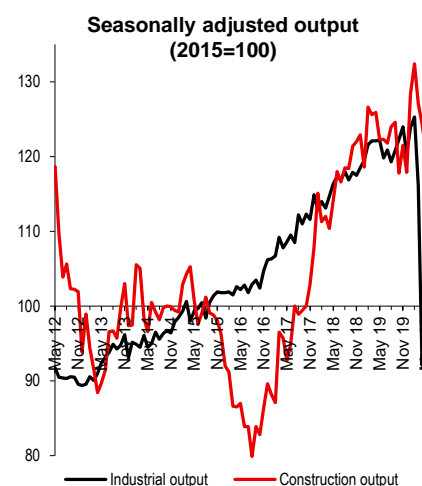
At the Thursday's auction, the **Ministry of Finance** will offer bonds of five series (OK0423, PS0425, WZ0525, WZ1129, DS1030) for the total amount of PLN3-6bn. Parliamentary works on 2020 budget amendment will take place only in September – this point is not present on the agenda of the last session before summer break.

Retail sales, contribution of selected categories, % y/y



Source: GUS, Santander

Industrial and construction production



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FX market

Today's opening

EURPLN	4.4273	CZKPLN	0.1658
USDPLN	3.8385	HUFPLN*	1.2627
EURUSD	1.1532	RUBPLN	0.0543
CHFPLN	4.1147	NOKPLN	0.4220
GBPPLN	4.8831	DKKPLN	0.5982
USDCNY	6.9706	SEKPLN	0.4333

*for 100HUF

Last session in the FX market 21.07.2020

	min	max	open	close	fixing
EURPLN	4.426	4.453	4.453	4.432	4.442
USDPLN	3.851	3.897	3.895	3.857	3.881
EURUSD	1.142	1.150	1.143	1.149	-

Interest rate market 21.07.2020

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)	0.76	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.32	-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	0.27	-1	-0.40
3L	0.35	0	-0.40
4L	0.44	0	-0.39
5L	0.53	-1	-0.37
8L	0.74	-1	-0.28
10L	0.85	-1	-0.20

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.12	-1
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	1
3x6	0.18	0
6x9	0.19	1
9x12	0.21	0
3x9	0.22	-1
6x12	0.24	0

Measures of fiscal risk

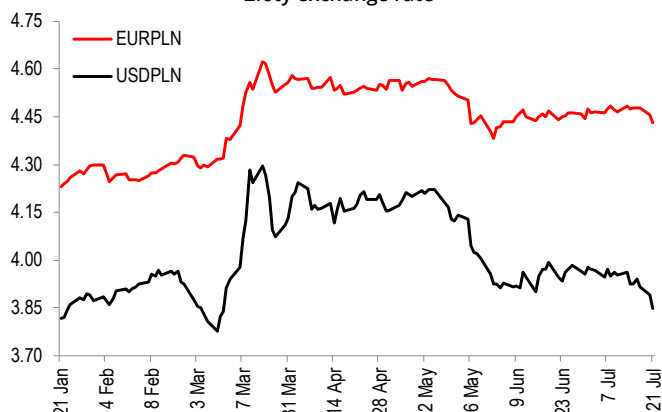
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	178
France	11	30
Hungary	75	275
Spain	74	82
Italy	120	161
Portugal	43	83
Ireland	21	41
Germany	10	-

* 10Y treasury bonds over 10Y Bunds

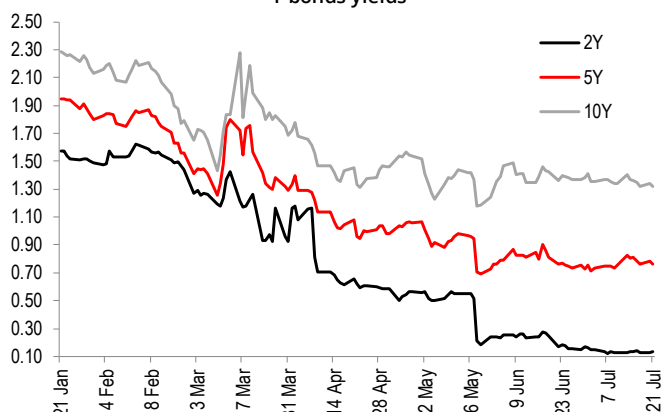
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

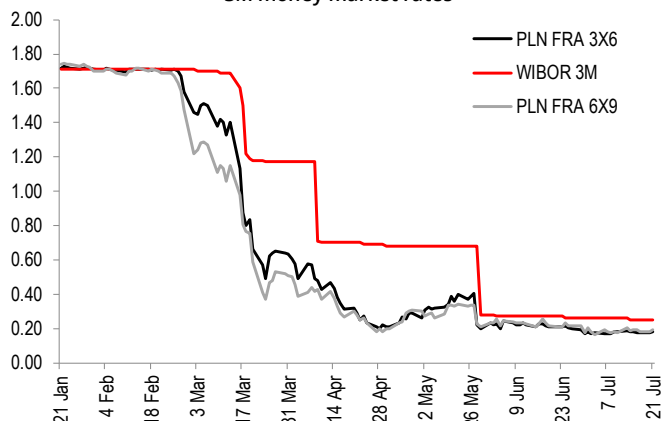
Zloty exchange rate



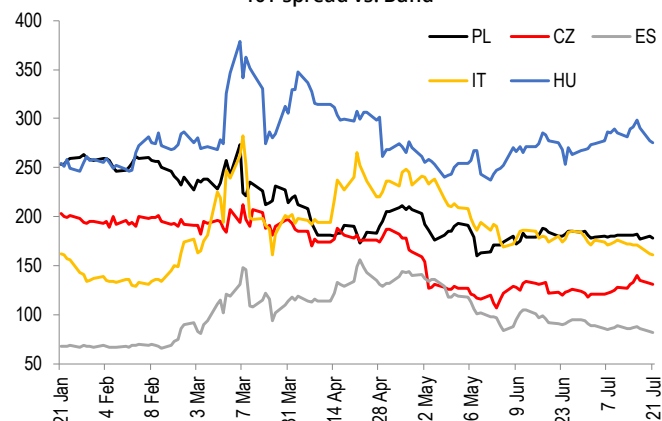
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL 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	-6.9	-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	-1.5	-1.9	-2.4	-5.1
10:00	PL	Retail Sales Real	Jun	% y/y	-2.5	-4.1	-1.3	-7.7
14:00	HU	Central Bank Rate Decision	Jul.20	%	0.60		0.60	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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