

24 July 2020

Eyeopener

Mood worsens but zloty keeps pushing ahead

Equity rise takes a breather, US data continue disappointing
 EURPLN down - testing 4.40, EURUSD stable
 Polish bonds weaken, spread vs Bund widens
 Today in Europe a series of PMIs, Russian central bank decides on interest rates

On Thursday main stock indices in Europe did not change much, but the US ones fell, which was followed by poor Asian session. The equities' rebound from the bottom seen in March is already four-months long, in case of Eurostoxx index it already erased 66% of losses and perhaps the buyers' optimism is slowly wearing off. No agreement in the USA regarding more subsidies is not helping either. US 10Y real interest rate fell to -0.92% and equalled its low from the late 2012. Due to such negative real rates the gold gained to US\$1890/oz, CEE fx strengthened. In Germany consumer confidence improved in July – share of survey's positive and negative answers equalled again. US jobless claims rose more than expected (first rise since March), for which California was largely responsible. Manufacturing activity index in Kansas City also disappointed in July.

Detailed data from the **Statistical Bulletin** showed that increase of employment in the corporate sector by 12k was mainly due to mining, which saw employment jumping by 8k. The number also rose for trade (5k) and restaurants/accommodation (3k), while other sectors saw flat or even falling employment (e.g. industrial manufacturing). Let us remind that employment is a gauge calculated in full-time jobs and it is negatively affected by reductions in working time or sick leaves. We were expecting employment in mining to go down, given that 12 coal mines were temporarily shut down. However, it seems that the Statistics Office did not treat this event as working time reduction, but rather as an opposite. Still, if it was not for mining, the employment growth in the whole sector would have been modest. Interestingly, the number of employees in the corporate sector fell by 5k in June. This is in line with our expectations that as government lifeline funds are depleting the companies will be normalising their working time (employment up) and at the same time making decisions of layoffs (number of employees down). For example, such behaviour was clearly visible in trade.

June saw a major improvement in **new industrial orders**, which expanded by 19.8% m/m. Annual decline was reduced to -2.4% y/y from -30.2% y/y in April and -24.7% in May. New export orders increased by 26.7% m/m (-3.4% y/y versus -32.3% y/y previously). Business climate indicators showed a further rebound of new orders in July.

After June the **budget deficit** declined to PLN17.1bn vs PLN25.9bn in May. In June alone, budget revenues jumped by 37.6% y/y, mainly due to payment of the NBP profit from 2019 and high inflows from income taxes (effect of prolonged payment deadline). Excise duties advanced by 10% y/y. VAT revenues likely fell by 14% y/y (as compared to -33.6% in May and -22.3% in April). Budget spending fell by 2.6% y/y in June, with astonishingly low subsidy to Social Security Fund (only PLN2bn vs PLN5bn on average in last two months), as its financing was mostly redirected to a special fund outside the budget. We are expecting the deficit to grow by PLN10bn per month on average in the months to come. The full-year result will be of limited value when it comes to assessment of the public finance situation given that a large chunk of spending was pushed away from the central budget. We are expecting the GG deficit to exceed 10% of GDP.

On Thursday, **NBP governor Adam Glapiński** when in Sejm (lower house of parliament), asked about prospects of the interest rates, said that they will remain stable. **MPC member Lukasz Hardt** in an online interview for EKF congress stressed that Polish inflation is currently the highest in the EU and is likely to remain at the elevated level for some time. He said interest rates have been cut too much and regretted that non-standard monetary policy measures have not been used to a larger extent.

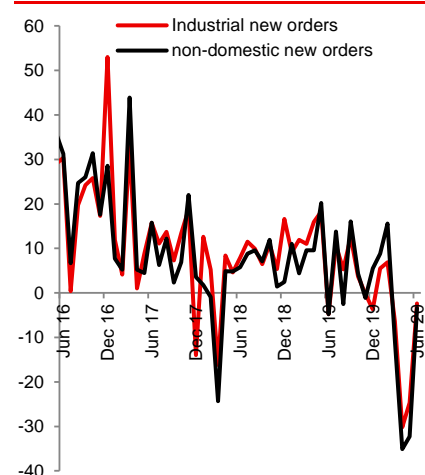
EURUSD after 2 days of big gains, on Thursday paused, temporarily falling back to 1.155. The pair closed at 1.159 and on Friday opens above 1.16.

EURPLN has been falling for a 4th day in a row on Thursday. Since the start of the week zloty gained 1.7% in total of which 0.5% on Thursday, and the pair neared 4.40. EURPLN still moves within the 4.40-4.50 range however taking advantage of the strong downward momentum might test 4.38 in the nearest time.

In case of the **other CEE currencies**, EURHUF dropped 0.4% to 346.6, EURCZK by 0.5% to 26.27. The ruble basket gained 0.4% (ruble weaker) due to cheapening oil, USDRUB closed on Thursday 0.2% higher on the day at 71.38. Today CBR rate decision, markets expect another 50bp cut.

On the domestic **interest rate market** the front end remained stable again while the long term rates rose: the 10Y yield by 4bp to 1.36% and IRS by 2bp to 0.88%. Bund was roughly stable and so the 10Y PL-DE bond yield spread widened to 184bp. At the bond auction, the **Ministry of Finance** sold OK0423, PS0425, WZ0525, WZ1129 and DS1030 bonds for PLN6bn (+0.2bn at the top-up) amid demand at PLN7.3bn.

Value of industrial new orders, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4092	CZKPLN	0.1657
USDPLN	3.7978	HUFPLN*	1.2707
EURUSD	1.1611	RUBPLN	0.0532
CHFPLN	4.0994	NOKPLN	0.4115
GBPPLN	4.8358	DKKPLN	0.5982
USDCNY	7.0158	SEKPLN	0.4290

*for 100HUF

Last session in the FX market

23.07.2020

	min	max	open	close	fixing
EURPLN	4.400	4.421	4.417	4.401	4.411
USDPLN	3.785	3.828	3.813	3.787	3.806
EURUSD	1.154	1.163	1.158	1.162	-

Interest rate market

23.07.2020

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)	1.35	4	5.03.2020	DS1029	1.725

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.21	0	0.24	0	-0.47	0
2L	0.27	0	0.21	-1	-0.40	0
3L	0.34	0	0.21	-1	-0.41	0
4L	0.43	0	0.25	-1	-0.40	0
5L	0.55	2	0.30	-1	-0.38	0
8L	0.76	2	0.46	-2	-0.29	0
10L	0.88	3	0.56	-2	-0.21	1

WIBOR rates

Term	%	Change (bps)
O/N	0.09	0
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	0
9x12	0.20	1
3x9	0.22	0
6x12	0.24	2

Measures of fiscal risk

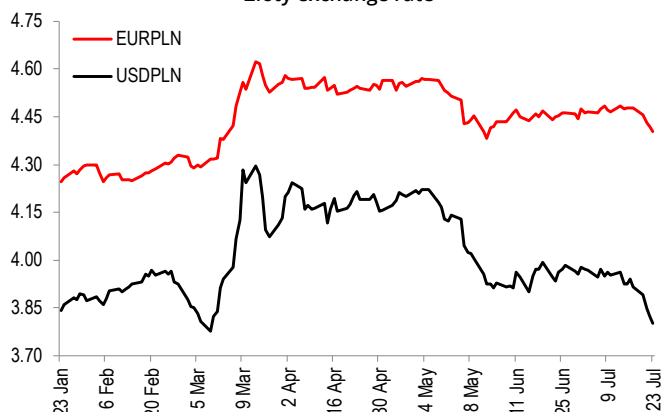
Measures of Fiscal Risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	183	3
France	11	0	30	-1
Hungary	74	0	264	-2
Spain	69	-4	81	-2
Italy	113	-4	153	-6
Portugal	43	0	82	-3
Ireland	21	-1	40	-3
Germany	8	-2	-	-

* 10Y treasury bonds over 10Y Bunds

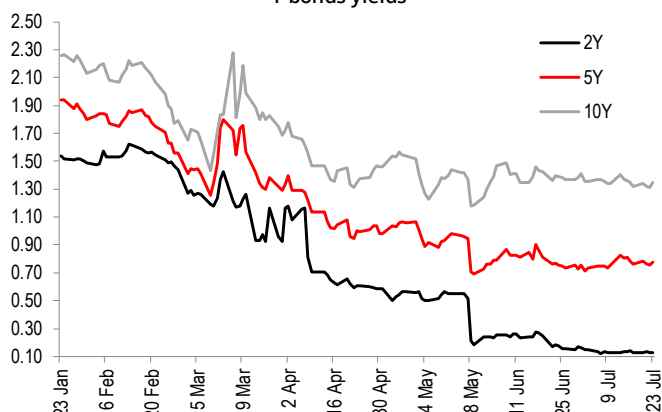
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

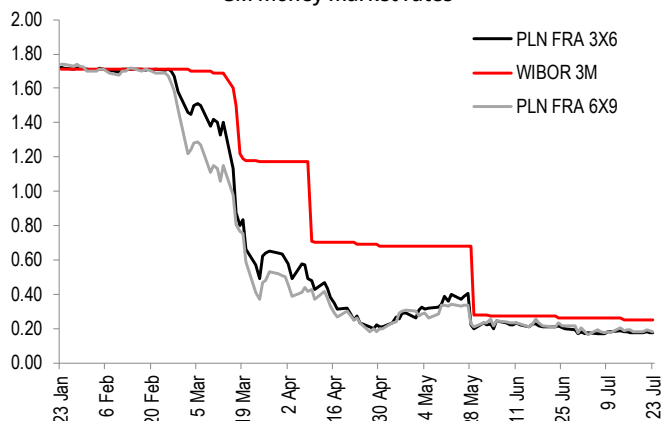
Zloty exchange rate



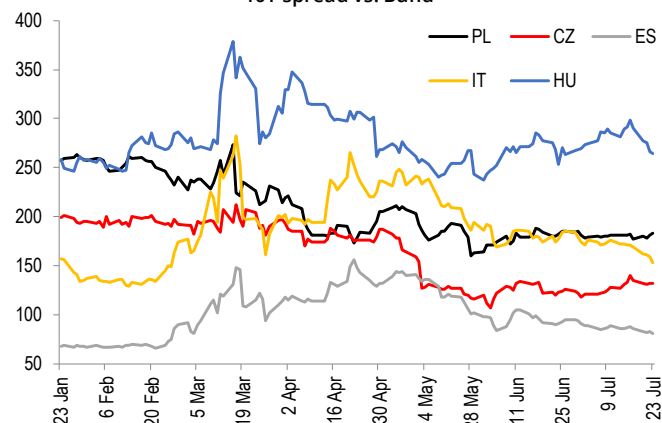
T-bonds yields



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	6.1	6.0
14:30	US	Initial Jobless Claims	Jul.20	k	1300		1416	1307
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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