

28 August 2020

Eyeopener

Second year with high deficit

Budget deficit in 2021 planned at PLN83.2bn
 Fed has new monetary policy strategy
 EURPLN stable, dollar slightly stronger
 Polish debt roughly stable
 Today lots of data from the USA

On Thursday investors were awaiting the Fed President's speech with slightly worse moods than in the previous days. The sentiment improved a bit however, after Jerome Powell started to present the new strategy for monetary policy which targets average inflation level and puts more focus on the labor market. At the same time the, Fed president has not determined the mathematical formula for calculation the average inflation nor over how long a period will it be calculated, which underscores the flexibility of the new approach. Markets expected the speech to be dovish, which it had, and after the speech the dollar started to gain while bonds sold off.

PAP informed that **draft budget for 2021** assumes deficit at PLN83.2bn versus PLN109.3bn planned in 2020 budget amendment. Planned revenues are at PLN403.7bn (+1.3% y/y), with PLN1.3bn from NBP profit and PLN1.5bn from retail sales tax. Spending was planned at PLN486bn (-4.3% y/y). In our view the 2020 amendment, which moved forward around PLN40bn of spending items helped in planning 2021 deficit at a lower level. We wrote more on budget amendment in our [comment \(link\)](#). Despite this operation, the spending level will remain high and the financing gap large: deficit of the general government (GG) sector is to hit 12% of GDP in 2020 and 6% in 2021 and debt: 62.2% and 64.7% of GDP. After recent data we had estimated that the deficit will not exceed 10% of GDP, but – contrary to our assumptions – the Finance Ministry claims that Eurostat will add entire anti-crisis funds to the GG deficit (we assumed that it will not happen in case of BGK guaranteed loans and not subsidised part of PFR loans). This elevates our estimate by c2.5pp. A rise in public debt is unprecedented – it amounted to 45.9% of GDP, so will rise by almost 20 percentage points in two years.

According to the July **MPC meeting minutes**, the MPC assessed that the outlook for the global economy is likely to improve, however the improvement of the activity in the months to come would be slower than just after the period when restrictions were lifted. The most important factor contributing to uncertainty include further development of the pandemic. MPC acknowledged that the economic situation in Poland improved, however not as much to impact the labor market in a positive way. The MPC members expected a stronger improvement in the economic activity thanks to the fact that holiday spending was made predominantly within Poland, however lower incomes and worse economic sentiment as well as the lack of a significant zloty depreciation increase the likelihood that the economic rebound might be weaker. The June CPI increase was regarded as temporary and MPC thinks the inflation will be gradually declining in the months to come thanks to weaker wages dynamics, increased unemployment, increased price competition among firms as well as low inflation abroad. Some of the MPC members said that the core CPI will remain elevated in the months to come.

Yesterday NBP announced that the **nearest MPC meeting** will be moved to 15 September, and till the end of the 2020 all of the MPC meetings will be 1-day meetings.

President Duda yesterday signed into law the increase of sugar tax, which will become effective since 1 January 2021 and may lift inflation by c0.3pp, according to our estimate.

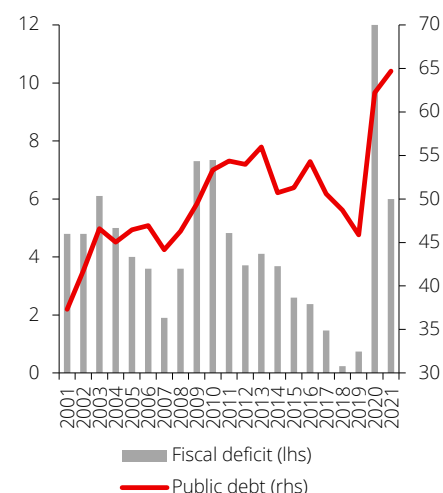
EURUSD witnessed some higher volatility than in the previous days of the week. The dovish tone of the Powell's speech hit the greenback at first pushing EURUSD to 1.19. However, a correction began soon and at the end of the day the exchange rate was close to 1.18 after a temporary drop to 1.175. Lack of persistent reaction to the Fed's governor speech suggests that now the dollar could start to gain after a several week-long depreciation vs the euro.

EURPLN was hovering yesterday between the Wednesday's low (4.39) and high (4.42) and USDPLN recorded higher swings and ended the day around 3.74. Lack of at least temporary positive zloty reaction to the Powell's speech and the risk of the upcoming dollar's strengthening may mean that the Polish currency could depreciate in the nearest days.

In the **CEE region**, the forint and koruna continued to depreciate but yet less than on Wednesday. The ruble recovered slightly thanks to temporary dollar weakening.

On the **domestic interest rate market** IRS and bond yields remained below local peaks reached earlier this week. The spread vs Bund and the asset swap spread rose slightly. The German bond soon gave up initial gains recorded in response to the Fed's governor speech and it suggests its yield may rise slightly in the coming days. This in turn, may translate into slow increase of Polish bond yields.

Public deficit and debt, % of GDP



Source: Ministry of Finance, Santander

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FX market

Today's opening

EURPLN	4.4025	CZKPLN	0.1661
USDPLN	3.7093	HUFPLN*	1.2252
EURUSD	1.1869	RUBPLN	0.0497
CHFPLN	4.0935	NOKPLN	0.4194
GBPPLN	4.9349	DKKPLN	0.5901
USDCNY	6.8714	SEKPLN	0.4279

*for 100HUF

Last session in the FX market

27/08/2020

	min	max	open	close	fixing
EURPLN	4.392	4.418	4.416	4.412	4.412
USDPLN	3.698	3.751	3.732	3.732	3.729
EURUSD	1.176	1.190	1.183	1.182	-

Interest rate market

27/08/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.14	-2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.78	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.38	3	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	1	0.26	2	-0.48	0
2L	0.33	1	0.24	1	-0.43	0
3L	0.44	1	0.26	2	-0.42	0
4L	0.58	1	0.30	2	-0.39	1
5L	0.72	2	0.37	3	-0.35	2
8L	0.99	2	0.60	5	-0.23	3
10L	1.12	3	0.75	6	-0.13	4

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	0.23	0
3x6	0.22	-1
6x9	0.23	1
9x12	0.24	1
3x9	0.27	0
6x12	0.29	0

Measures of fiscal risk

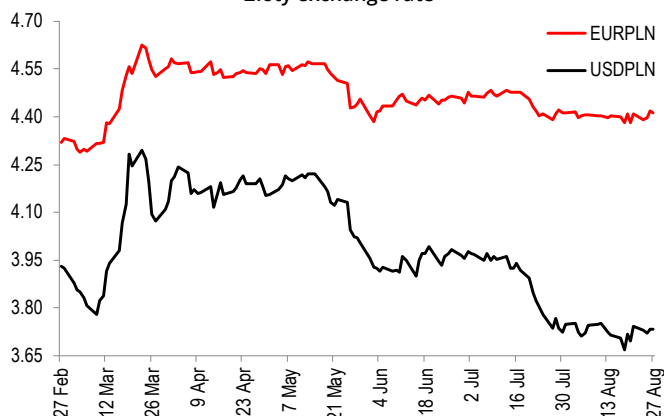
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	178	2
France	10	0	29	1
Hungary	74	0	270	-1
Spain	56	0	80	0
Italy	95	-1	149	-1
Portugal	38	2	82	0
Ireland	18	0	36	2
Germany	8	-1	-	-

* 10Y treasury bonds over 10Y Bunds

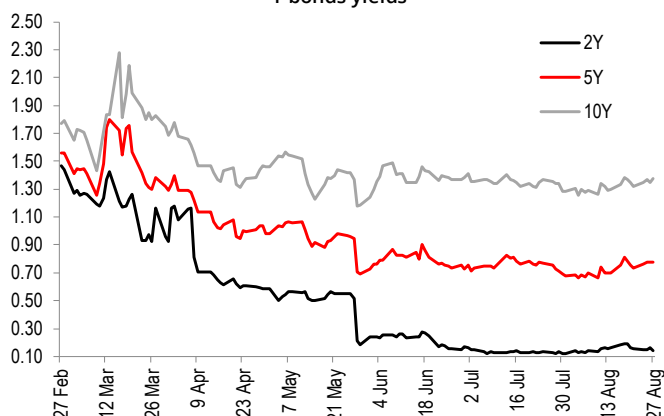
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

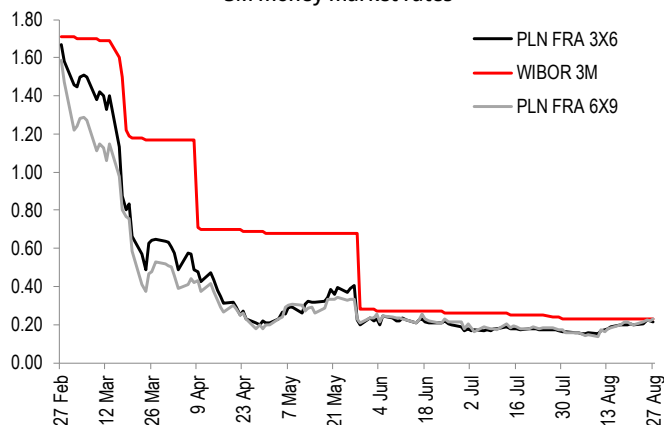
Zloty exchange rate



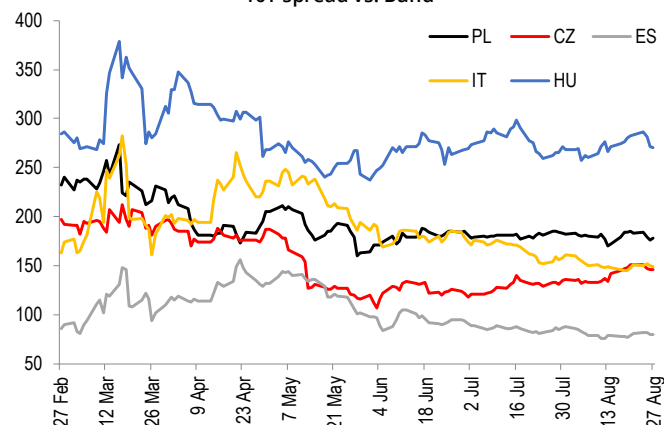
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
CET								
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	-	92.6	90.5
10:00	PL	Unemployment Rate	Jul	%	6.1	6.1	6.1	6.1
14:00	HU	Central Bank Rate Decision	Aug.20	%	0.6	-	0.60	0.60
16:00	US	Consumer Conference Board	Aug	pts	93.0	-	84.8	91.7
16:00	US	New Home Sales	Jul	% m/m	-0.1	-	13.9	15.1
WEDNESDAY (26 August)								
14:30	US	Durable Goods Orders	Jul	% m/m	2.0	-	2.4	4.0
THURSDAY (27 August)								
14:00	PL	MPC minutes						
14:30	US	GDP Annualized	2Q	% q/q	-32.5	-	-31.7	-32.9
14:30	US	Initial Jobless Claims	week	k	1 000	-	1 006	1 104
16:00	US	Pending Home Sales	Jul	% m/m	3.0	-	5.9	15.8
FRIDAY (28 August)								
11:00	EZ	ESI	Aug	pct.	85.0	-		82.3
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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