

29 July 2020

Eyeopener

Today FOMC meeting

Correction ahead of FOMC meeting
 Government accepted macroeconomic assumptions for 2021 budget
 PLN and other CEE currencies slightly weaker
 Polish debt benefitted from stronger Bund
 Today in the evening the FOMC decision

On Tuesday we saw a correction of trends observed during at least a couple of sessions. The dollar gained slightly after a substantial depreciation which lead to a sudden stop of an gold and silver price rise and initiated some weakening of the EM currencies. While the FX and commodity markets witnessed some lower investors activity ahead of the today's FOMC meeting, the German and US bonds continued to gain.

Today in the evening, **FOMC** will announce its decision. We do not expect any change in the monetary policy parameters and the market will seek for a hint whether the US central bankers intend to start yield curve control program. It seems that in the recent days the market has been quite aggressively pricing that the dovish tone will be sustained and even if this is the case, there could be a correction and some profit taking after the recent EURUSD, gold and bonds strengthening.

The government accepted the **draft 2021 budget**. Main numbers are in line with the information from last week's *Dziennik Gazeta Prawna* daily. It is assumed the GDP will fall by 4.6% and rebound by 4.0% in next. The assumptions are conservative in light of our forecasts (-3.8% and +5.8%). This year the assumption of private consumption fall (-4.2%) is larger than our forecast (-2.8%), and next year the rebound is weaker (+4.0% vs ours +6.0%). Inflation, according to the government, might increase on average by 3.3% this year (close to our forecast) and 1.8% in next (we: 1.3%, NBP 1.5%). The government sees the job market slightly different than us – assumes year-end unemployment rate at 8% (we see it at 7.7%) however see it falling to 7.5% by the end of 2021, we see 8.0% by the end of 2021. The average wages are assumed to increase by 3.4%, while the government assumed a significant rise in the minimal wage – by 7.7% to PLN2800.

MPC member Grażyna Ancyparowicz said yesterday that in her opinion “there will be no significant changes to monetary policy till the end of this year and probably in the next year” as well. She commented on the July GDP numbers presented by the NBP and thinks they show slight optimism as to how the economic activity will evolve in the forthcoming quarters. The optimism is founded on the NBP's toolbox which might possibly be used if further support of the economy is needed, as well as on the expectations of the EU funds inflows. She added that the situation on the FX market is normal. In our base case scenario we also assume that by the end of this year and in 2021 the interest rates will remain unchanged.

EURUSD declined to 1.17 from 1.177 because investors became more cautious ahead of the approaching FOMC meeting. This morning the fx rate is again a bit higher, at 1.175. In our view the outcome of the US central bank meeting may be a catalyst for a correction after five consecutive weeks of euro appreciation vs the dollar.

EURPLN rose yesterday after seven sessions of declines. It rebounded from 4.385 to 4.40. USDPLN moved to 3.77 from 3.73. The zloty gave back some of the gain due to stronger dollar. This morning EURPLN is above 4.41. If today's FOMC meeting triggers US currency appreciation, then EURPLN and USDPLN may go further up in the coming days.

In the case of **other CEE currencies**, the ruble performed the worst. USDRUB broke the resistance at 72 we had indicated recently and reached 72.5, the highest level since the middle of March. The strengthening of the dollar influenced negatively also the koruna and the forint, but the scale of their depreciation vs the euro did not exceed 0.35%.

On the **domestic interest rate market**, 5Y and 10Y bond yields dropped by 4bp while the short end and the IRS curve were stable. Stronger Bunds and UST had a positive effect on the Polish debt. Late in the session the yield of 10Y German benchmark was testing the lower bound of the -0.50 to -0.40% range which we have been indicating recently and reached the lowest level since the 2H of May. Bonds, unlike other asset classes, were not gaining in the last days, possibly on expectations that FOMC will remain dovish, so a potential correction may not be too strong.

Macroeconomic assumptions for 2021 budget

	2020	2021
GDP	-4,6	4,0
Private consumption	-4,2	4,4
Export	-9,3	6,9
Import	-10,2	7,3
Inflation	3,3	1,8
Unemployment	8,0	7,5
Employment in NE*	-2,4	-0,7
Wages in NE	3,5	3,4

Source: PAP, Santander
 *NE = National Economy

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FX market

Today's opening

EURPLN	4.4152	CZKPLN	0.1676
USDPLN	3.7592	HUFPLN*	1.2682
EURUSD	1.1745	RUBPLN	0.0519
CHFPLN	4.1003	NOKPLN	0.4132
GBPPLN	4.8593	DKKPLN	0.5931
USDCNY	7.0006	SEKPLN	0.4288

*for 100HUF

Last session in the FX market 28.07.2020

	min	max	open	close	fixing
EURPLN	4.389	4.414	4.390	4.412	4.399
USDPLN	3.738	3.768	3.742	3.761	3.753
EURUSD	1.170	1.174	1.173	1.173	-

Interest rate market 28.07.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.12	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.73	-3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.34	-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	0	0.24	0	-0.47	0
2L	0.26	0	0.22	0	-0.41	-1
3L	0.31	-1	0.22	-1	-0.41	-1
4L	0.43	-2	0.25	-1	-0.40	-1
5L	0.55	-2	0.30	-1	-0.39	-2
8L	0.77	-2	0.47	-4	-0.31	-2
10L	0.88	-1	0.57	-3	-0.24	-2

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	0
3M	0.24	0
6M	0.28	0
1Y	0.29	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	0
3x6	0.17	0
6x9	0.18	-1
9x12	0.19	-1
3x9	0.21	-1
6x12	0.22	-2

Measures of fiscal risk

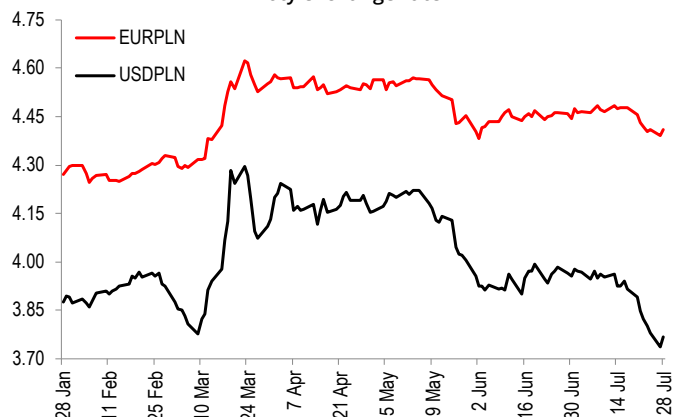
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	185	0
France	11	0	32	1
Hungary	74	0	265	3
Spain	69	1	87	3
Italy	113	0	159	5
Portugal	43	0	88	3
Ireland	20	0	40	2
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

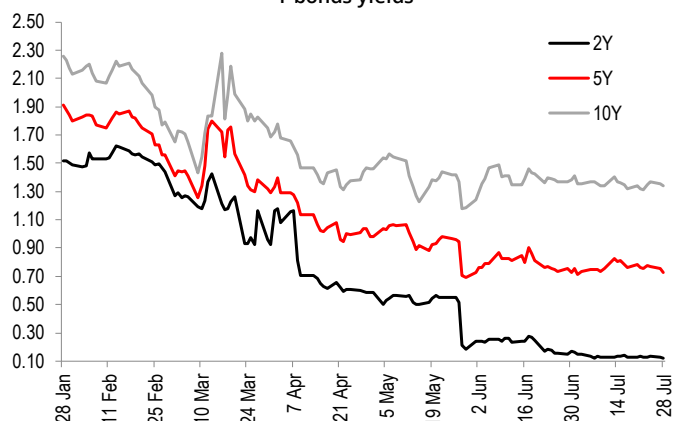
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

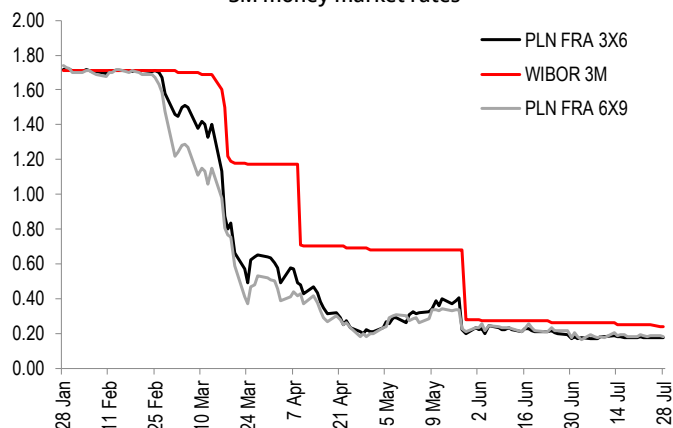
Zloty exchange rate



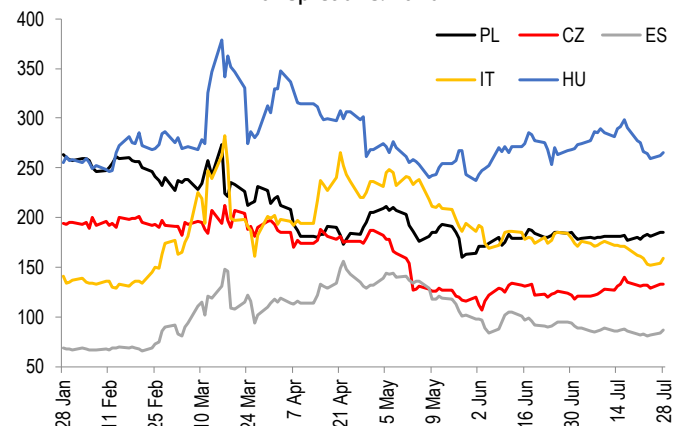
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET							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)								
10:00	DE	IFO Business Climate	Jul	pts	89.3	-	90.5	86.2
14:30	US	Durable Goods Orders	Jun	% m/m	7.0	-	7.3	15.1
TUESDAY (28 July)								
16:00	US	Consumer Conference Board	Jul	pts	94.75	-	92.6	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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