

31 August 2020

# Eyeopener

## Stronger zloty, higher bond yields

Mixed data in Europe, better in the US

EURPLN lower, EURUSD higher

Polish debt declines after Fed changes monetary policy strategy

Today in Poland Q2 GDP details, in Germany July inflation

On Friday stock markets were calm again and main equity indices did not change more than 0.5%. August ESI indicators in the euro zone rose quite sharply above previous month and above consensus. German GfK index of consumer confidence was in turn well below forecast and below its previous reading. US index of consumer confidence by University of Michigan was better than expected and rose to 74.1. Yields in core markets have been falling after their rise in the morning and closed at even lower levels than on Thursday (UST at 0.72%, Bund at -0.41%). Dollar weakened substantially – dollar index fell 0.8% to 92.3 – which positively affected most of EM currencies (except Argentinian peso). Gold price went up 2% to \$1960/oz and Brent oil price did not change (\$42.9).

On Friday **EURUSD** significantly increased to 1.190 from 1.183, in the meantime reaching 1.192 high (+0.8%). The weakening dollar is surely a function of the change of the Fed monetary policy strategy announced at the Jackson Hole meeting by president Powell. Taking into consideration how important this decision is, it is difficult to expect a permanent reversal of the rising EURUSD trend. On the other hand, it is apparent, that for a few weeks now the currency pair is consolidating, which raises hopes for a correction (stronger dollar for a short period of time). As to the potential triggers – there are some important data this week from the US (ISM, non-farm payrolls).

**EURPLN** declined of Friday by 0.7% to 4.38, thanks to the weakening dollar. If in the nearest time the EURPLN will not spike higher significantly, the currency pair might test the 4.376 soon – the local minimum from the second half of August. It seems that over the coming few days the EURPLN will depend mainly on the global factors, especially the dollar strength.

**As to the CEE regional currencies** the impact of the weaker dollar was also visible. EURHUF declined by 0.7% to 354.0, EURCZK by 0.6% to 26.15. The ruble basket declined by 0.5% however due to EURUSD increase the USDRUB declined by as much as 1% to 74.3. In Hungary, the July unemployment rate increased to 4.8% - to more than a month earlier (4.6%) however less than market expectations (4.9%).

**In the domestic interest rate market** the short end of the IRS curve, after slight rise in the first part of the day, later retreated to opening levels, i.e. 2Y at 0.33%. 2Y bond yields did not change much and remained at 0.13%. IRS at the long end after opening at 1.11% rose temporarily to 1.17% and closed at 1.13%. 10Y bond yields were increasing all day – after opening at 1.37% closed at 1.43%. 2x10 curve slope broke important level and rose to 130bp. This move could be continued in the coming days. It could be triggered by a change of Fed monetary policy strategy and, perhaps in smaller degree, by high fiscal deficit planned for 2021, which the government will start financing in the autumn.

**The new week** will start with the publication of detailed GDP data for 2Q2020: on Monday at 10:00 we will get to know which components of demand attributed the most to a sharp GDP contraction in the peak of pandemic. In our view, two-digit drop affected investments and foreign trade turnover. Tomorrow August PMI and flash CPI will be released. The agenda of data releases abroad is quite full and includes PMIs in manufacturing and services, GDP data in some countries, inflation, and US employment report. The zloty has not managed to profit from the good macro data in the previous week nor further equity increases globally, as a result we see a risk of zloty depreciation in the coming week. The volatility of EURPLN has been very low of late, which also seems to predict that a higher volatility (a spike in EURPLN higher) is more probable. In August, Polish bond yields and IRS have increased following the core markets. There is scope for further increases, especially if one takes into account the upcoming and plausible further positive macro surprises. The news about elevated fiscal deficit in this and the next year (12% of GDP and 6% of GDP, respectively) are not very likely to result in a big bond sell-off, as deficits are increasing almost everywhere in the world. However the factor might add to slightly higher yields in our opinion.

### 10Y US inflation breakevens – moved back above 1.70%



Source: Ministry of Finance, Santander

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## FX market

### Today's opening

EURPLN	4,3874	CZKPLN	0,1661
USDPLN	3,6881	HUFPLN*	1,2275
EURUSD	1,1897	RUBPLN	0,0498
CHFPLN	4,0809	NOKPLN	0,4193
GBPPLN	4,9141	DKKPLN	0,5901
USDCNY	6,8574	SEKPLN	0,4278

\*for 100HUF

### Last session in the FX market

28.08.2020

	min	max	open	close	fixing
EURPLN	4,381	4,410	4,408	4,383	4,404
USDPLN	3,681	3,716	3,713	3,683	3,698
EURUSD	1,186	1,192	1,187	1,190	-

## Interest rate market 28.08.2020

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

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0,15	1
PS0425 (5Y)	0,80	2
DS1030 (10Y)	1,44	6

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0,24	0,24	-0,48
2L	0,33	0,22	-0,43
3L	0,44	0,24	-0,42
4L	0,59	0,28	-0,40
5L	0,73	0,34	-0,36
8L	1,01	0,58	-0,24
10L	1,14	0,72	-0,14

### 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	0,21	-1
6x9	0,23	-1
9x12	0,24	0
3x9	0,25	-2
6x12	0,28	0

### Measures of fiscal risk

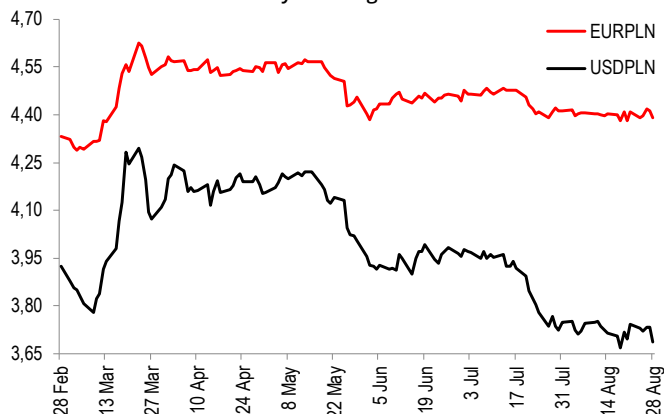
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	58	185
France	10	31
Hungary	74	277
Spain	56	79
Italy	95	151
Portugal	38	82
Ireland	18	36
Germany	8	-

\* 10Y treasury bonds over 10Y Bunds

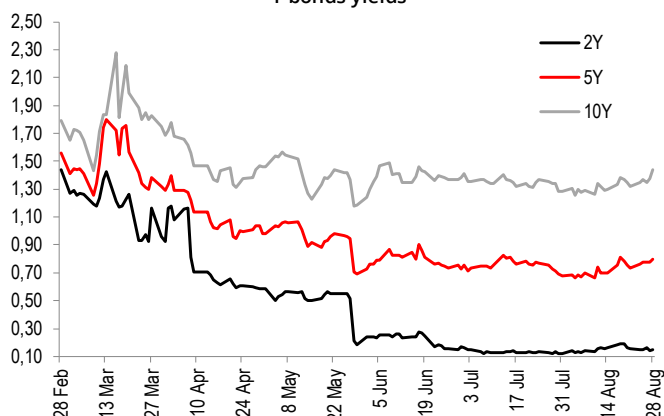
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

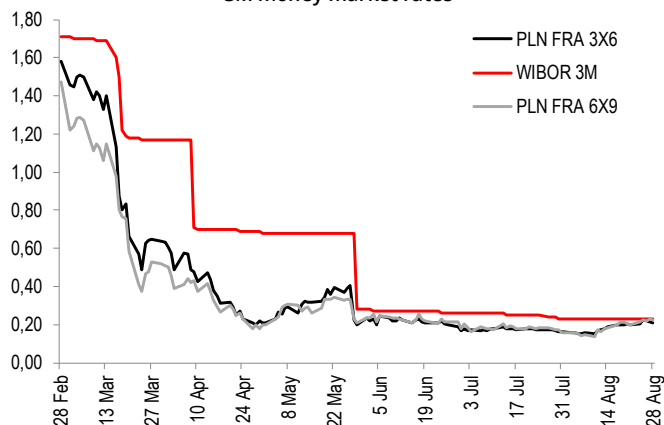
## Zloty exchange rate



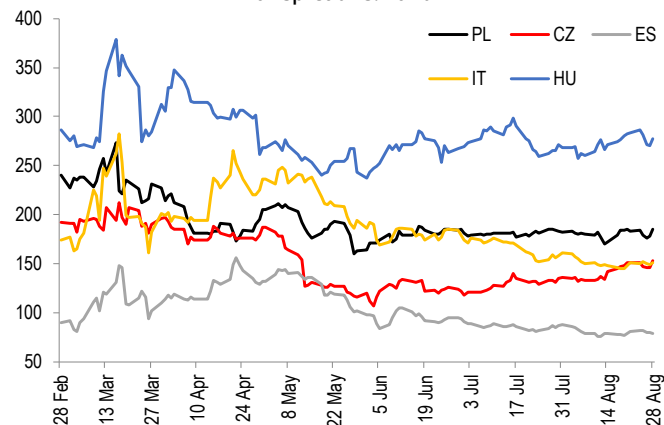
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (28 August)								
11:00	EZ	ESI	Aug	pct.	85.0	-	87.7	82.3
14:30	US	Personal Spending	Jul	% m/m	1.6	-	1.9	6.2
14:30	US	Personal Income	Jul	% m/m	-0.2	-	0.4	-1.0
14:30	US	PCE Deflator SA	Jul	% m/m	0.4	-	0.3	0.5
16:00	US	Michigan index	Aug	pts	72.8	-	74.1	72.8
MONDAY (31 August)								
10:00	PL	GDP	2Q	% y/y	-8.2	-8.2		-8.2
10:00	PL	Private consumption	2Q	% y/y	-10.0	-8.0		1.2
10:00	PL	Investments	2Q	% y/y	-12.0	-12.0		0.9
14:00	DE	HICP	Aug	% m/m	0.0	-		-0.5
TUESDAY (1 September)								
09:00	CZ	GDP SA	2Q	% y/y	-10.7	-		-10.7
09:00	PL	Poland Manufacturing PMI	Aug	pts	52.9	53.0		52.8
09:00	HU	GDP	2Q	% y/y	-13.6	-		-13.6
09:55	DE	Germany Manufacturing PMI	Aug	pts	53.0	-		53.0
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	51.7	-		51.7
10:00	PL	CPI	Aug	% y/y	3.0	3.0		3.0
11:00	EZ	Flash HICP	Aug	% y/y	0.2	-		0.4
11:00	EZ	Unemployment Rate	Jul	%	8.0	-		7.8
16:00	US	ISM manufacturing	Aug	pts	54.3	-		54.2
WEDNESDAY (2 September)								
08:00	DE	Retail Sales	Jul	% m/m	0.5	-		-2.0
14:15	US	ADP report	Aug	k	900	-		167
16:00	US	Durable Goods Orders	Jul	% m/m	-	-		11.2
16:00	US	Factory Orders	Jul	% m/m	3.8	-		6.2
THURSDAY (3 September)								
03:45	CN	Caixin China PMI Services	Aug	pts	54.0	-		54.1
09:55	DE	Markit Germany Services PMI	Aug	pts	50.8	-		50.8
10:00	EZ	Eurozone Services PMI	Aug	pts	50.1	-		50.1
11:00	EZ	Retail Sales	Jul	% m/m	1.0	-		5.7
14:30	US	Initial Jobless Claims	week	k	1 000	-		1 006
16:00	US	ISM services	Aug	pts	57.2	-		58.1
FRIDAY (4 September)								
08:00	DE	Factory Orders	Jul	% m/m	6.0	-		27.9
09:00	HU	Industrial Production SA	Jul	% y/y	-9.5	-		-12.19
14:30	US	Change in Nonfarm Payrolls	Aug	k	1 518	-		1 763
14:30	US	Unemployment Rate	Aug	%	9.8	-		10.2

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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