

19 August 2020

Eyeopener

Market pricing of rate hikes is going up

New record on S&P500

Zloty stronger – EURPLN falls below 200-day moving average

Domestic bonds weakened. IRS and longer FRA rates significantly higher

Today in Poland wages and employment data, in the USA July FOMC minutes

Equity markets were generally stable on Tuesday and in the USA were even rising (S&P set the new record high). US data about new house starts in July and new building permits surprised clearly to the upside – data are positive for the assessment of both the current situation and the outlook. US talks about further fiscal stimulus turned towards smaller package and Donald Trump postponed the trade talks with China. Dollar index kept declining (dollar was weakening) and breached 92,5 level, which used to be defending the dollar from further weakness already a few times in the recent past – in July and in August. Bond yields in core markets increased slightly – Bund closed the day at -0.44% and UST at 0.68%. Crude oil price did not change and precious metals were gaining – gold returned above US\$2000/oz (but still remained below the peak from early August).

After July, the **central budget deficit** stood at PLN 16.3bn, which is a slight improvement versus June (PLN 17.1bn). As we indicated earlier, it is difficult to comment on the expenditure side of the budget, as the majority of outlays have been pushed away from the budget, mainly into anti-covid funds managed by BGK and PFR. It is the income data which are more interesting: the incomes from VAT rebounded in July to +9.5% y/y and were positive for the first time since February. The CIT incomes grew 21.7% y/y, those from PIT declined by 2.7% y/y while those from excise tax declined by 12.1% y/y. Overall, tax incomes are slightly better than expected. Especially optimistic are incomes from the VAT, which might indicate a quick rebound of the economic activity (in particular the consumption demand). It is worth remembering, however, that Ministry of Finance tends to be creative in regard to the timing of tax returns. This year, in the March-June period the tax returns were 14% higher than in the previous year, and the faster pace of returning the taxes might have been a part of a policy aimed at supporting companies. The good July reading might be due to using up this tool. At this Thursday government meeting (tomorrow) the schedule assumes a discussion about the 2020 budget act amendment plan.

EURUSD started the day at 1.187 and rose by 0.6% closing the session at 1.194. With such a strong momentum the exchange rate is likely to reach 1.20 soon, but the medium-term direction will be easier to judge after minutes from July FOMC meeting, which are due for release today in the evening.

On Tuesday **EURPLN** fell by 0.4% to 4.381 (and even below 4.38 during the night), and the global market situation is suggesting that the gradual PLN strengthening can continue in the short term, provided that the dollar continues to weaken and does not undermine EM currencies. The further development of the zloty could depend on today's labour market statistics (our wage forecast is significantly above market consensus).

As to the **other regional currencies**, EURHUF after weak Monday session, on Tuesday increased even a bit more – the pair briefly broke the 350.0 level during the day, but closed at 349.7 (and opens today at 349.2) – the daily increase of 0.2%. EURCZK did not change materially yesterday and closed at 26.13. The ruble basket declined a bit (stronger ruble) while weaker USD made USDRUB decline by 0.5% to 73.2. Russian producer prices declined in July by 2.2% y/y vs -8.3% y/y a month before, beating expectations.

On the domestic **interest rate market** FRA rates continued rising, with FRA 9x12 up by 1bp to 0.22%, FRA 21x24 up by 5bp to 0.35%. Currently WIBOR 3M is at 0.23%, so it seems that markets are already discounting c.50% probability of 25bp-rate hike in 2Y horizon. 2Y bonds did not change much (0.16%) and 2Y IRS rose 2bp to 0.32%. However it was the long end of the curve that soared the most – 10Y IRS by 10bp to 1.05% and 10Y bond yield by 5bp to 1.39%. Thus, the 10Y asset swap spread narrowed to 35bp and the spread vs Bund rose to 185bp.

Monthly VAT revenues, %y/y (Jul'20 – estimate based on preliminary budget data)



Source: Ministry of Finance, Santander

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FX market

Today's opening

EURPLN	4.3764	CZKPLN	0.1666
USDPLN	3.6644	HUFPLN*	1.2543
EURUSD	1.1944	RUBPLN	0.0502
CHFPLN	4.0600	NOKPLN	0.4151
GBPPLN	4.8566	DKKPLN	0.5901
USDCNY	6.9188	SEKPLN	0.4243

*for 100HUF

Last session in the FX market

18.08.2020

	min	max	open	close	fixing
EURPLN	4.378	4.400	4.399	4.380	4.395
USDPLN	3.660	3.703	3.699	3.671	3.690
EURUSD	1.188	1.197	1.189	1.193	-

Interest rate market

18.08.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.19	1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.81	6	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.39	5	5.03.2020	DS1029	1.725

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.22	1	0.23	-1	-0.48	0
2L	0.31	2	0.22	-1	-0.43	-1
3L	0.41	3	0.23	-1	-0.42	-1
4L	0.54	3	0.26	-2	-0.40	-1
5L	0.66	4	0.32	-2	-0.38	-1
8L	0.91	5	0.52	-3	-0.28	-2
10L	1.03	5	0.64	-3	-0.19	-1

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	0
6x9	0.21	1
9x12	0.22	1
3x9	0.25	1
6x12	0.25	1

Measures of fiscal risk

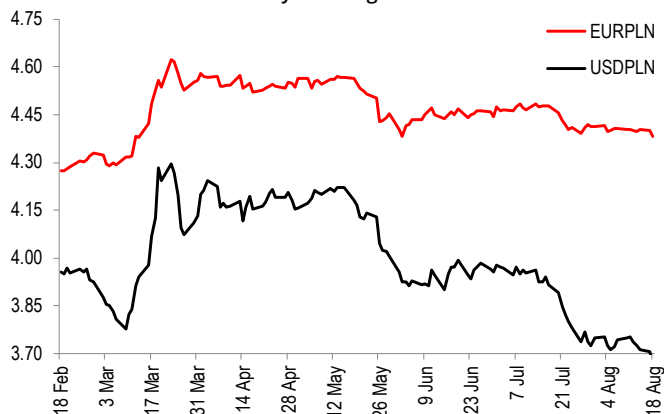
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	184	6
France	10	0	29	0
Hungary	74	0	277	3
Spain	61	0	77	-1
Italy	102	-1	145	-1
Portugal	38	0	82	1
Ireland	18	0	34	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

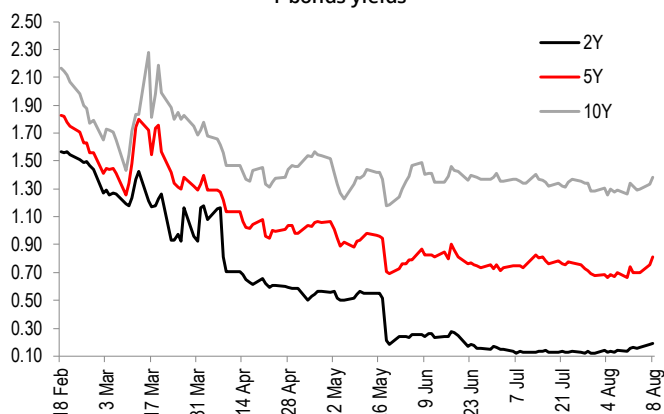
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

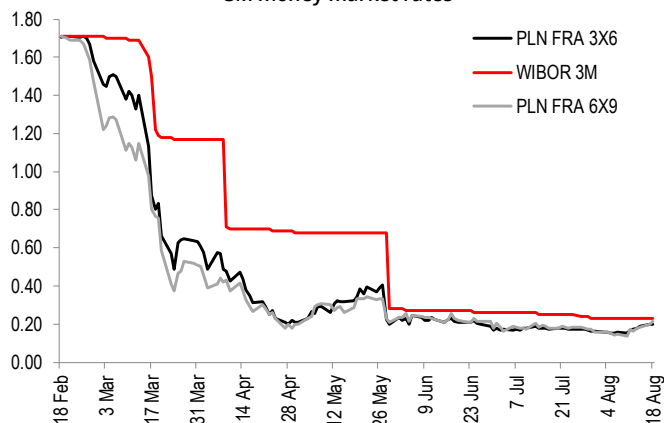
Zloty exchange rate



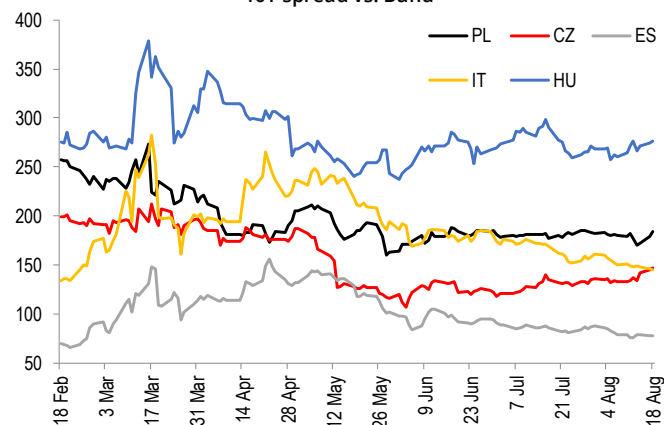
T-bonds yields



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 (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	5.0	-	22.6	17.5
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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