

17 August 2020

Eyeopener

Recession, but slightly shallower than thought

Sentiment somewhat worse after European and US data
Zloty gained after Polish GDP release
Domestic bonds stable, IRS higher
Today Polish July core CPI

On Friday there was a correction of optimism seen in the previous days. GDP data from Europe confirmed that the economy shrank at the record pace in 2Q20, while US retail sales in July were weaker than expected. As a result, equity indices in Europe fell, which supported bonds in the core markets, which have weakened significantly in the few preceding days. Weak US data slightly weighed on the dollar.

Poland's GDP fell by 8.2% y/y and 8.9% q/q (sa) in 2Q20, so the reading was a bit better than market expectations. Still, fall in GDP was the worst since early 90s and this was the second negative q/q reading in a row (-0.4% in 1Q20), so Poland fell into recession by definition. In our view, there will be improvement of GDP growth in the quarters to come, yet it is likely to remain in the negative territory until end of 2020. The entire year result is likely to be better than we expected (-3.8%), and we will be revising this forecast upwards.

July CPI (final reading) was 3.0%, slightly lower than indicated in the flash release. Services prices inflation eased somewhat and it seems we are approaching the point where core inflation starts to decline. Read more in our [Economic comment](#).

Member of the MPC Grażyna Ancyparowicz said "there are no reasons to expect the inflation to get out of control by 2022" and hence she regards another MPC member Eryk Łon's suggestion about widening the inflation target band as absolutely redundant. In her opinion, interest rates should remain unchanged while the monetary policy itself should be in a wait and see mode (that is, considering a reaction to certain phenomena only after they appear in macroeconomic data, rather than acting in advance). She added that a rate increase would have a devastating effect for the indebted ones.

EURUSD hovered at the end of the week near 1.18 while daily price range was smaller than that on Thursday. Today in the morning it is however above the Thursday's top. Market awaits the results of the negotiations between Democrats and Republicans about more fiscal stimulus which might become a significant market mover in the nearest days or weeks.

EURPLN slid temporarily below 4.39 in reaction to better-than-expected Polish GDP data, but was again close to 4.40 at the end of the day. USDPLN was oscillating around 3.72, but after overnight USD weakening it is 0.01 lower today. EURPLN is moving close to a lower bound of the 4.385-4.425 range, valid since end of July. As regards **other CEE currencies**: the koruna was outperforming (EURCZK fell below 26.1 from 26.16 and hit the weekly minimum), while the forint was underperforming (EURHUF climbed to 346 from 345 and approached the weekly peak). USDRUB was moving between Thursday's low and peak.

On the domestic **interest rate markets** yields have finished Friday near Thursday highs. At the same time IRS have gained considerably continuing the upward trend which showed up at the start of the previous week as core market yields began to increase. On Friday both Bund and UST yields declined slightly.

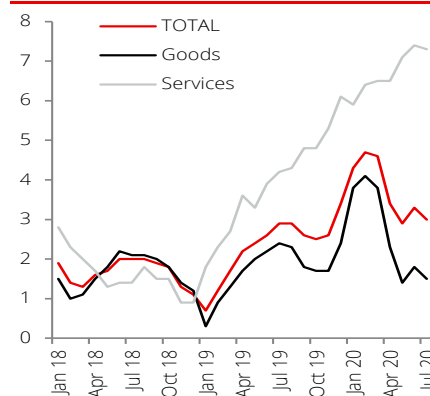
This week we will see first "hard" data for July (production, sales, wages and employment), which will allow to verify signals from surveys suggesting quite efficient recovery from the recession. Our forecasts for most of those variables are well above market consensus and if they prove correct, the investors' optimism regarding economic outlook for Poland may rise substantially. As regards calendar abroad, the flash PMIs for August will be crucial. After their clear rebound in the recent months, the scope for further improvement seems to be running out, in our view. Important factor will be also the agreement between Republicans and Democrats on the next rescue package. On Tuesday, the next round of Brexit talks begins. Domestic macro data should be supportive for PLN, but on the other hand we do not rule out strengthening of the dollar in case of the agreement on US rescue deal; lower EURUSD is usually unfavourable for the zloty. Thus, we do not expect the EURPLN to leave the 4.385-4.425 range, in which it has been hovering since late July. On the interest rate market it is hard to assume that the recent downward tendency in yields will be maintained amid the opposite trend in core market yields and solid local data releases.

GDP in EU, % change, sa data

	2Q20 vs 1Q20	2Q20 vs 4Q19
Spain	-18.5	-22.7
Hungary	-14.5	-14.8
Portugal	-13.9	-17.2
France	-13.8	-18.9
Italy	-12.4	-12.9
Romania	-12.3	-12.0
Belgium	-12.2	-15.3
Cyprus	-11.6	-12.7
Austria	-10.7	-12.8
Germany	-10.1	-11.9
Bulgaria	-9.8	-9.5
Poland	-8.9	-9.3
Sweden	-8.6	-8.5
Netherlands	-8.5	-9.9
Czechia	-8.4	-11.5
Slovakia	-8.3	-13.1
Latvia	-7.5	-10.2
Denmark	-7.4	-5.5
Lithuania	-5.1	-5.4
Finland	-3.2	-5.0

Source: Eurostat, Santander

Poland CPI, main categories, %/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3950	CZKPLN	0.1666
USDPLN	3.7035	HUFPLN*	1.2611
EURUSD	1.1866	RUBPLN	0.0508
CHFPLN	4.0800	NOKPLN	0.4184
GBPPLN	4.8512	DKKPLN	0.5901
USDCNY	6.9349	SEKPLN	0.4282

*for 100HUF

Last session in the FX market

16.08.2020

	min	max	open	close	fixing
EURPLN	4.389	4.403	4.398	4.398	4.399
USDPLN	3.713	3.733	3.723	3.717	3.723
EURUSD	1.178	1.184	1.181	1.183	-

Interest rate market

16.08.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.17	1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.70	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.30	1	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	-0.47
2L	0.28	1	-0.41
3L	0.36	2	-0.40
4L	0.48	2	-0.38
5L	0.59	2	-0.35
8L	0.82	3	-0.22
10L	0.93	3	-0.16

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	0
3x6	0.19	1
6x9	0.19	1
9x12	0.19	0
3x9	0.23	2
6x12	0.22	0

Measures of fiscal risk

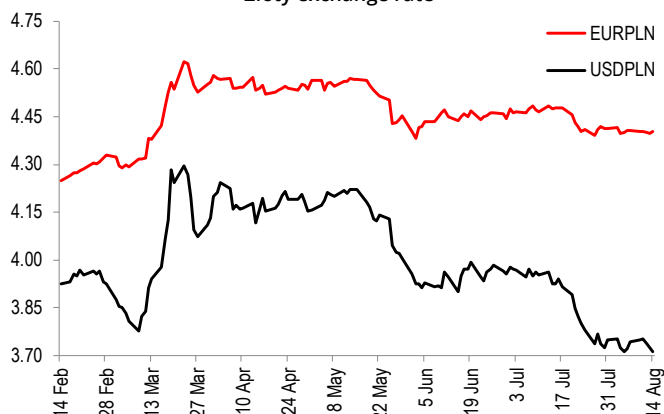
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	172
France	10	29
Hungary	75	271
Spain	60	78
Italy	102	148
Portugal	38	80
Ireland	18	35
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

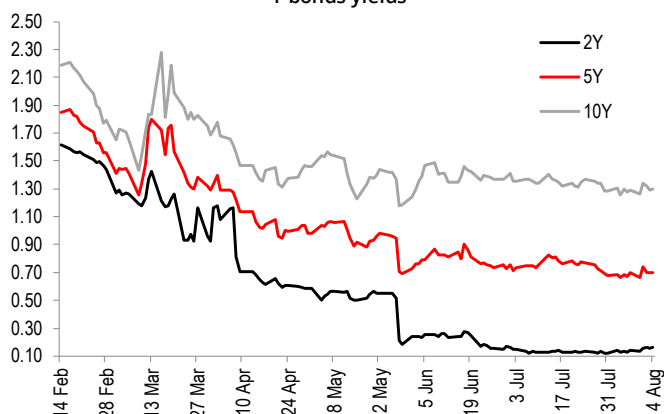
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

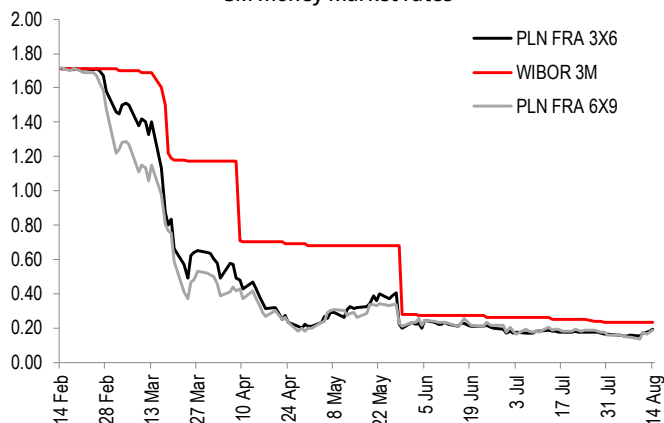
Zloty exchange rate



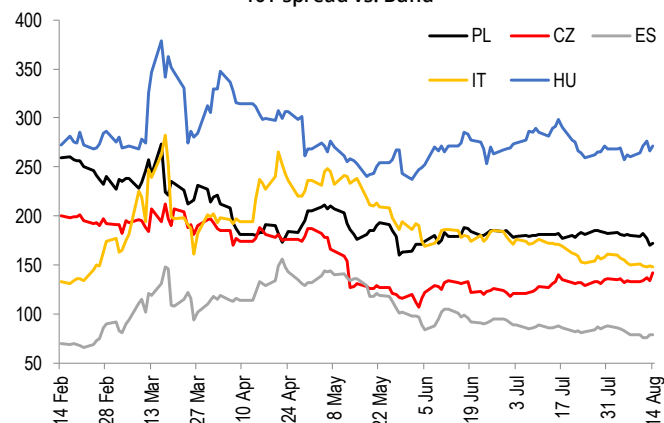
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (14 August)								
09:00	HU	GDP	2Q	% y/y	-10.1	-	-13.6	2.2
10:00	PL	CPI	Jul	% y/y	3.1	3.1	3.0	3.3
10:00	PL	Flash GDP	2Q	% y/y	-9.0	-11.7	-8.2	2.0
11:00	EZ	GDP SA	2Q	% y/y	-15.0	-	-15.0	-3.1
14:30	US	Retail Sales Advance	Jul	% m/m	2.1	-	1.2	8.4
15:15	US	Industrial Production	Jul	% m/m	3.0	-	3.0	5.7
16:00	US	Michigan index	Aug	pts	71.9	-	72.8	72.5
MONDAY (17 August)								
14:00	PL	Core CPI	Jul	% y/y	4.2	4.1**		4.1
TUESDAY (18 August)								
14:30	US	Housing Starts	Jul	% m/m	3.7	-		17.3
WEDNESDAY (19 August)								
10:00	PL	Employment in corporate sector	Jul	% y/y	-3.0	-3.1		-3.3
10:00	PL	Average Gross Wages	Jul	% y/y	3.4	4.5		3.6
11:00	EZ	HICP	Jul	% y/y	0.4	-		0.4
20:00	US	FOMC Meeting Minutes						
THURSDAY (20 August)								
10:00	PL	Sold Industrial Output	Jul	% y/y	-1.2	3.7		0.5
10:00	PL	PPI	Jul	% y/y	-0.5	-0.5		-0.8
14:30	US	Initial Jobless Claims	week	k	1 100	-		963
14:30	US	Index Philly Fed	Aug	pts	21.0	-		24.1
FRIDAY (21 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug	pts	52.5	-		51.0
09:30	DE	Flash Markit Germany Services PMI	Aug	pts	55.0	-		55.6
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug	pts	53.1	-		51.8
10:00	EZ	Flash Eurozone Services PMI	Aug	pts	54.7	-		54.7
10:00	PL	Construction Output	Jul	% y/y	-5.5	-4.5		-2.4
10:00	PL	Retail Sales Real	Jul	% y/y	-0.7	2.8		-1.3
16:00	US	Existing Home Sales	Jul	% m/m	12.9	-		20.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

** estimate after CPI inflation data

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.