

3 August 2020

Eyeopener

CPI down but core inflation up

Calm markets at the month-end, dollar lost c5% in July
In euro zone, 2Q GDP below forecast, inflation up
EURPLN slightly down below EURUSD drop
Bonds gain owing to interest from abroad
Today July manufacturing activity indexes

On Friday the risky assets, including stocks, were quite stable (European indices climbed by about 0.5%), while 10Y real interest rate in the USA was still going down and hit -0.99%. EM currencies performance was mixed, while the dollar index stabilised at 93.0 (total decline in July amounted to 4.6%). Flash GDP for 2Q20 in the euro zone was worse than expected (full data due for release on 14 August), but data suggest a major rebound in 3Q20. Euro zone inflation surprised to the upside.

Poland CPI declined in July to 3.1% y/y from 3.3% in line with market consensus and slightly below our forecast of 3.2%. However, from the limited information provided in this flash release we can estimate core inflation at 4.3% y/y, up from June's 4.1% which already was the highest reading in 18.5 years. The current mix of demand overhang created by the earlier lockdown and possibly still some supply issues is keeping inflation relatively high, but the hit to domestic demand should soon send CPI lower most likely below the NBP 2.5% target still this year while core CPI might ease to c.3% by the end of 2020. **We do not believe** the path of inflation could influence the MPC stance now, the majority view seems to be to keep rates stable until the end of the term (early 2022) while governor Głapiński's article in the press today links the possibility of further easing to growth forecasts coming below the NBP projection, which already is much lower than market consensus.

MPC member Jerzy Kropiwnicki said that due to the results of the earlier rate cuts (lack of increased lending, higher bank fees) and the risk of the elevated inflation, the interest rates should rise in 2021 ("if not at the start of the year, then for sure in the middle of the year") to the level from before the pandemic that is 1.50%. Mr Kropiwnicki expects that the situation which by itself occurs relatively seldom to happen – simultaneous increases in prices and growth below the potential. As to the factors which would accelerate inflation he mentioned: delayed demand, EU environmental fees (noticeable in the energy sector), drought and the rise of administered prices. Kropiwnicki estimated that the impact of the new EU funds on the Polish economy might reach +1pp in 2021. He added that once non-standard monetary policy measures are introduced it is difficult to make a step back.

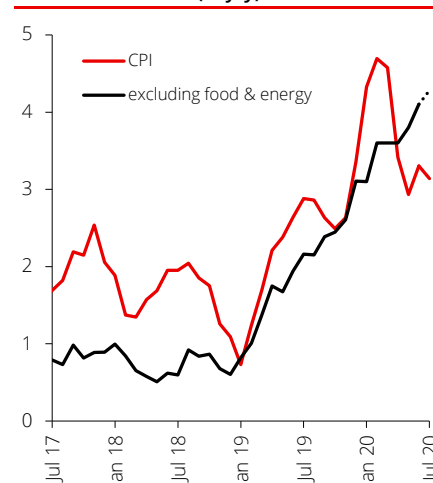
EURUSD increased in July by a decent 5.2% to 1.182. On Friday after opening near 1.18, the exchange rate temporarily rose to 1.19, however closed lower. The dollar strengthened even after Fitch rating agency revised the US outlook to negative from stable. After the whole month of EURUSD increases and the lack of a significant market correction, the conditional probability of short term dollar strengthening increased materially.

EURPLN fell on Friday to 4.403, by 0.2% after opening at 4.410. NBP governor Adam Głapiński's remarks in an article for Dziennik Gazeta Prawna daily, where he mentioned the approach to exchange rate, did not influence the market. At the start of the week we expect EURPLN to test 200-day moving average (4.386).

In the case of other CEE, EURHUF did not change the level on Friday and closed at 344.6. The koruna strengthened just like the zloty by 0.2% and closed at 26.19 after better-than-expected 2Q Czech flash GDP. What seemed unusual with stable equity and oil markets, the ruble lost to a basket composed of USD and EUR again, for the 8th day in a row, this time by 0.9% (going past the 80 level). USDRUB rose above 74.2. Options markets finally responded to yet another day of weakening of the ruble, and annual implied volatility rose above 14.0.

On the domestic interest rate market, the short end of the yield curve traditionally was stable (2Y yield at 0.1%), but IRS rates declines, for example the 2Y rate to 0.23%, by 4bp in a matter of one week. Longer FRAs also went down, like 21x24 to 0.20%, by 8bp. On the belly and long end of the curve, bond yields fell – 10Y to 1.27% from 1.29% - due to increased interest from foreign investors (commercial banks, central banks) and Polish financial institutions. In August the Ministry of Finance is not planning to hold an auction, and on 6th August there will be a switch auction. In June foreign investors in net terms sold Polish marketable PLN government bonds worth PLN4.4bn so their exposure decreased to PLN137.6bn, which makes 17.5% of total such debt. NBP sold on Friday its 7-day bills worth PLN163.8bn.

Inflation in Poland (% y/y)



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4171	CZKPLN	0.1662
USDPLN	3.7562	HUFPLN*	1.2793
EURUSD	1.1757	RUBPLN	0.0506
CHFPLN	4.0958	NOKPLN	0.4108
GBPPLN	4.9094	DKKPLN	0.5923
USDCNY	6.9762	SEKPLN	0.4263

*for 100HUF

Last session in the FX market

7/31/2020

	min	max	open	close	fixing
EURPLN	4.398	4.415	4.410	4.412	4.407
USDPLN	3.697	3.735	3.706	3.732	3.717
EURUSD	1.180	1.191	1.190	1.182	-

Interest rate market

7/31/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.12	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.68	-1	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.28	0	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	-0.47
2L	0.23	-1	-0.43
3L	0.28	-3	-0.43
4L	0.38	-3	-0.42
5L	0.50	-4	-0.40
8L	0.72	-3	-0.30
10L	0.83	-4	-0.23

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.11	1
SW	0.12	0
2W	0.18	0
1M	0.21	0
3M	0.23	0
6M	0.27	0
1Y	0.28	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	0
3x6	0.16	0
6x9	0.16	-2
9x12	0.16	-3
3x9	0.20	-1
6x12	0.20	-1

Measures of fiscal risk

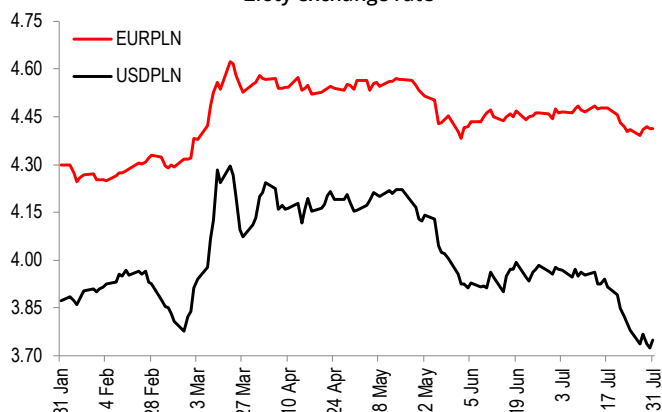
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	182
France	10	33
Hungary	74	268
Spain	68	87
Italy	112	161
Portugal	43	89
Ireland	20	42
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

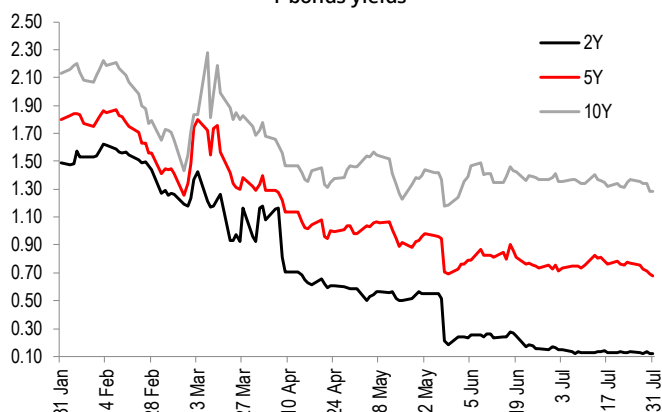
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

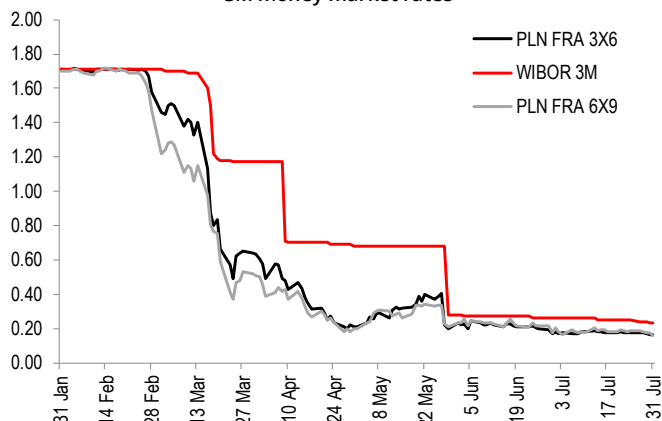
Zloty exchange rate



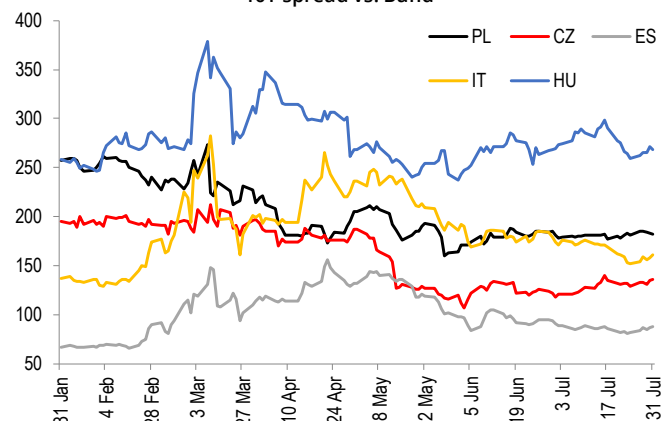
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
FRIDAY (31 July)								
08:00	DE	Retail Sales	Jun	% m/m	-3.0	-	-1.6	13.9
09:00	CZ	GDP SA	2Q	% y/y	-12.3	-	-10.7	-2.0
10:00	PL	CPI	Jul	% y/y	3.1	3.1	3.1	3.3
11:00	EZ	Flash HICP	Jul	% y/y	0.2	-	0.4	0.3
11:00	EZ	GDP SA	2Q	% y/y	-14.5	-	-15.0	-3.1
14:30	US	Personal Spending	Jun	% m/m	5.0	-	5.2	8.4
14:30	US	Personal Income	Jun	% m/m	-0.6	-	-1.1	-4.4
14:30	US	PCE Deflator SA	Jun	% m/m	0.4	-	0.4	0.1
16:00	US	Michigan index	Jul	pts	72.8	-	72.5	73.2
MONDAY (3 August)								
09:00	PL	Poland Manufacturing PMI	Jul	pts	50.0	50.0		47.2
09:55	DE	Germany Manufacturing PMI	Jul	pts	50.0	-		50.0
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	51.1	-		51.1
16:00	US	ISM manufacturing	Jul	pts	53.6	-		52.6
TUESDAY (4 August)								
16:00	US	Durable Goods Orders	Jun	% m/m	0.0	-		7.3
16:00	US	Factory Orders	Jun	% m/m	4.95	-		8.0
WEDNESDAY (5 August)								
03:45	CN	Caixin China PMI Services	Jul	pts	57.9	-		58.4
09:55	DE	Markit Germany Services PMI	Jul	pts	56.7	-		56.7
10:00	EZ	Eurozone Services PMI	Jul	pts	55.1	-		55.1
11:00	EZ	Retail Sales	Jun	% m/m	7.0	-		17.8
14:15	US	ADP report	Jul	k	1 200	-		2 368
16:00	US	ISM services	Jul	pts	55.0	-		57.1
THURSDAY (6 August)								
08:00	DE	Factory Orders	Jun	% m/m	12.25	-		10.4
09:00	CZ	Industrial Production	Jun	% y/y	-9.1	-		-29.4
09:00	HU	Industrial Production SA	Jun	% y/y	-15.15	-		-27.63
14:30	US	Initial Jobless Claims	week	k	1 445	-		1 434
14:30	CZ	Central Bank Rate Decision		%	0.25	-		0.25
FRIDAY (7 August)								
08:00	DE	Exports SA	Jun	% m/m	0.0	-		8.9
08:00	DE	Industrial Production SA	Jun	% m/m	7.2	-		7.8
14:30	US	Change in Nonfarm Payrolls	Jul	k	1 635	-		4 800
14:30	US	Unemployment Rate	Jul	%	10.5	-		11.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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