

28 July 2020

Eyeopener

EURPLN below 4.40

Markets waiting for FOMC
Zloty stronger to euro and dollar
EURUSD further up
Bonds slightly stronger
Today US consumer confidence

At the start of the week prices of both risk assets and safe-haven assets were rising. Stock indexes posted a mild increase, while gold price set a new record at above USD1940/oz. Gold was supported by further loss of value of the dollar, which is preparing for Wednesday's FOMC, where the market expects the dovish bias to be maintained. The same factor let yields on core markets remain at low levels despite better-than-expected Ifo index.

According to PAP, the Council of Ministers will meet in order to **discuss the budget act amendment** for this year. The central budget deficit might get increased to PLN 100bn (from zero), while it is worth remembering that the general government deficit might be even twice as large. The government is likely to undertake actions which would decrease the deficit in 2021 at the cost of increasing it in 2020 (acceleration of expenditures, delay of incomes).

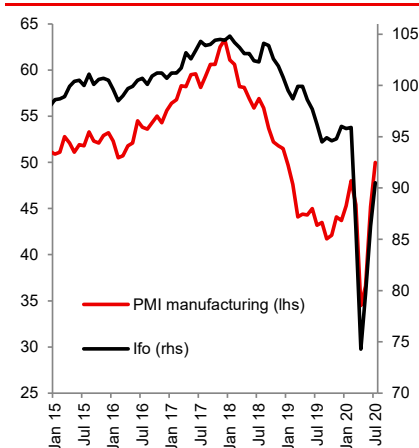
Yesterday **EURPLN** was moving for the better part of the session slightly above 4.40 and only at the end of the day it gained more on the depreciation of the dollar, dropping to almost 4.39. USDPLN went past the low from March and fell to 3.73, the lowest level since the start of 2019. CHFPLN dropped by 0.04PLN to 4.06, the lowest since the start of June. We think that there is still downside potential for EURPLN in the short term, but unlikely below 4.37.

EURUSD rose for the 7th session in a row yesterday and reached 1.176, the highest level since September 2018. The dollar was under pressure before the Wednesday FOMC meeting, after which the communique and the press conference might still have a dovish tone. The market expects that already on the upcoming FOMC meeting the US central bankers could announce that the moment of launching the direct yield control on the US bond yield curve is approaching. The EURUSD might remain elevated up to Wednesday evening.

In case of the **other CEE currencies**, the forint and koruna gained slightly vs the euro benefiting from the weaker dollar and were the strongest this month vs the single currency. USDRUB stayed at an elevated level, slightly below 72 (upper end of the consolidation observed since early July) due to lower oil price and despite weaker dollar. The Czech central banker Tomáš Holub said that the recent data suggest there will be no need to cut rates further. He added that at least for a year there may be no need to hike rates. Yet in February, the Czech central bank raised rates by 25bp to 2.25% but as the coronavirus started to spread, rates were slashed to 0.25% in three moves.

On the **domestic interest rate market** IRS and bond yields fell by 2-4bp thanks to strengthening recorded on the core market. German bonds gained as the market awaited the dovish message from the FOMC this Wednesday. The 10Y PL-DE bond yield spread rose 4bp to 185bp, its highest level this month. Yield of the 10Y German benchmark is trading near the lower end of the -0.50/-0.40% range in which it has been holding since late June. How it behaves vs this level may determine a direction for the Polish bonds in the short term.

Business climate indicators for Germany, pts



Source: NBP, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.3943 | CZKPLN | 0.1676 |
| USDPLN | 3.7484 | HUFPLN* | 1.2694 |
| EURUSD | 1.1725 | RUBPLN | 0.0524 |
| CHFPLN | 4.0648 | NOKPLN | 0.4103 |
| GBPPLN | 4.8171 | DKKPLN | 0.5904 |
| USDCNY | 7.0017 | SEKPLN | 0.4272 |

*for 100HUF

Last session in the FX market 27.07.2020

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.389 | 4.409 | 4.400 | 4.392 | 4.402 |
| USDPLN | 3.726 | 3.770 | 3.760 | 3.738 | 3.764 |
| EURUSD | 1.168 | 1.178 | 1.170 | 1.175 | - |

Interest rate market 27.07.2020

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 | -1 | 5.03.2020 | PS1024 | 1.431 |
| DS1029 (10Y) | 1.36 | -1 | 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 | 0.20 | 0 | 0.24 | 1 | -0.46 | -1 |
| 2L | 0.26 | -1 | 0.22 | 1 | -0.40 | -1 |
| 3L | 0.33 | -2 | 0.23 | 1 | -0.40 | -1 |
| 4L | 0.45 | -1 | 0.26 | 1 | -0.39 | -1 |
| 5L | 0.57 | 0 | 0.31 | 1 | -0.37 | -2 |
| 8L | 0.79 | 1 | 0.51 | 2 | -0.29 | -3 |
| 10L | 0.89 | 1 | 0.60 | 2 | -0.22 | -3 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 0.10 | 0 |
| T/N | 0.10 | 0 |
| SW | 0.12 | 0 |
| 2W | 0.18 | 0 |
| 1M | 0.22 | -1 |
| 3M | 0.24 | -1 |
| 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 | 0.19 | 0 |
| 9x12 | 0.20 | 0 |
| 3x9 | 0.22 | 0 |
| 6x12 | 0.23 | 0 |

Measures of fiscal risk

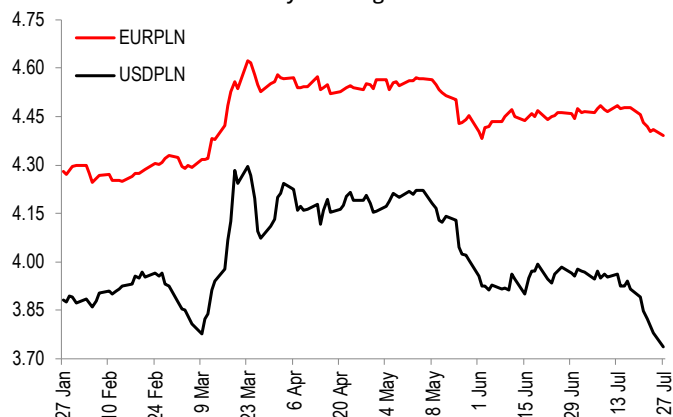
| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 57 | 0 | 185 | 4 |
| France | 11 | 0 | 31 | 0 |
| Hungary | 74 | 0 | 262 | 3 |
| Spain | 68 | 3 | 83 | 2 |
| Italy | 112 | 2 | 154 | 3 |
| Portugal | 43 | 2 | 85 | 4 |
| Ireland | 20 | 0 | 39 | -1 |
| Germany | 8 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

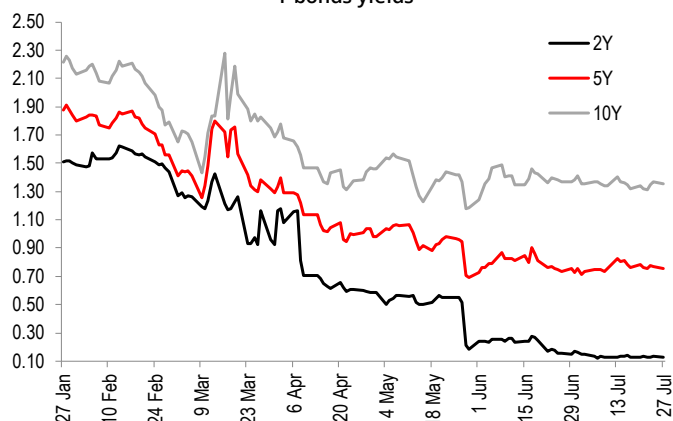
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

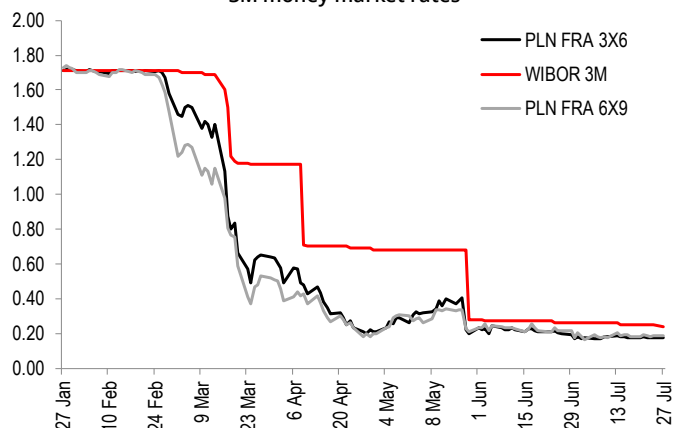
Zloty exchange rate



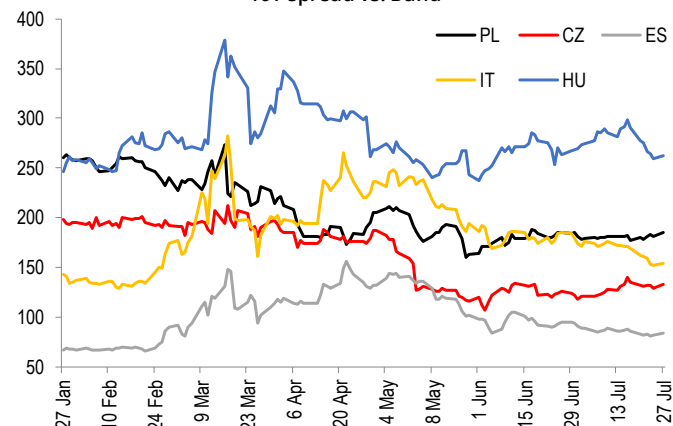
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST |
|----------------------------|-----------|-----------------------------------|------------|--------------|------------|------------|------------|
| | | | | MARKET | SANTANDER | | |
| CET | | | | | | VALUE | VALUE* |
| FRIDAY (24 July) | | | | | | | |
| 09:30 | DE | Flash Germany Manufacturing PMI | Jul | pts | 48.0 | - | 50.0 |
| 09:30 | DE | Flash Markit Germany Services PMI | Jul | pts | 50.5 | - | 56.7 |
| 10:00 | EZ | Flash Eurozone Manufacturing PMI | Jul | pts | 50.05 | - | 51.1 |
| 10:00 | EZ | Flash Eurozone Services PMI | Jul | pts | 51.0 | - | 55.1 |
| 16:00 | US | New Home Sales | Jun | % m/m | 3.55 | - | 13.8 |
| MONDAY (27 July) | | | | | | | |
| 10:00 | DE | IFO Business Climate | Jul | pts | 89.3 | - | 90.5 |
| 14:30 | US | Durable Goods Orders | Jun | % m/m | 7.0 | - | 7.3 |
| 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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