

23 July 2020

# Eyeopener

## Softening of the spending rule

Increasing US-China tensions introduce some risk aversion  
 More Polish data suggest V-shape recovery  
 EURPLN volatile and lower, EURUSD even higher  
 Polish bonds gain along with core markets  
 Today Polish unemployment rate

On Wednesday the stock markets were quite choppy after the US administration demanded the Chinese consulate in Houston to be closed down with a very short notice (3 days) and without earlier warnings. China plans to retaliate. USDCNY exchange rate was climbing and ended the day at 7.00, but the dollar was generally losing against most other currencies. European stock markets lost about 1%, core yields also went down – 10Y UST to 0.58% and Bund to -0.49%.

In July all sectoral **business sentiment indicators** improved. Industry expectations index is already back to pre-pandemic level. **Consumer sentiment** also kept improving in all aspects. The July indexes support the view of V-shaped economic rebound. Read more in [economic comment](#).

**M3 money supply** accelerated in June to 18.1% y/y from 16.0% y/y in May (highest since Dec'08). Deposits increased by 16.4% y/y, with corporate deposits up by 30.1% y/y. The acceleration is a result of the Polish government actions related to Covid-19, namely the massive issuance of new money. Loan growth decelerated to 2.1% y/y from 3.3% y/y in May (FX adjusted data), with companies' loans declining by 1.0% y/y – for the first time since 2013. The largest decline was seen on working capital loans (-7.6% y/y), possibly crowded out by the state support.

According to Eurostat the **public sector deficit** in Poland in 1Q20 was 4.1% of GDP (after adjusting for seasonality) compared to 1.3% in the 4Q19. The public debt in 1Q20 stood at 47.9% of GDP vs 46.0% in the 4Q19.

**Finance Minister Tadeusz Kościński** said that the current PLN level is neutral for the public finance. He assessed that economic effects of EU means will be visible in 2021 and they should be mostly spent on investment. According to Kościński's preliminary estimates, in 2020 GDP will go down by 4.6% and central budget deficit will hit PLN100bn (c.4.5% of GDP). In our view, given that a bulk of covid-related spending was pushed outside the central budget, the total general government deficit is likely to exceed 10% of GDP. The minister mentioned also the necessity of **changes to the fiscal spending rule** to combat pandemic consequences. It turned out that a change is being prepared not by means of modifying the public finance bill where the mechanism of the rule is described, but in an amendment to delegated employees bill, and introduced at a later stage of works (by Sejm's Social Policy and Family Committee). The modification places all 2021 investment spending (including from BGK programs) outside the scope of the rule and has no connection to the MinFin proposal to suspend the rule during pandemic and introduce a mechanism to restore the rule's limit gradually within a couple of years.

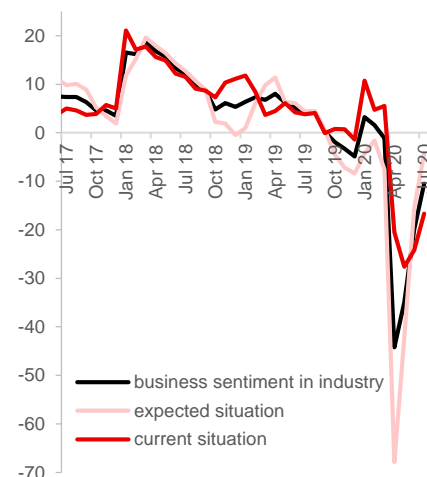
According to Dziennik Gazeta Prawna daily, MinFin's **2021 budget draft** assumes a 4% rebound of GDP and CPI at 1.8%, no wage hikes in the budgetary sector and rise of minimum wage by 4.5% (the promise before 2019 general elections mentioned 15.4%). 13. and 14. pension will be included. There will be extra revenues from OFE transition charge, retail tax (currently suspended due to litigation in CJEU) and sugar tax.

**MPC member Eugeniusz Gatnar**, thinks that if the pandemic does not return, the monetary policy should start being normalised. In his opinion, the rates have been cut too much, and after the pandemic the inflation will rise. Perhaps we will get to know more about the MPC attitude after this afternoon's **Adam Glapiński** testimony in Sejm – according to NBP deputy governor Anna Trzecieńska, he is supposed to comment on the NBP actions taken against the pandemic's economic effects. With MPC press conferences suspended, and the possibility of Sejm members to ask the NBP governor questions, the event might be important for the markets.

**EURUSD** keeps marching higher – after gaining 0.8% from Tuesday to Wednesday, on Wednesday the pair was up another 0.5% and closed slightly below 1.16. **EURPLN** was pretty volatile yesterday, after opening 4.435, tried twice to break 4.45 without a success after which abruptly dropped and closed at 4.425, lower 0.2% on the day. As to the **other CEE fx**, EURHUF fell by 0.3% to 348.9 (opens at 347.5 today). EURCZK gained 0.2% to 26.4. Thanks to the weaker dollar USDRUB up only 0.2% to 70.80.

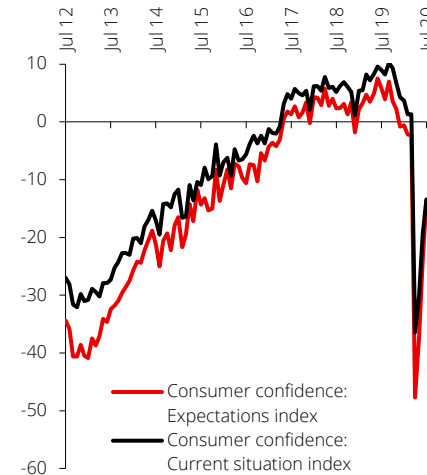
On the domestic **interest rate market** positive mood prevailed on Wednesday. Bonds were purchased while the IRS fell with the biggest changes on the belly and long end while front end remained stable. The 10Y IRS closed at 0.86% and the respective bond at 1.31% (-2bp). The PL-DE bond yield spread widened to 181bp. Today the bond auction will be held. Planned supply ranges PLN3-6bn with OK0423, PS0425, WZ0525, WZ1129 and DS1030 series offered. The central bank planned to buy yesterday up to PLN10bn of bonds in its QE program, but purchased PLN1.6bn, mainly of state owned BGK bank bonds.

GUS business sentiment indicators



Source: GUS, Santander

GUS consumer sentiment indicators



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.4143	CZKPLN	0.1658
USDPLN	3.8087	HUFPLN*	1.2691
EURUSD	1.1589	RUBPLN	0.0536
CHFPLN	4.1027	NOKPLN	0.4180
GBPPLN	4.8554	DKKPLN	0.5982
USDCNY	6.9947	SEKPLN	0.4309

\*for 100HUF

### Last session in the FX market 22.07.2020

	min	max	open	close	fixing
EURPLN	4.415	4.446	4.429	4.419	4.440
USDPLN	3.809	3.860	3.838	3.814	3.853
EURUSD	1.151	1.160	1.154	1.159	-

## Interest rate market 22.07.2020

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.13	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.76	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.31	-1	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	-0.47
2L	0.27	0	-0.40
3L	0.34	-1	-0.41
4L	0.44	0	-0.40
5L	0.53	0	-0.38
8L	0.75	0	-0.29
10L	0.86	1	-0.22

## WIBOR rates

Term	%	Change (bps)
O/N	0.09	-1
T/N	0.10	0
SW	0.12	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	0.18	-1
9x12	0.19	-1
3x9	0.21	0
6x12	0.22	-1

## Measures of fiscal risk

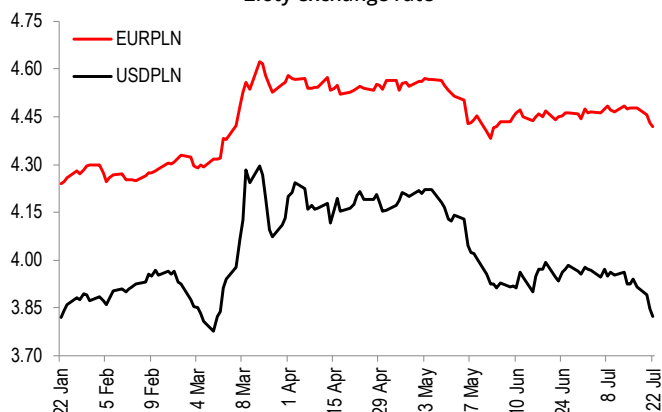
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	181
France	11	31
Hungary	74	266
Spain	73	83
Italy	118	159
Portugal	43	85
Ireland	21	43
Germany	10	-

\* 10Y treasury bonds over 10Y Bunds

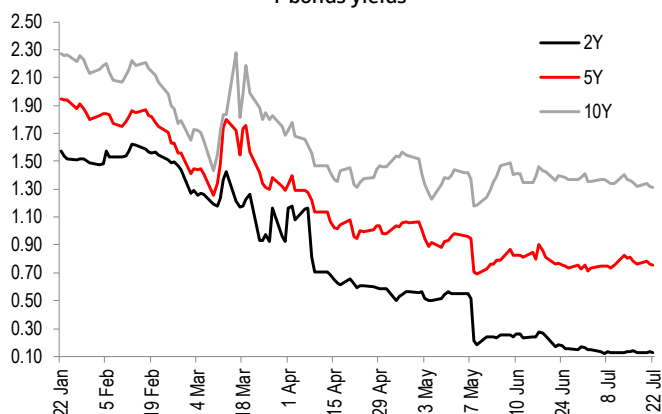
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

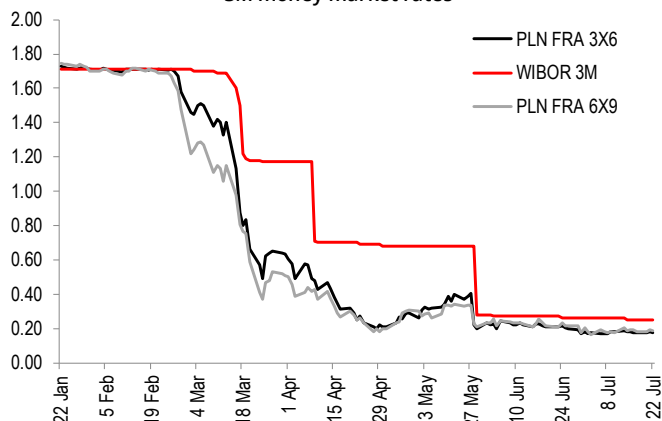
## Zloty exchange rate



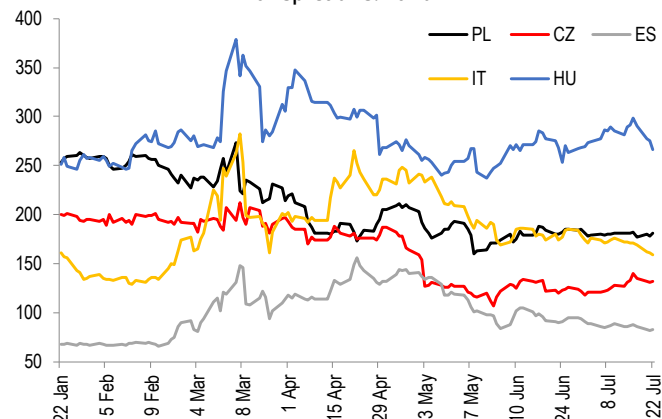
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (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	18.1	16.0
16:00	US	Existing Home Sales	Jun	% m/m	22.8		20.7	-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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