

14 August 2020

Eyeopener

Strong improvement in balance of payments

Market still under influence of US data and impasse over new rescue package
 EURPLN and EURUSD roughly unchanged
 Polish bonds slightly stronger, yields abroad clearly higher
 Today in Poland flash 2Q GDP, final July inflation

Thursday's session on the fixed income and FX market was similar to Wednesday's one. The dollar lost due to the prolonging talks between Republicans and Democrats about the final shape of the next economic support package. Bond yields on core markets rose after the US inflation data released earlier in the week. Furthermore, yesterday the better than expected US weekly job report was published with the initial jobless claims well below expectations which added negative pressure on core bonds.

June current account balance at €2.84bn was much better than expected by the market (€2.07bn) and by us (€1.77bn), and also much better than the previous reading of €1.39bn. The surprise came from trade balance in goods, which was €2.67bn, while market consensus had pointed to €1.15bn. Export growth has already turned positive – much faster than we imagined when the lockdown was still in place – showing +3.0% y/y, while consensus was at -2.5% y/y (the positive surprise was worth €1bn). At the same time, imports growth (-10.7% y/y) remained unusually far below export growth, and deviated negatively from the consensus (-8.2% y/y). NBP report names cigarettes, furniture and TV sets as drivers of the export rebound and it also repeated from previous editions that batteries and engines for hybrid cars are performing well. This looks like a boost coming from accumulated unrealised demand for consumer durables in partner countries. On the imports side, once again significantly smaller oil bill weighed on the total value, with cars and car parts adding to the imports decline. However, as far as consumer goods are considered, data showed a noticeable rebound vs previous months. After the June release, 12M rolling C/A balance-to-GDP ratio rose to a new record high of 2.3% from 1.7% only a month earlier and vs -0.7% a year ago. The balance of payments data join the list of arguments that today's flash 2Q GDP may not be that pessimistic as we have estimated (-11.7% y/y).

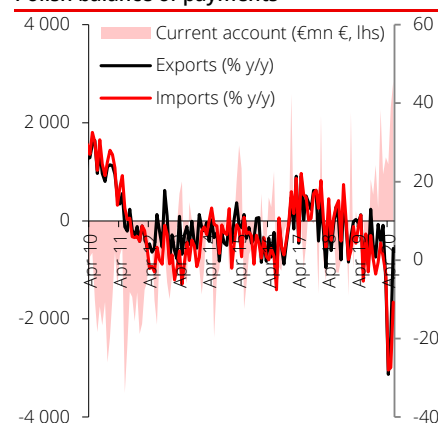
EURUSD, after on Wednesday it rebounded from the lower end of 1.17-1.19 range in which it has been hovering since late July, on Thursday it rose again and reached 1.185 for a while. Lack of agreement on the next fiscal package for the US economy again proved more important than hawkish data. The next round of talks between the US politicians is to be held during weekend so today's session is rather unlikely to bring any meaningful changes on the EURUSD market. We think that the positive conclusion of talks is only a matter of time and the dollar may start to gain when it is announced.

EURPLN stayed yesterday in a tight range around 4.395 and USDPLN fell to 3.71 from 3.73. The zloty did not react in a visible way to the better-than-expected Polish C/A data. EURPLN remains stable, similar to EURUSD. Since the end of July the fx pair has not left the 4.385-4.425 range. Today Poland's flash GDP print for 2Q is due. Latest data suggest that the decline may be less severe than we and the market expect, which could positively influence the local currency within a few days. In the longer perspective, EURUSD may set the direction of the zloty, once it decides itself where to go now.

As regards **other CEE currencies**: EURHUF and EURCZK remained close to their local lows and USDRUB close to a maximum. Czech inflation surprised to the upside in July by jumping to 3.4% from 3.1%, but the reading supported the koruna only temporarily.

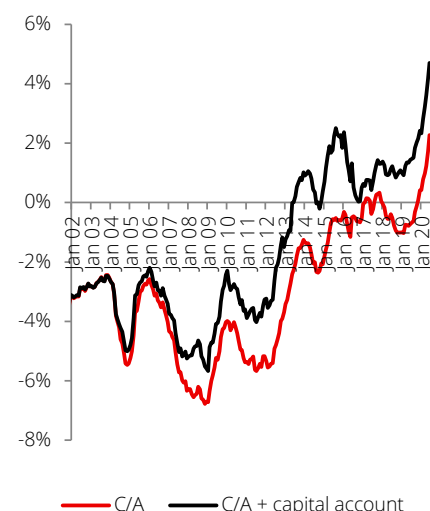
On the **domestic interest market** IRS rates climbed by 2-3 bp, pulled by the continuing rise of core yields. German 10Y bond yield rose slightly above -0.40% (the highest level since early July), while its US counterpart reached almost 0.70% (also the highest since early July). Meanwhile, Polish 10Y bond gained somewhat and its yield slid below 1.30%. In due course, the Polish-Germany bond yield spread declined to 170bp, the lowest level since early June. This week the 10Y yield rebounded from the upward limit of downward trend valid since June. In our view the downward tendency of yields could be continued in the upcoming months thanks to gradual declines of inflation and accommodative MPC bias.

Polish balance of payments



Source: NBP, Santander

Poland's external balance, 12M moving sum as % of GDP



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.3981	CZKPLN	0.1666
USDPLN	3.7207	HUFPLN*	1.2611
EURUSD	1.1819	RUBPLN	0.0510
CHFPLN	4.0900	NOKPLN	0.4184
GBPPLN	4.8628	DKKPLN	0.5901
USDCNY	6.9439	SEKPLN	0.4282

*for 100HUF

Last session in the FX market

13/08/2020

	min	max	open	close	fixing
EURPLN	4.392	4.403	4.397	4.395	4.401
USDPLN	3.706	3.728	3.727	3.719	3.718
EURUSD	1.180	1.186	1.180	1.182	-

Interest rate market

13/08/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.16	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.70	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.29	-3	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	0.25	0	-0.47	0
2L	0.28	1	0.24	0	-0.41	1
3L	0.34	0	0.26	1	-0.39	1
4L	0.46	0	0.30	1	-0.37	2
5L	0.57	-1	0.36	1	-0.34	3
8L	0.79	-3	0.58	2	-0.21	3
10L	0.91	-3	0.68	2	-0.15	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	0.22	-1
3x6	0.18	1
6x9	0.18	1
9x12	0.19	3
3x9	0.21	0
6x12	0.22	1

Measures of fiscal risk

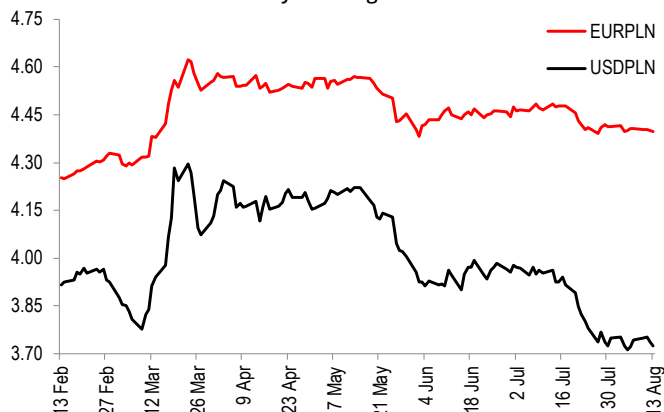
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	170	-7
France	10	0	29	1
Hungary	75	0	266	-11
Spain	60	0	78	3
Italy	103	0	149	1
Portugal	38	0	81	3
Ireland	18	0	35	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

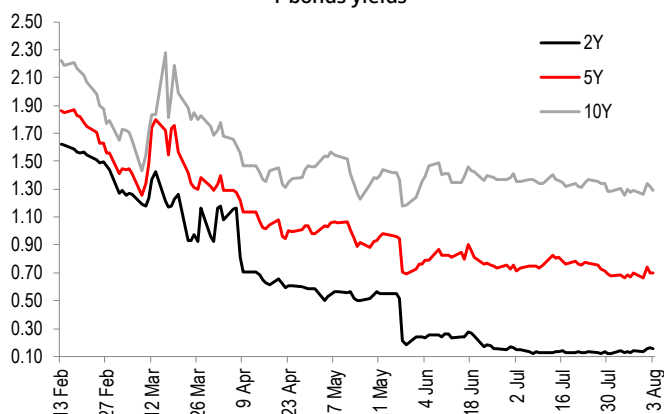
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

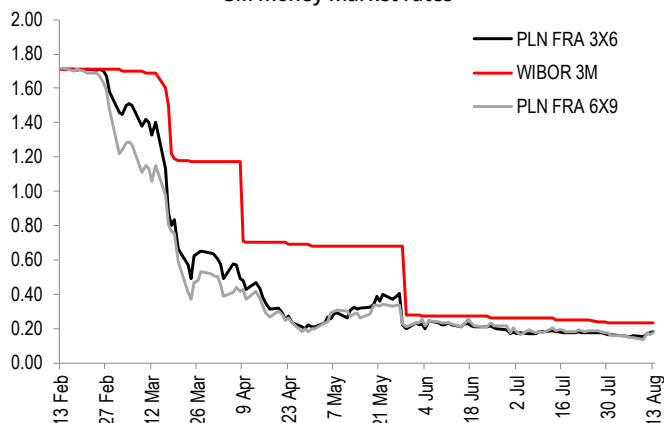
Zloty exchange rate



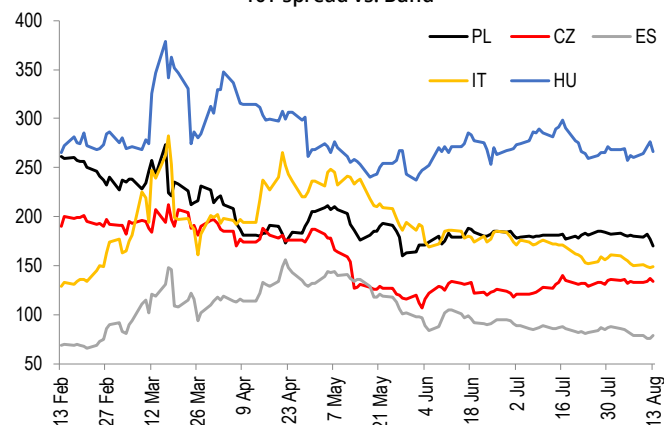
T-bonds yields



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	-	9.1	12.3
14:30	US	CPI	Jul	% m/m	0.3	-	0.6	0.6
THURSDAY (13 August)								
08:00	DE	HICP	Jul	% m/m	-0.5	-	-0.5	-0.5
09:00	CZ	CPI	Jul	% y/y	3.1	-	3.4	3.3
14:00	PL	Current Account Balance	Jun	€mn	2 074	1 766	2 842	2 321
14:00	PL	Trade Balance	Jun	€mn	1 148	1 059	2 666	1 389
14:00	PL	Exports	Jun	€mn	17 691	18 099	18 689	15 793
14:00	PL	Imports	Jun	€mn	16 474	17 040	16 023	14 404
14:30	US	Initial Jobless Claims	week	k	1 400	-	963	1 191
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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