

21 August 2020

# Eyeopener

## Output not much below pre-pandemic level

Markets enthusiasm wanes after worse than expected US data  
 EURPLN declines, July production beats consensus  
 Domestic bonds gain following core markets closely  
 Today construction output and retail sales, streak of August flash PMIs

The fact that the Fed feared economic uncertainty was not liked by markets and on Thursday stocks were losing in value from the early morning. Later in the day, worse than expected US labor market data (higher jobless claims count) and another monthly fall of Philly Fed index only increased the chances that the economic rebound might not be as firm as it initially seemed. What's more, the July ECB meeting minutes included a warning to be cautious using the summer economic rebound in assessing the medium term trends. Minutes pointed to a risk of economic "cliff" related to the end of government support programs (especially on the labor market).

Health Ministry has updated a list of powiats with higher level of **epidemic restrictions**. The new list is valid from today. There are 7 powiats (out of 380) on the "red" list, 12 powiats on the "yellow" one. In total, those powiats constitute 4.6% of population, 3.5% of PIT income and 1.9% of CIT income, which is slightly less than in the previous version of the list. At the same time the "warning list" was extended by 7 powiats, including some important ones: Kraków, Katowice and Wołomin (neighbouring Warsaw). The powiats from the warning list constitute 4.6% of population, 6.4% of PIT income, 7.6% of CIT income. It is worth underscoring, however, that firstly, the "red" and "yellow" list do not influence economic activity as much as the whole country restrictions from April, and secondly, the fact of being on the warning list does not guarantee moving into either "red" or "yellow" list in the next step. In fact, from the previous version of the warning list (5 powiats) only one of them moved currently to the "yellow" list.

July's **industrial output** rose by 1.1% y/y, less than our optimistic forecast (+3.7%), but above market expectations of a decline (-1.2%). Industry came above the water also in seasonally-adjusted terms, showing +0.2% y/y and +6.2% m/m. While we are expecting a further recovery in industry in the months to come, it will become more demanding: economic situation in Poland's main economic partners is likely to improve but remain subdued, and this could weigh on sectors producing intermediate goods, while enhanced demand for durable consumer goods is probable to be satiated soon. PPI growth remained negative, but a bit less so. Read more in our [Economic Comment](#).

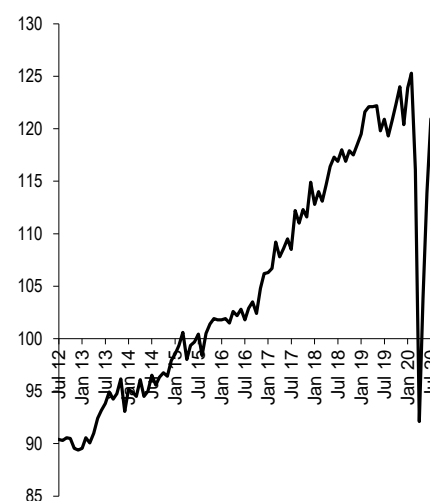
The **government has proposed amendment to the 2020 budget**. It increased the budget limit to PLN109.3bn (4.9% of GDP) from zero planned earlier. Budget incomes were planned at PLN398.7bn (PLN36.7bn less than in the original version), more or less in line with our expectations. Spending was planned at PLN508bn, i.e. by PLN72.7bn more than in the previous version. It is worth noting that until July the central budget spending rose only by PLN18.5bn y/y, which means that in August-December period the government is willing to spend PLN256bn as compared to PLN181bn in the corresponding period of 2019 (rise by PLN75bn). We do not yet know how is the government willing to spend these means, given that so far the Covid-related spending (about PLN130bn) was almost completely offshored outside the main budget and the planned sum was almost totally disbursed already. So, either the government wants to leave space in case there is a need to launch a second lifeline package, or is planning to move some spending from 2021 into 2020 in order to reach better fiscal metrics in the future more easily (according to unofficial information, the government assumed an acceleration of PLN26bn earmarked for 13. and 14. retirement pension and PLN12bn for the social rent even though the expenditure for the latter is closer to PLN4bn). We also would not rule out that the government is purposely trying to overshoot this year's deficit in order to show a lower realisation at the year-end to claim a fiscal prudence success. Net borrowing needs for 2020 were estimated at PLN103.4bn and their coverage is already at 90%. Until the end of the year "no special actions" are to be expected as regards bonds issuances, only a regular prefinancing of the next year. The Finance Ministry is planning no issuance in euro.

**EURUSD** on Thursday was stable and only increased towards the end of the day to 1.187.

**EURPLN**, having opened near 4.40 declined during the day to 4.39 and this morning is already by 4.38. If data from Poland and Germany continue to come strong, the zloty could gain some more. As to the **other regional currencies**, EURHUF broke 350 and tested 351 twice, but eventually closed at 350.1 and this morning headed below 349. EURCZK declined somewhat, while USDRUB rose sharply and closed at 74.0 (+1.1%)

On the Polish **fixed income market**, on the short end of the IRS and bond curves there were no changes. On the long end, 10Y IRS fell by 3bp to 1.02%, 10Y government bond yield declined by 4bp to 1.34%. The move matched what happened on core markets.

Industrial output, sa, 2015=100



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.3783	CZKPLN	0.1667
USDPLN	3.6863	HUFPLN*	1.2553
EURUSD	1.1876	RUBPLN	0.0500
CHFPLN	4.0600	NOKPLN	0.4128
GBPPLN	4.8848	DKKPLN	0.5901
USDCNY	6.9059	SEKPLN	0.4238

\*for 100HUF

### Last session in the FX market 20.08.2020

	min	max	open	close	fixing
EURPLN	4.379	4.405	4.393	4.382	4.399
USDPLN	3.692	3.724	3.709	3.695	3.716
EURUSD	1.180	1.187	1.185	1.186	-

## Interest rate market 20.08.2020

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

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.16	-3	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.76	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.35	-2	5.03.2020	DS1029	1.725

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.22	0	-0.48
2L	0.31	1	-0.44
3L	0.41	2	-0.44
4L	0.54	1	-0.42
5L	0.67	2	-0.40
8L	0.91	3	-0.30
10L	1.03	1	-0.22

## WIBOR rates

Term	%	Change (bps)
O/N	0.09	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	0.21	1
6x9	0.21	-1
9x12	0.22	-2
3x9	0.25	0
6x12	0.25	-2

## Measures of fiscal risk

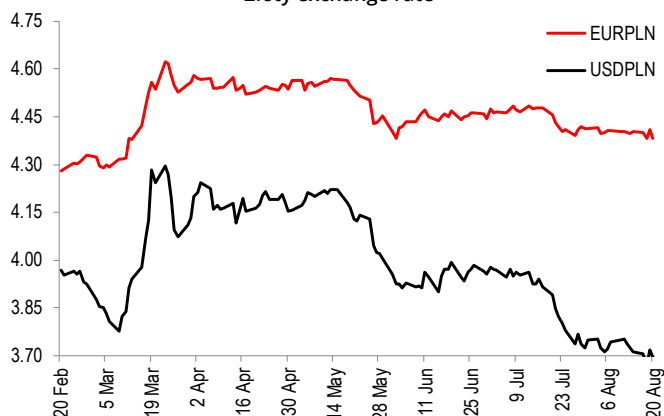
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	58	185
France	10	30
Hungary	74	280
Spain	61	79
Italy	100	148
Portugal	38	84
Ireland	18	35
Germany	8	-

\* 10Y treasury bonds over 10Y Bunds

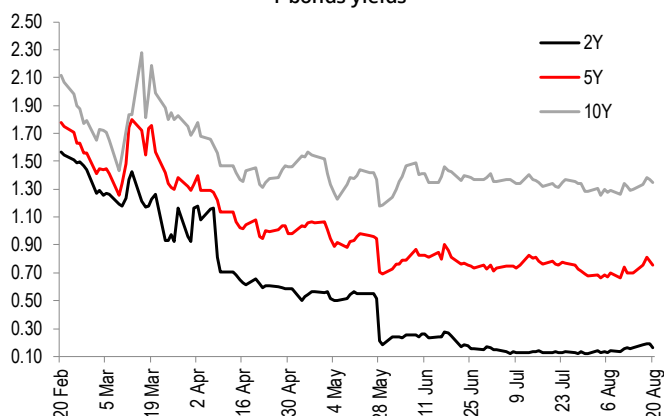
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

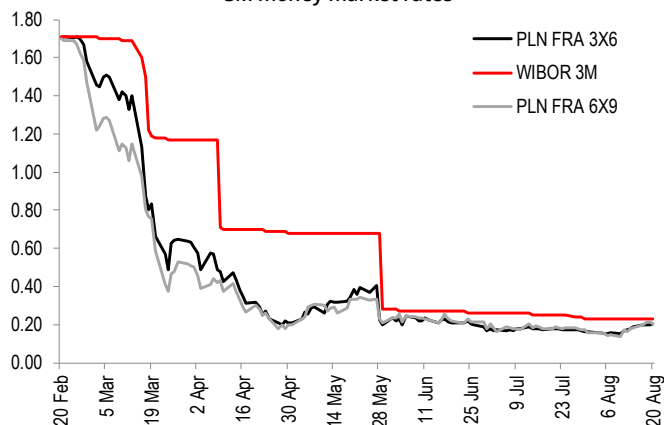
## Zloty exchange rate



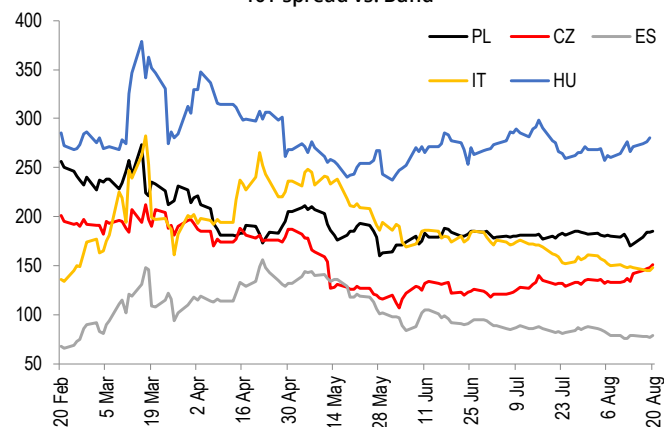
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

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	-2.3	-3.3
10:00	PL	Average Gross Wages	Jul	% y/y	2.9	4.5	3.8	3.6
11:00	EZ	HICP	Jul	% y/y	0.4	-	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	1.1	0.5
10:00	PL	PPI	Jul	% y/y	-0.6	-0.5	-0.6	-0.8
14:30	US	Initial Jobless Claims	week	k	920	-	1106	971
14:30	US	Index Philly Fed	Aug	pts	20.8	-	17.2	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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