

31 July 2020

Eyeopener

Glapiński: There is still room for easing

GDP data weigh on sentiments
 EURPLN with no major changes, EURUSD high
 Bonds gained thanks to FOMC and data
 Today flash CPI for July

Before the FOMC meeting recently the market priced aggressively its dovish outcome on yesterday session there was profit taking. European stock exchanges declined heavily and the scale of the fall was influenced by German GDP data for 2Q. The reading was slightly below forecasts and the worst since comparable data are gathered. In the afternoon there was the US GDP release, which also showed that 2Q was the worst ever in the history of the US economy. Bonds gained from the risk aversion, the asset class that gained relatively little before the FOMC meeting. The dollar was recovering vs the euro most of the session, but at the end of the day it gave back all the gain after Donald Trump suggested that US presidential elections should be postponed due to the pandemic.

Adam Glapiński wrote in an article for *Dziennik Gazeta Prawna* daily that NBP still has room for easing monetary policy, in case the economic situation proves worse than central bank expectations. According to Glapiński, inflation will be falling in the coming quarters and the fact that it is now higher than in other countries is due to the recovery of demand in Poland. In the article the idea is repeated that a weaker zloty would support faster economic rebound.

According to GUS estimates, the grain output this year will be around 11% y/y higher and beating even those from the pretty decent 2017 year. Output of fruit and vegetables are supposed to be 5-10% higher than in 2019, when the winter was much colder. In case of vegetables, this means that the production will come back to the 2018 level (when the production was below the previous year averages, however). In case of fruit, the output might still be 15-20% lower than in 2018. The April drought, subsequent frosts and storms have had an impact but only locally. Also, the IUNG-PIB reports that this year's draught has much narrower range than those from the previous years. It seems that this year's supply disruptions will not be strong enough in order to stop further gradual easing of food price growth in the CPI (from around 6% y/y in May-June to around 3% in mid-2021).

The July ESI indicators for Poland showed pronounced and faster than previous month's improvement in the retail trade sector, while improvement in services, manufacturing and construction was also strong but with the same pace as in June. It is the first reading during the pandemic when assessments of industrial orders improved significantly, while inventories of finished goods and products index declined. For the first time the services employment change index also increased. On the other hand, consumers' willingness to spend on big items deteriorated (index fell to levels below the May and June ones) despite the pronounced improvement in the assessment of the current situation and the future financial conditions.

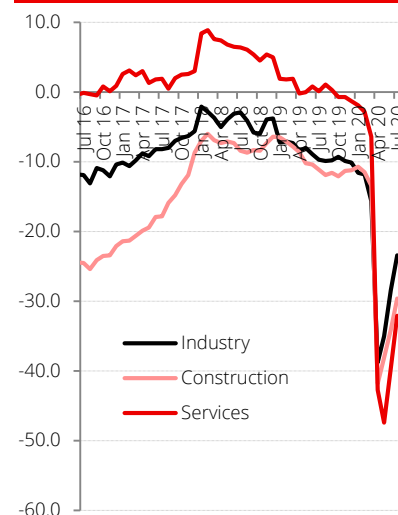
EURUSD was falling slowly for the better part of the day to 1.173 from 1.175 but when the US session started, the dollar was under pressure again, this time due to the US political risk factor. At the end of the day, the exchange rate was back close to 1.18 and today in the morning is already at 1.19. The current week is already sixth in a row when the euro is appreciating vs the dollar and some profit taking may be observed today, in our view. In the afternoon, the US consumer revenues and spending data will be released.

EURPLN stayed within the Wednesday's trading range and USDPLN left it only for a while when it broke the low from the previous day. We do not expect to see any breaking changes on the Polish FX market at the end of the week. Polish CPI may surprise to the upside, in our view, but this should not have much impact on the zloty. We do not expect EURPLN to resume the down move in the nearest future but the upside potential seem to be limited as well.

The **other CEE currencies** lost with the ruble and koruna performing the worst. EURCZK neutralised the entire Wednesday's drop and was close to 26.26 at the end of the day. USDRUB saw a strong daily rise by 1.6% to 73.68, its new July peak and its highest since mid-May. EURHUF was hovering around Wednesday's close at 345.

On the **domestic interest rate market** IRS and bond yields dropped by 4-8bp, the most on the long end amid significant strengthening seen on the core markets. The yield of the Polish 10Y benchmark fell to 1.27%, its lowest since early June, and its German counterpart temporarily by 5bp to -0.55%, its lowest since mid-May. Today Poland flash July CPI will be released. Our forecast is slightly above the market consensus (3.2% vs 3.1%) and if our estimate proves correct, the yield down trend might pause at the end of the week.

ESI for Poland



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.4071	CZKPLN	0.1664
USDPLN	3.7098	HUFPLN*	1.2785
EURUSD	1.1881	RUBPLN	0.0507
CHFPLN	4.1021	NOKPLN	0.4095
GBPPLN	4.8696	DKKPLN	0.5923
USDCNY	6.9907	SEKPLN	0.4276

*for 100HUF

Last session in the FX market

30.07.2020

	min	max	open	close	fixing
EURPLN	4.398	4.420	4.405	4.412	4.409
USDPLN	3.726	3.762	3.744	3.742	3.755
EURUSD	1.173	1.181	1.177	1.179	-

Interest rate market

30.07.2020

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)	0.69	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.29	-6	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.19	0	-0.48
2L	0.24	-1	-0.43
3L	0.30	-2	-0.43
4L	0.41	-3	-0.42
5L	0.53	-3	-0.40
8L	0.76	-2	-0.32
10L	0.87	-3	-0.25

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.12	0
2W	0.18	0
1M	0.21	-1
3M	0.23	-1
6M	0.27	-1
1Y	0.28	-1

FRA rates on the interbank market**

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

Measures of fiscal risk

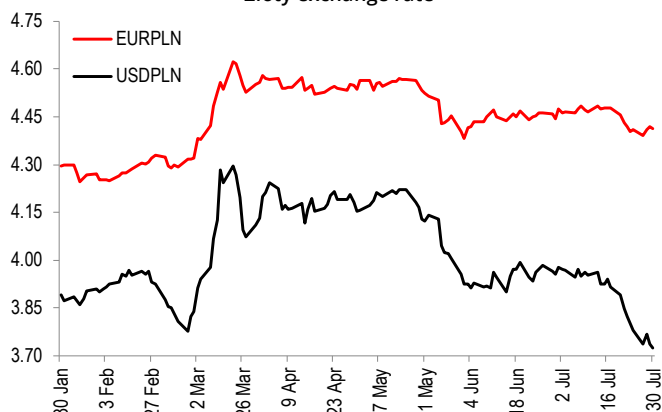
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	183
France	10	33
Hungary	74	272
Spain	68	86
Italy	112	158
Portugal	43	87
Ireland	20	42
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

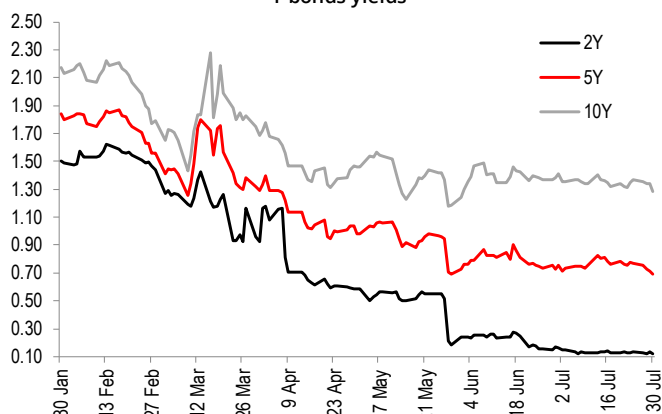
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

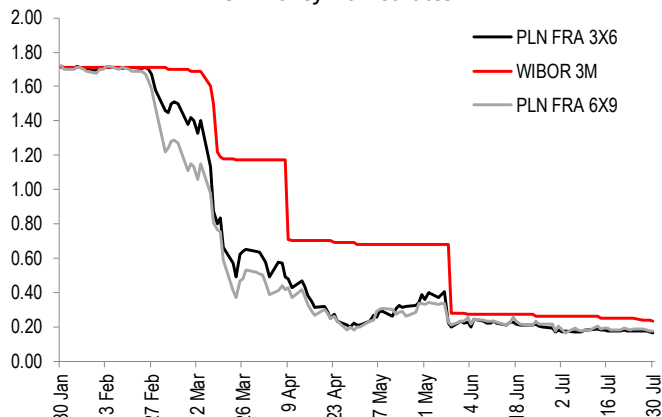
Zloty exchange rate



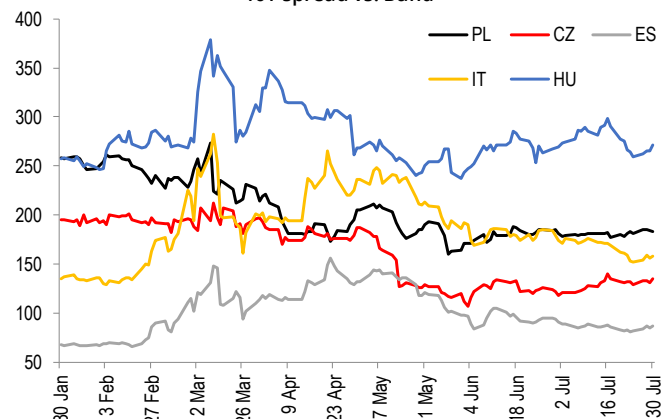
T-bonds yields



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)								
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	-	16.6	44.3
20:00	US	FOMC decision	Jul.20		0.25	-	0.25	0.25
THURSDAY (30 July)								
10:00	DE	GDP WDA	2Q	% y/y	-10.9	-	-11.7	-2.3
11:00	EZ	ESI	Jul	pct.	82.5	-	82.3	75.8
14:30	US	GDP annualized	2Q	% q/q	-34.0	-	-32.9	-5.0
14:30	US	Initial Jobless Claims	week	k	1 300	-	1 434	1 422
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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