

12 August 2020

# Eyeopener

## Return of inflation?

Stock markets enthusiastic after positive German data  
Zloty stronger, dollar stable  
Bonds lost significantly following core markets  
Today US July CPI, euro zone output

On Tuesday the markets were enthusiastic, with main stock indices going up by even 2%, partially due to a very strong ZEW reading (expectations index climbed to 71.5pts from below 60). In the USA, July PPI was by 0.3pp higher than the market had expected. These numbers pushed core market yields up (5pp), so at the European close Bund was at -0.47% and UST at 0.64%. The dollar lost 0.5% at the start of the session but then trimmed its losses after 10Y real rates in the USA climbed above -1.0% (last seen in late July). EM currencies gained in the course of the European session, gold and silver lost for the first time after a long streak of gains (by 4.0% and 6.5%, respectively), while oil prices went up by 2%.

**MPC member Eryk Łon** said that the current stance of the monetary policy should continue in 2020 and 2021 in order not to deteriorate moods among companies and consumers. He said that the range of inflation's tolerable fluctuations around the target should be widened to 0.5-4.5% from current 1.5-3.5% and CPI now at slightly above 3% y/y is the optimal level. From his comment we conclude that he perceives rate cuts delivered so far as sufficient and that the MPC is most likely more often discussing taking the interest rates back to the pre-crisis level than cutting them further. However, the idea presented by Łon (of prolonged rates stability) seems still to be shared by the majority of the Council. Eryk Łon said that if the zloty appreciates too much, the central bank should take action to weaken the currency provided that strong zloty threatened profitability of the Polish exports.

According to fresh GUS **REGON statistics** (registry of companies), the total number of companies in Poland was by 1.5% higher than before the pandemic (in February), while number of suspended businesses was by 1.2% lower. Moreover, the monthly number of new registrations was (like in June) higher than in February and deregistrations fell by 35% versus February and by 17% versus March.

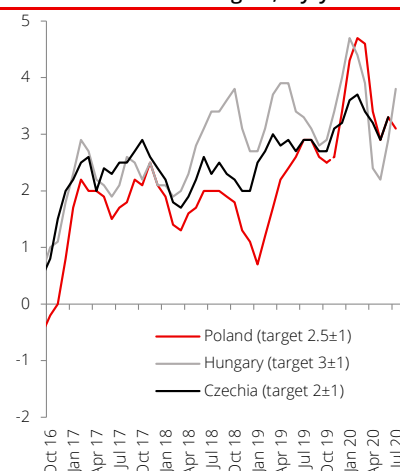
**EURUSD** was hovering for the better part of the day around its opening level at 1.173 and only at the end of the day it rose to 1.179. During the night, the exchange rate returned to 1.173 or even slightly lower for a while and today in the morning is near 1.173. Today the dollar may be influenced by release of consumer inflation after the yesterday's surprising PPI reading.

**EURPLN** was trading in a very narrow range (of cPLN0.005) around 4.40. Yesterday's evening dollar appreciation could end this period of stability and today in the morning the exchange rate is already at 4.41.

In the **CEE region**: in the first half of the day EURHUF attempted to go up (by 0.4%) but at the end of the day the rate went back to the opening level (344.5). Hungarian July inflation jumped to 3.8% y/y from 2.9% y/y in June, above market expectations at 3.1%. Thus, inflation approached the upward limit of central bank's tolerance band (3% +/-1pp). The most considerable rises were seen in services (+1.1pp), alcohol and tobacco (+1.2pp), food (+0.7pp) and 'others' category (+0.6pp). Core inflation ex indirect taxes climbed to 4.1% y/y from 3.5% y/y in June, reaching the highest level in a decade. EURCZK went slightly down on Tuesday, but as it is exactly at 200-day moving average, we think that the exchange rate will be consolidating. This time the oil prices affected the ruble, which gained 1% versus the dollar, with USDRUB rising to 73.2

On the domestic **interest rate market** yields were trending up amid a significant jump of core yields. The move was recorded along the whole curve starting from FRA (eg. 9x12 up by 3bp to 0.16%), 2Y (+2bp to 0.13%) and 2Y IRS (+4bp to 0.25%) and on the long end by 7bp for 10Y bonds (to 1.35%) and 9bp for IRS (to 0.92%). The 10Y PL-DE bond yield spread rose to 182bp. Today's US CPI reading may be key for the market. Should data be above the consensus (currently at 0.7% y/y), yields may continue the trend higher in the short term.

CPI inflation in the CEE region, %/y



Source: Bloomberg, Santander

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## FX market

### Today's opening

EURPLN	4,4068	CZKPLN	0,1681
USDPLN	3,7573	HUFPLN*	1,2633
EURUSD	1,1733	RUBPLN	0,0514
CHFPLN	4,0944	NOKPLN	0,4166
GBPPLN	4,8987	DKKPLN	0,5918
USDCNY	6,9477	SEKPLN	0,4285

\*for 100HUF

### Last session in the FX market 11.08.2020

	min	max	open	close	fixing
EURPLN	4,395	4,406	4,395	4,404	4,402
USDPLN	3,726	3,757	3,739	3,744	3,739
EURUSD	1,172	1,181	1,175	1,176	-

## Interest rate market 11.08.2020

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,16	2	5.03.2020	OK0722	1,225
PS1024 (5Y)	0,74	8	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,34	8	5.03.2020	DS1029	1,725

### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,19	3	0,25	1	-0,47	0
2L	0,26	5	0,22	1	-0,43	1
3L	0,34	6	0,24	2	-0,41	2
4L	0,45	7	0,27	3	-0,40	2
5L	0,57	8	0,33	3	-0,38	3
8L	0,83	10	0,53	4	-0,25	7
10L	0,95	11	0,64	5	-0,20	4

## WIBOR rates

Term	%	Change (bps)
O/N	0,10	0
T/N	0,10	0
SW	0,12	0
2W	0,17	0
1M	0,20	0
3M	0,23	0
6M	0,27	0
1Y	0,27	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	0,21	1
3x6	0,17	2
6x9	0,18	4
9x12	0,18	5
3x9	0,21	2
6x12	0,21	3

## Measures of fiscal risk

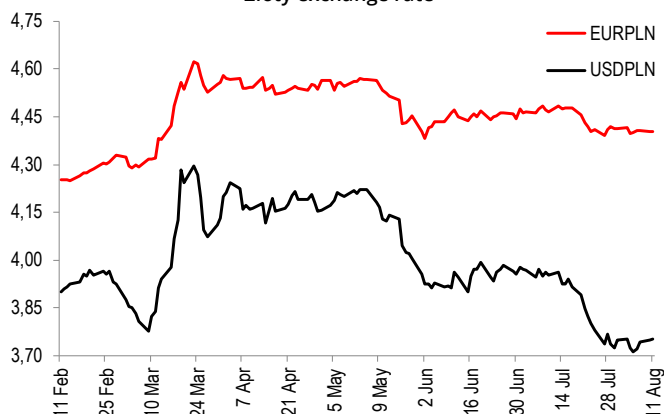
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	182	3
France	10	0	28	-1
Hungary	75	0	271	7
Spain	62	0	76	-3
Italy	103	-2	149	-2
Portugal	38	0	79	-2
Ireland	18	0	36	-1
Germany	8	0	-	-

\* 10Y treasury bonds over 10Y Bunds

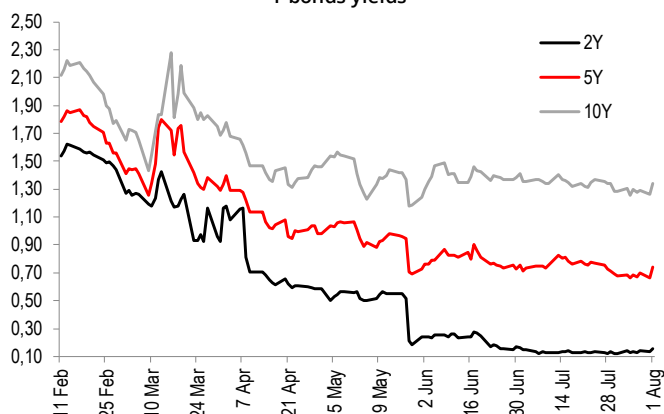
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

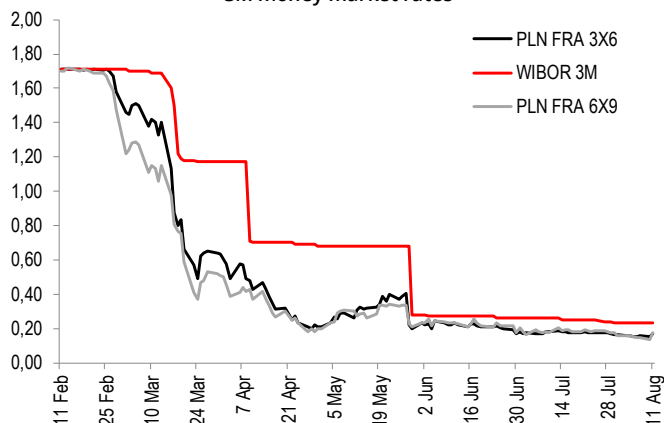
## Zloty exchange rate



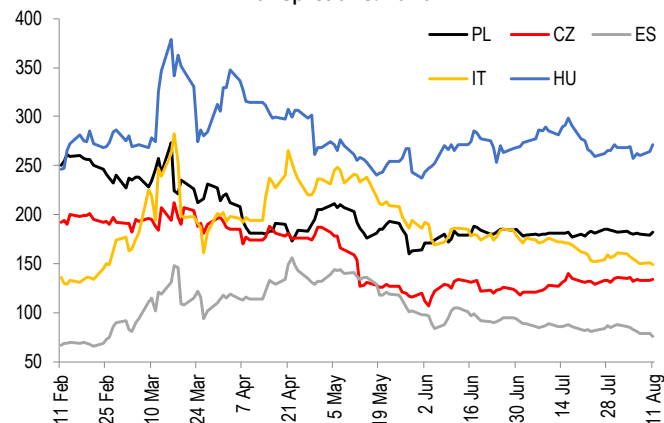
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (7 August)								
08:00	DE	Exports	Jun	% m/m	14.4	-	14.9	9.0
08:00	DE	Industrial Production	Jun	% m/m	8.2	-	8.9	7.8
14:30	US	Change in Nonfarm Payrolls	Jul	k	1 480	-	1 763	4 791
14:30	US	Unemployment Rate	Jul	%	10.1	-	10.2	11.1
TUESDAY (11 August)								
09:00	HU	CPI	Jul	% y/y	3.3	-	3.8	2.9
11:00	DE	ZEW Survey Expectations	Aug	pts	55.8	-	71.5	59.3
WEDNESDAY (12 August)								
11:00	EZ	Industrial Production	Jun	% m/m	12.0	-		12.4
14:30	US	CPI	Jul	% m/m	0.3	-		0.6
THURSDAY (13 August)								
08:00	DE	HICP	Jul	% m/m	0.0	-		-0.5
09:00	CZ	CPI	Jul	% y/y	3.1	-		3.3
14:00	PL	Current Account Balance	Jun	€mn	2 074	1 766		2 455
14:00	PL	Trade Balance	Jun	€mn	1 148	1 059		1 250
14:00	PL	Exports	Jun	€mn	17 691	18 099		15 700
14:00	PL	Imports	Jun	€mn	16 474	17 040		14 450
14:30	US	Initial Jobless Claims	tyg.	k	1 400	-		1 186
FRIDAY (14 August)								
09:00	HU	GDP	2Q	% y/y	-	-		2.2
10:00	PL	CPI	Jul	% y/y	3.1	3.1		3.1
10:00	PL	GDP	2Q	% y/y	-9.0	-11.7		2.0
11:00	EZ	GDP	2Q	% y/y	-15.0	-		-15.0
14:30	US	Retail Sales Advance	Jul	% m/m	1.6	-		7.5
15:15	US	Industrial Production	Jul	% m/m	2.7	-		5.41
16:00	US	Michigan index	Aug	pts	71.0	-		72.5

Source: Santander Bank Polska, Bloomberg, Parkiet  
\* in the case of a revision the data is updated

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