

25 August 2020

Eyeopener

Big firms cut investments

Strong deceleration of investments, firms repaying loans
European stocks gain after renewed hopes regarding coronavirus vaccine
EURPLN declines to 4.39; rebound soon?
Domestic bonds stable, IRS and FRA inch higher
Today German Ifo, unemployment in Poland, Hungarian interest rates

On Monday the European stock markets climbed by about 2%, while US equity indices hit new records after positive weekend news about Covid vaccines (this time it was about potential acceleration of testing path for experimental drugs). Core market yields did not change. EM currencies gained, the gold was stable and Brent price went up by 1%.

In July **M3 money supply** growth dropped to 16.8% y/y, following a rapid acceleration from 9.4% y/y in February to 18.1% in June. While growth of cash in circulation pushed up some more (32.6% y/y), total deposits shrank by 0.6% m/m – mainly of non-monetary financial institutions (mutual and pension funds but also Polish Development Fund managing Financial Shield support program) reduced their bank deposits by c.PLN7bn or 11.6% m/m. Total loans (FX-adjusted) grew in July by only 0.9% y/y vs 5% y/y on average still in 1Q, with the volume of company loans shrinking by 3.2% y/y. It seems that companies were repaying their debt with the use of accumulated state financial support. Credit demand likely remained depressed but data for the previous months showed that production of new loans for firms slowed less than for individuals. Consumer loans decelerated further, to just 1% y/y (compared to 8%+ at the turn of the year). PLN-denominated housing loans are losing pace only gently, still growing by 11.3% y/y, only 1pp below January growth.

In Q2 2020, **investments of companies** with 50 or more employees declined in real terms by 14% y/y (after increasing by 4.3% y/y in Q1 2020), including outlays for buildings (-6.7% y/y), machines (-9.2% y/y) and the means of transportation (-44.6% y/y). In nominal terms, the biggest declines were seen in administration and support (-28.7% y/y), trade (-26.5% y/y) and industrial production (-13.7% y/y). There are however sectors where the outlays actually increased e.g. construction sector (+28.0% y/y), on real estate services (+13.3% y/y). On August 31st the detailed data on Q2 GDP will be published, including investments in the whole economy. Data from the big companies support our forecast of 2-digit declines of this economic category. In our opinion, the abrupt decline of investments in the Polish economy might last at least till the end of 2020.

The **gross financial result of corporate sector** (firms employing 50 people and more) amounted to PLN38.7bn and was down 16.6% y/y; net result fell by 19% (compared to -25.6% y/y and -28.6% in 1Q, respectively). Average profit margin was 5.5% (up from 3% in 1Q, it showed the usual seasonal rise despite the pandemic) – this compares to 5.7% in 2Q19 and 5.4% in 2Q18. Weakening of margins seems so far to be benign as compared to the global financial crisis or 2012-2013 slowdown. It seems companies in general did not respond to coronavirus with immediate aggressive price cuts. In 1H20 net turnover profitability turned negative in accommodation and gastronomy, mining while the highest values were recorded in utilities sector, waste management, real estate and IT services. Due to sharply decreased activity, costs of materials dropped by 26% y/y in 2Q (vs -0.4% y/y in 1Q), costs of third party services were down 7.4% y/y (+9.8% y/y in 1Q), labour cost was 5.1% lower than a year ago (+10.4% y/y in 1Q) while energy bill rose by 5.2% y/y.

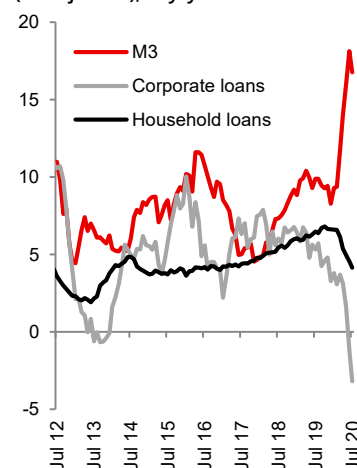
EURUSD rose 0.3% on Monday to 1.183 neutralizing c1/3 of the last week's drop.

EURPLN fell 0.6% and gave up nearly whole of the Friday's rise. Given the likely significant positioning of the foreign investors, we think the exchange rate may increase again after reaching around 4.39.

In case of the **other CEE currencies**, EURCZK was stable near 26.1 for the third session in a row. EURHUF continued the upside move and reached the session high at 352 (it closed at 350.9). August consumer confidence in Hungary did not change much (remained strongly negative) and in Czechia deteriorated. USDRUB eased 0.7% to 74.5.

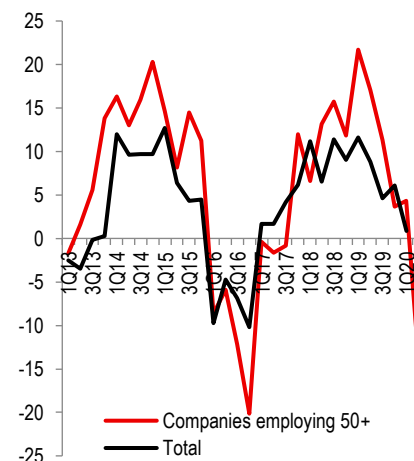
On the **domestic interest rate market** asset swap spreads narrowed since IRS rose (2Y by 2bp to 0.32%, 5Y by 3bp to 0.69%, 10Y by 4bp to 1.06%) and bond yields remained stable or fell slightly. The 10Y PL-DE bond yield spread closed at 184bp. It is worth to notice that FRAs also moved up (9x12 by 1bp to 0.22%, 21x24 by 3bp to 0.35%) and so the market implied rate hike probability increased. 3M WIBOR remained at 0.23%.

Money supply and value of loans (fx-adjusted), % y/y



Source: GUS, Santander

Fixed investments: total and in the biggest companies, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3869	CZKPLN	0.1668
USDPLN	3.7152	HUFPLN*	1.2459
EURUSD	1.1808	RUBPLN	0.0499
CHFPLN	4.0752	NOKPLN	0.4141
GBPPLN	4.8624	DKKPLN	0.5901
USDCNY	6.9098	SEKPLN	0.4227

*for 100HUF

Last session in the FX market

24/08/2020

	min	max	open	close	fixing
EURPLN	4.388	4.413	4.410	4.391	4.406
USDPLN	3.707	3.743	3.738	3.721	3.727
EURUSD	1.179	1.185	1.179	1.180	-

Interest rate market

24/08/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.15	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.77	3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.35	3	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.22	1	0.23	0	-0.49	0
2L	0.32	1	0.22	0	-0.45	0
3L	0.42	2	0.23	1	-0.44	0
4L	0.56	2	0.27	1	-0.42	1
5L	0.69	3	0.33	1	-0.40	1
8L	0.94	4	0.52	1	-0.29	2
10L	1.06	4	0.64	1	-0.21	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	1
3x6	0.20	0
6x9	0.22	2
9x12	0.23	2
3x9	0.25	0
6x12	0.27	2

Measures of fiscal risk

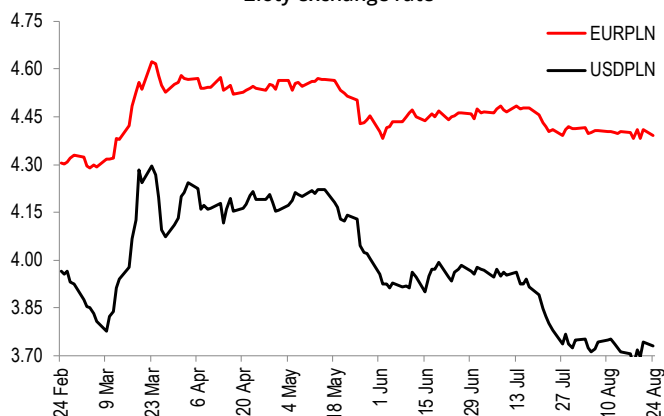
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	184	1
France	10	0	30	-1
Hungary	74	0	286	3
Spain	60	-1	82	1
Italy	99	0	150	-1
Portugal	38	0	86	1
Ireland	18	0	35	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

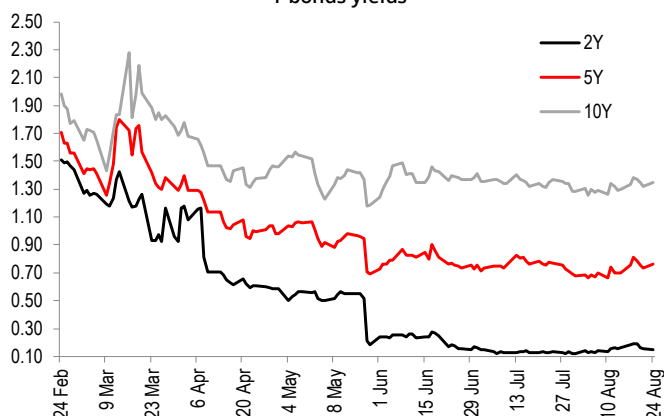
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

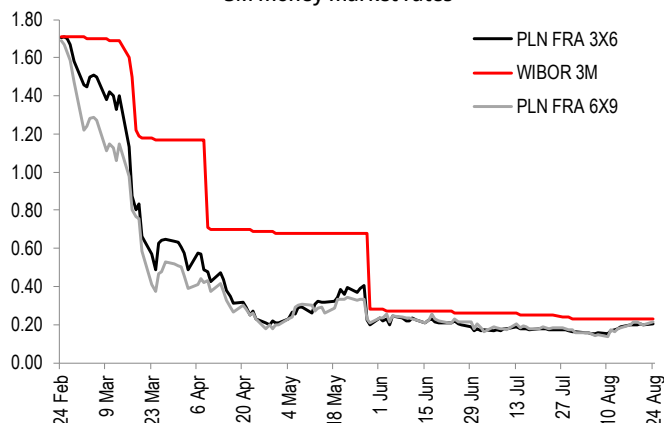
Zloty exchange rate



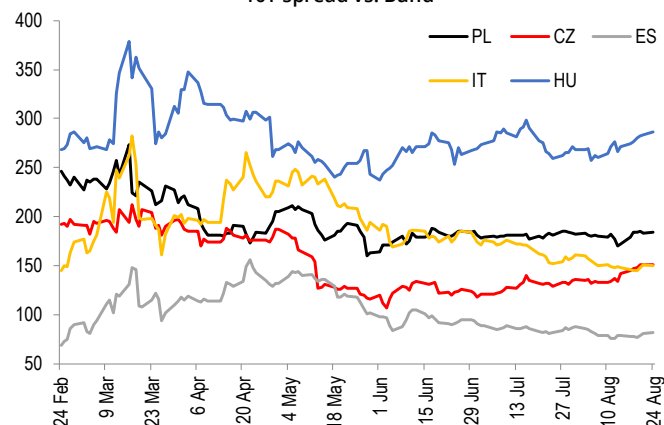
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (21 August)								
09:30	DE	Germany Manufacturing PMI	Aug	pts	52.5		53.0	51.0
09:30	DE	Markit Germany Services PMI	Aug	pts	55.0		50.8	55.6
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	53.1		51.7	51.8
10:00	EZ	Eurozone Services PMI	Aug	pts	54.7		50.1	54.7
10:00	PL	Construction Output	Jul	% y/y	-5.5	-4.5	-10.9	-2.4
10:00	PL	Retail Sales Real	Jul	% y/y	-0.7	2.8	3.0	-1.3
16:00	US	Existing Home Sales	Jul	% m/m	12.9		24.7	20.2
MONDAY (24 August)								
14:00	PL	Money Supply M3	Jul	% y/y	18.5	18.6	16.8	18.1
TUESDAY (25 August)								
08:00	DE	GDP WDA	2Q	% y/y	-11.7		-11.3	-11.7
10:00	DE	IFO Business Climate	Aug	pts	92.5		-	90.5
10:00	PL	Unemployment Rate	Jul	%	6.1	6.1	-	6.1
14:00	HU	Central Bank Rate Decision	Aug.20	%	0.6		-	0.6
16:00	US	Consumer Conference Board	Aug	pts	93.0		-	92.6
16:00	US	New Home Sales	Jul	% m/m	-0.1		-	13.8
WEDNESDAY (26 August)								
14:30	US	Durable Goods Orders	Jul	% m/m	4.0		-	7.6
THURSDAY (27 August)								
	DE	Retail Sales	Jul	% m/m	0.5		-	-2.0
14:30	US	GDP Annualized	2Q	% Q/Q	-32.5		-	-32.9
14:30	US	Initial Jobless Claims	Aug.20	k	920.0		-	1106.0
16:00	US	Pending Home Sales	Jul	% m/m	5.5		-	16.6
FRIDAY (28 August)								
11:00	EZ	ESI	Aug	pct.	85.0		-	82.3
14:00	PL	MPC minutes	Jul.14					
14:30	US	Personal Spending	Jul	% m/m	1.5		-	5.6
14:30	US	Personal Income	Jul	% m/m	-0.3		-	-1.1
14:30	US	PCE Deflator SA	Jul	% m/m	0.4		-	0.4
16:00	US	Michigan index	Aug	pts	72.8		-	72.8

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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