

27 July 2020

Eyeopener

Żyżyński: This was not an intervention

Better data from Europe overshadowed by USA-China conflict
Jerzy Żyżyński: sentence about FX was not an intervention
PLN and EUR stronger
Yields in Poland and abroad slightly up
Today data from USA and Germany

Friday session brought worsening of the market sentiment on the global markets. The markets focused on the increasingly tense relations between the US and China. Stock exchanges fall have not supported bonds this time, possibly because of further increases in PMI indices in the Eurozone and Germany. According to the flash readings for July, all four moved back above 50 points – the level which divides activity expansion from contraction. The degree of surprise (print vs consensus) was smaller this time than in the previous month, however, and it seems that the scope for further positive surprises has decreased.

MPC member Jerzy Żyżyński said on Friday that the newest NBP projection showing that by 2022 the inflation would remain within the target band, suggests that the interest rates should remain unchanged till 2022. He underscored for another time that he is a proponent of m/m inflation readings, rather than y/y. In his opinion, the April and May monthly CPI increases will not repeat in the coming months as the households incomes decrease which might discourage companies from rising prices. Żyżyński also commented on the exchange rate, which lately has been in the focus of the MPC more often than before the pandemic. He said that the sentences on FX rate in MPC statement and minutes "have not been the form of FX interventions" and were only supposed to inform readers. MPC did not wish to create an impression that it wants a weaker zloty. It seems then that the new FX-related sentences in the communique and minutes, which the market quickly noticed and paid attention to, was a result of imprecise communication which possibly might have been avoided had the MPC not resigned from the press conferences after the MPC meetings.

The main theme of **NBP's Quick Monitoring** quarterly business sentiment report for 2Q20 is the coronavirus. Companies consider the pandemic as their largest obstacle to doing business with the main impact channels being heavy decline of demand while labour costs are high, payment backlogs, worse consumer sentiment and growing commodity prices. Companies responded with, among others, cost cutting, including labour costs: 54% reduced non-wage costs, 41% reduced recruitment, 39% reduced worktime, 31% cut wages, 22% cut employment. In 2Q current situation indexes declined the lowest since 2009. The shock also affected expectations for the coming quarters, albeit NBP analysts think the expressed pessimism is likely exaggerated: indexes of new investments and continuation of investments dropped to an all-time low. 2/3 of companies expects to return to pre-crisis shape in 2-3 quarters, almost 80% - within a year.

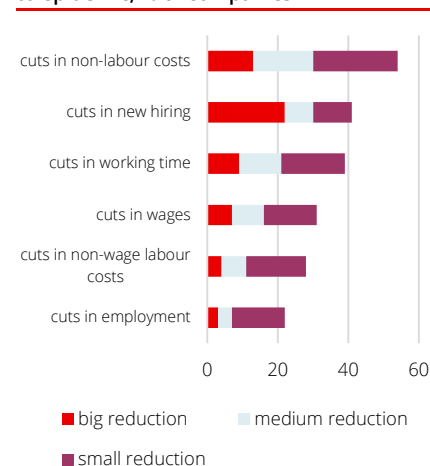
EURUSD set a new July maximum at c.1.164 and this was the sixth session of its rise in a row. This morning the fx rate is slightly above 1.17. We think the potential for further growth of EURUSD is slowly running out.

EURPLN stabilised after the five sessions of a decline and was hovering around 4.41 on Friday. USDPLN stayed close to 3.80. In the short term, EURPLN could test 4.38 but should the dollar start to recover, then the exchange rate could rebound to 4.45. In our view, however, the risk of EURPLN climbing to 4.60 has diminished after the recent comment of MPC's Żyżyński regarding the zloty exchange rate.

In the CEE region, the Central Bank of Russia cut main interest rate by 25bp to its new all-time-low at 4.25%, in line with expectations. In the statement and during the post-meeting conference it was suggested that the easing cycle may continue this year with next steps also by 25bp. According to the central bank's governor Elvira Nabiullina the economic activity will return to the pre-pandemic level no sooner than after one and a half years and this will have an impact on the prices dynamics. The dovish message pushed USDRUB to 72 from 71, near the upper end of the consolidation in which the exchange rates has been trading since the beginning of the month. EURCZK continued the down move and reached 26.216, its new July low. EURHUF was hovering between the Thursday's low and high and closed near the former.

On the **domestic interest rate** market, IRS and bond yields rose but by no more than 2bp and the 5Y bonds managed even to gain slightly. This week the flash July CPI will be released and this headline could generate an upside pressure on the mid- and long-term yields.

Cuts introduced by companies in response to epidemic, % of companies



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.4010	CZKPLN	0.1663
USDPLN	3.7595	HUFPLN*	1.2737
EURUSD	1.1705	RUBPLN	0.0525
CHFPLN	4.0948	NOKPLN	0.4130
GBPPLN	4.8197	DKKPLN	0.5982
USDCNY	7.0010	SEKPLN	0.4275

*for 100HUF

Last session in the FX market

26.07.2020

	min	max	open	close	fixing
EURPLN	4.400	4.417	4.408	4.414	4.412
USDPLN	3.782	3.809	3.801	3.794	3.803
EURUSD	1.158	1.164	1.160	1.163	-

Interest rate market

26.07.2020

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)	0.77	-1	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.37	2	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.20	-1	-0.46
2L	0.27	0	-0.39
3L	0.35	0	-0.39
4L	0.45	2	-0.38
5L	0.56	2	-0.35
8L	0.78	2	-0.26
10L	0.89	1	-0.19

WIBOR rates

Term	%	Change (bps)
O/N	0.10	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	0.19	1
9x12	0.20	0
3x9	0.22	1
6x12	0.23	-1

Measures of fiscal risk

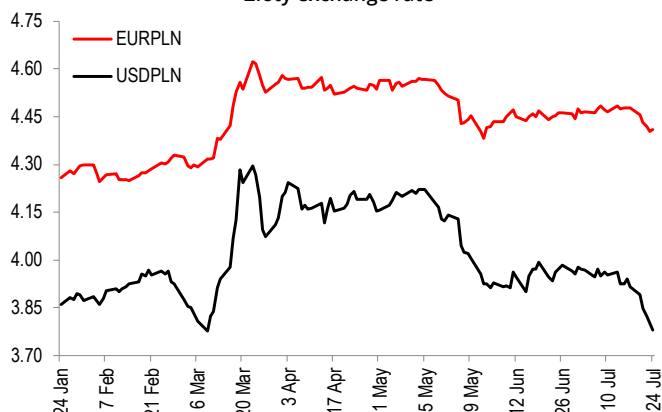
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	181
France	11	30
Hungary	74	259
Spain	65	82
Italy	111	152
Portugal	41	82
Ireland	20	39
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

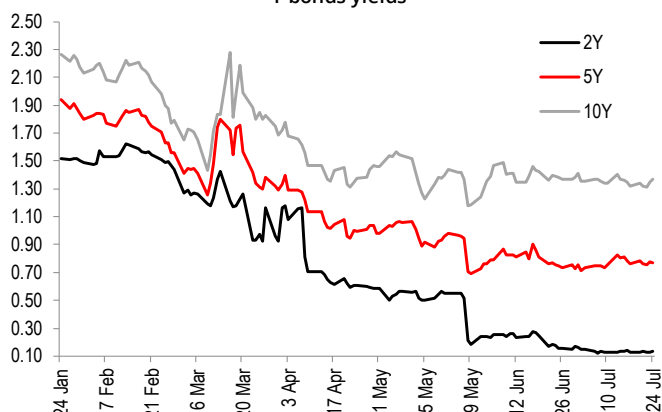
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

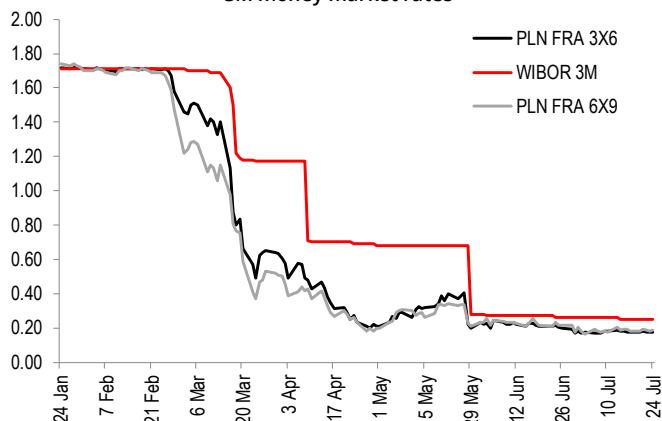
Zloty exchange rate



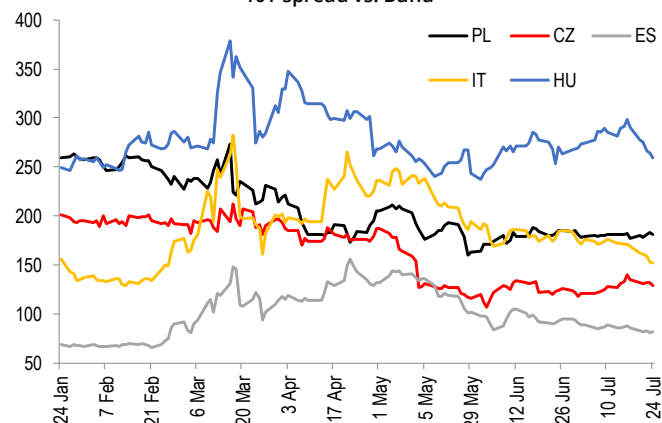
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (24 July)								
09:30	DE	Flash Germany Manufacturing PMI	Jul	pts	48.0	-	50.0	45.2
09:30	DE	Flash Markit Germany Services PMI	Jul	pts	50.5	-	56.7	47.3
10:00	EZ	Flash Eurozone Manufacturing PMI	Jul	pts	50.05	-	51.1	47.4
10:00	EZ	Flash Eurozone Services PMI	Jul	pts	51.0	-	55.1	48.3
16:00	US	New Home Sales	Jun	% m/m	3.55	-	13.8	16.6
MONDAY (27 July)								
8:00	DE	Retail Sales	Jun	% m/m	-3.0	-		12.7
10:00	DE	IFO Business Climate	Jul	pts	89.25	-		86.2
14:30	US	Durable Goods Orders	Jun	% m/m	7.0	-		15.7
TUESDAY (28 July)								
16:00	US	Consumer Conference Board	Jul	pts	94.75	-		98.1
WEDNESDAY (29 July)								
16:00	US	Pending Home Sales	Jun	% m/m	15.6	-		44.3
20:00	US	FOMC decision	Jul.20		0.25	-		0.25
THURSDAY (30 July)								
08:00	DE	GDP WDA	2Q	% y/y	-10.9	-		-2.3
11:00	EZ	ESI	Jul	pct.	82.5	-		75.7
14:00	DE	HICP	Jul	% m/m	0.0	-		0.7
14:30	US	GDP annualized	2Q	% q/q	-34.0	-		-5.0
14:30	US	Initial Jobless Claims	week	k	1 300	-		1 416
FRIDAY (31 July)								
09:00	CZ	GDP SA	2Q	% y/y	-12.5	-		-2.0
10:00	PL	Flash CPI	Jul	% y/y	3.1	3.2		3.3
11:00	EZ	Flash HICP	Jul	% y/y	0.3	-		0.3
11:00	EZ	GDP SA	2Q	% y/y	-13.9	-		-3.1
14:30	US	Personal spending	Jun	% m/m	5.5	-		8.2
14:30	US	Personal income	Jun	% m/m	-0.5	-		-4.2
14:30	US	PCE deflator SA	Jun	% m/m	0.5	-		0.1
16:00	US	Michigan index	Jul	pts	72.6	-		73.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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