

18 August 2020

Eyeopener

Core inflation still on the rise

Stable equity markets at the start of the week
Zloty at the 200-day moving average
Domestic bonds lose
Today in the US housing starts

Stock markets were calm at the start of the week and daily changes of main indices often did not exceed 0.5%. In the USA the index of house builders' sentiment NAHB rose to 78 pts, the level not seen in 12 years, and the optimism resulted from large demand for dwellings thanks to low interest rates. The dollar was stable, bond yields in the core markets have decreased slightly, by 1-2bp to 0.68% (UST) and -0.43% (Bund). Prices of precious and industrial metals soared (gold to US\$1960/oz).

Core inflation after excluding food and energy prices increased in July to 4.3% y/y from 4.1% y/y. The current level is the highest since December 2001. After last Friday's CPI published by GUS, we estimated that the core inflation remained unchanged or slightly increased. The remaining three measures declined in July by 0.1-0.2pp in %y/y terms. In our opinion, likely as soon as at the next reading, the core inflation excluding food and energy prices will start declining as a result of the weaker domestic demand environment and its gradual decline will last more or less till the middle of 2021.

GUS trade data for June added some more flavour to the NBP C/A release from last week which already showed exports returning to positive growth in y/y terms faster than it had been expected. GUS release is more detailed, but preliminary and likely to undergo several revisions. The report indicates that in June alone total export was at +6% y/y, including export to Germany at +9.7% y/y. Export to euro zone as a whole was around 0% y/y as France and Italy weighed heavily on the result at c.-10% y/y. There was also a striking rise of export to the USA (c.+50% y/y), despite the accelerated spread of the pandemic in that country. Total import was at -8.6% y/y, import from Germany at -5.2% y/y. Import from China was already positive y/y in May at c.5% and in June pushed to +10%, while the deep decline of import from Russia (c.-65% y/y in May) shrank to c.-30% y/y. All in all, the data show that while uneven, the recovery in foreign trade is geographically quite broad and fast.

MPC's Grażyna Ancyparowicz assessed that the decline of GDP in the whole 2020 might equal 5.0-5.4% (the July NBP projection showed -5.4%). In her opinion in 2021 the GDP will rebound by 5.0% and if this scenario materializes "there is no reason to increase rates". As for the CPI, in her opinion, in the 2-year horizon it is deflation and not high inflation which might be a problem.

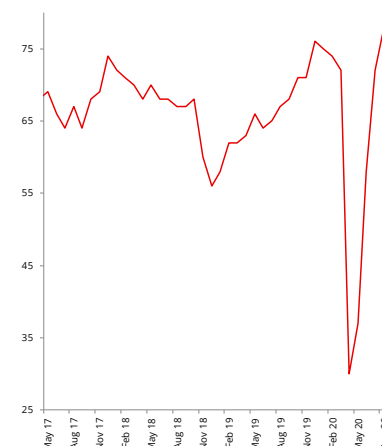
EURUSD was almost flat on Monday and ended the day at 1.1855, while daily min-max range amounted to 0.3%. According to Commodity Futures Trading Commission, markets are still strongly positioned against the dollar, and hedge funds have recently jumped on the bandwagon too. Direction for EURUSD could be set by minutes from the July meeting (due for release on Wednesday). The document might tell us whether the Fed plans to take any steps in connection to its review of monetary policy strategy.

EURPLN ended the Monday session at 4.397 – almost exactly at 200-day moving average, the gradual rise of which has already taken it to 4.394. During the day the rate fell markedly to 4.3835, but then rebounded rapidly. Recent positive macro data are suggesting a slow PLN appreciation, yet we are expecting a couple days of consolidation at the important technical level. More considerable moves are possible when Friday PMIs come in.

As for the **other regional currencies**, forint was very weak – EURHUF increased by as much as 0.8% to 349.1. One of the possible causes might be the Q2 2020 budget deficit data (10.6% of GDP – highest since end of 2006) and public debt (71.9% – highest since Q3 2018). EURCZK also increased but less so – just by 0.2% to 26.15. July PPI in Czechia beat consensus by 0.1pp (both for m/m and y/y) and printed at 0.1% and -0.1%, respectively. In Russia, July industrial production data were in line with expectations (-8% y/y). Oil slightly cheapened (Brent down 0.9% to US\$44.7/bbl) and ruble basket gained 1% (weaker ruble), while USDRUB increased to 73.5. On Monday the ruble was the worst performer within the EM currencies.

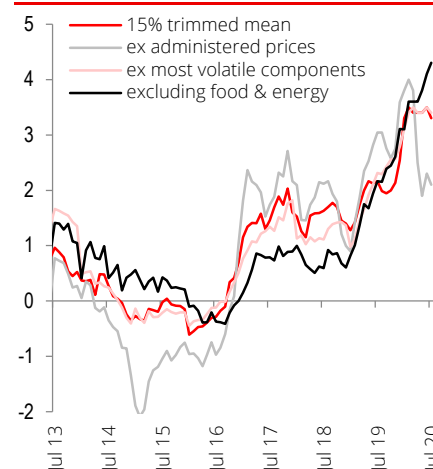
On the domestic **interest rate market** at the short end of the curve bond yields and IRS increased (2Y up by 2bp: bond to 0.16%, IRS to 0.30%). Also at the long end the trend was upwards. 10Y bond yield closed at 1.35%, up 4bp, 10Y IRS at 0.97%, up 3bp. Amid declining core market yields it implied widening of 10Y spread vs Bund to 177bp.

US NAHB Index (home builders' sentiment)



Source: Eurostat, Santander

Poland core CPI measures, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3990	CZKPLN	0.1667
USDPLN	3.6983	HUFPLN*	1.2606
EURUSD	1.1892	RUBPLN	0.0503
CHFPLN	4.0800	NOKPLN	0.4176
GBPPLN	4.8591	DKKPLN	0.5901
USDCNY	6.9317	SEKPLN	0.4262

*for 100HUF

Last session in the FX market 17.08.2020

	min	max	open	close	fixing
EURPLN	4.382	4.401	4.398	4.399	4.389
USDPLN	3.697	3.714	3.710	3.707	3.708
EURUSD	1.183	1.188	1.186	1.187	-

Interest rate market 17.08.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.18	2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.75	5	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.33	3	5.03.2020	DS1029	1.725

IRS on the interbank market**

IRs on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.21	1	0.24	-1	-0.48	-1
2L	0.30	1	0.23	0	-0.42	0
3L	0.38	2	0.24	-1	-0.41	-1
4L	0.51	3	0.28	-1	-0.39	-1
5L	0.62	3	0.33	-1	-0.37	-2
8L	0.86	4	0.55	-2	-0.26	-4
10L	0.98	4	0.67	-2	-0.18	-2

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	0.20	1
6x9	0.20	2
9x12	0.21	2
3x9	0.24	1
6x12	0.24	2

Measures of fiscal risk

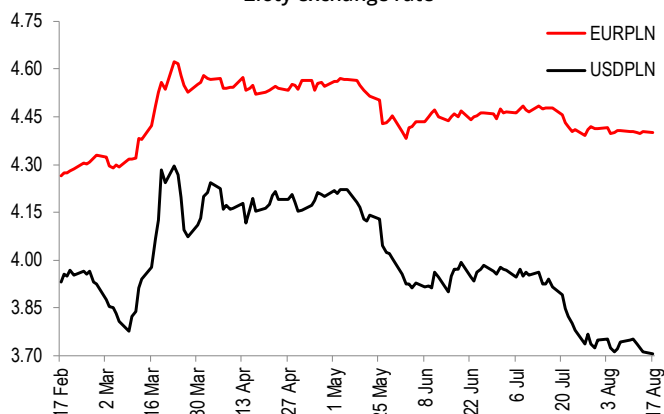
Measures of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	179	6
France	10	0	29	0
Hungary	75	0	274	3
Spain	61	1	78	0
Italy	102	0	146	-2
Portugal	38	0	81	1
Ireland	18	0	35	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

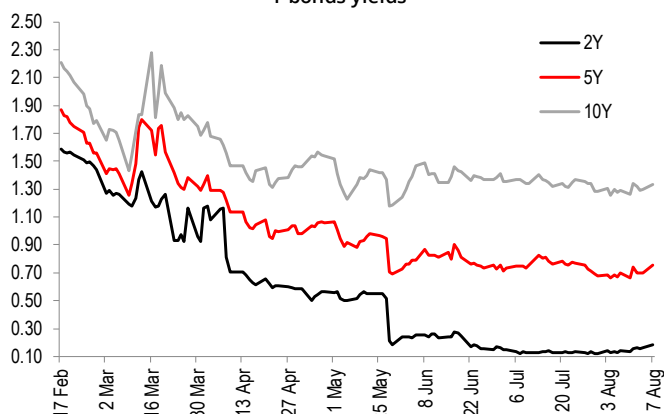
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

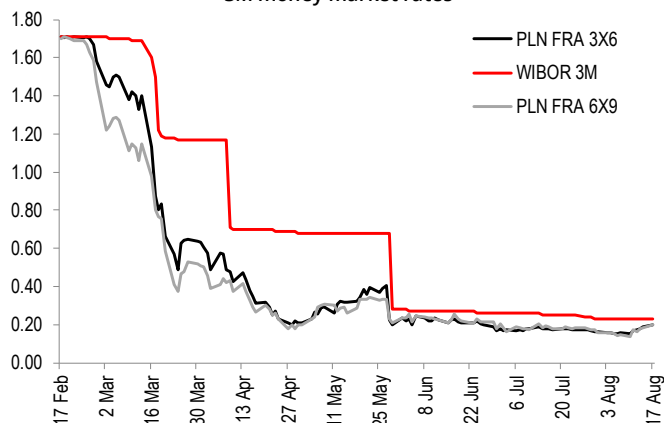
Zloty exchange rate



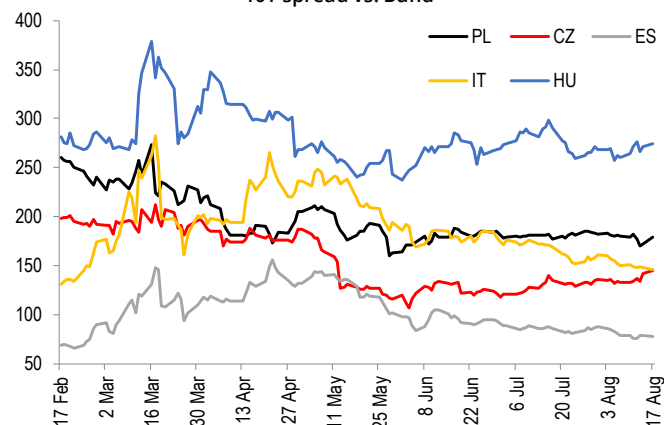
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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**	4.3	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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