1 September 2020

Eyeopener

Manufacturing PMIs and flash CPI today

Polish GDP in 2Q20 confirmed at -8.2% y/y
Markets relatively quiet due to UK Bank Holiday
EURPLN slightly higher while EURUSD also higher
Polish bonds stronger at the end of the month
Today in Poland August PMI manufacturing as well as flash August CPI

On Monday the market activity was visibly lower due to banking holiday in London – most stock indices went down, but only slightly. Core market yields did not change markedly (USDT 0.71%, Bund -0.40%), similarly as the dollar. EM currencies lost, gold and Brent oil prices inched up (to USD1967/oz and USD43.4/bbl, respectively). PMI for Chinese manufacturing was a bit better than expected. German flash August inflation proved to be slightly lower than expected due to lower VAT and low energy prices. In USA the fifth and final regional Fed index for August went up, putting the total number of growing gauges to 3 out of 5 (with other two going down). Average value also went up, which is a positive harbinger ahead of today's ISM.

GDP growth in 2Q20 was confirmed at -8.2% y/y nsa, -8.9% q/q sa, in line with the flash estimate. Private consumption and investments fell by almost 11% y/y, while public consumption and net exports had positive impact on GDP. Data more or less confirm the intuition about the nature of economic activity freeze in the peak of pandemic lockdown. At the same time, high frequency data show that since June the economy started getting back to life and the recovery process so far is quite effective. Moreover, the scale of deterioration in services less affected by lockdown restrictions in 2Q was smaller than we thought. Overall, we see reasons to adjust GDP growth forecast for this year higher. We will present details in the MACROscope Lite report, to be released this week.

EURUSD was stable during the first part of the day around 1.19 while in the afternoon the it started to rise and reached 1.195 (and 1.199 at night). If the exchange rate manages to break local peak from mid-August at 1.197 for good, then it could test 1.20. In the opposite scenario, the probability for a down correction towards 1.17-1.18 would rise.

EURPLN started the day close to 4.388 (after Friday's 0.7% drop) and rose above 4.40. For already two weeks the exchange rate is hovering around this level and we think the bigger is coming. In our view, this could be rather to the upside.

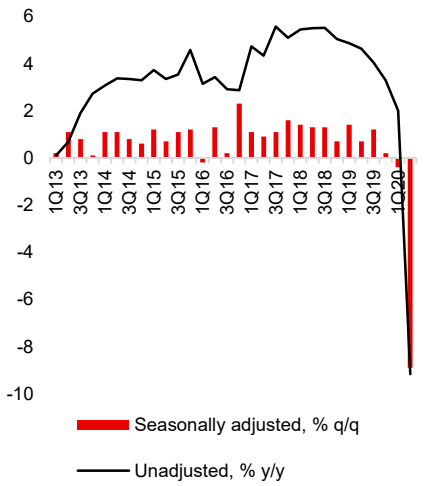
In the CEE, after one positive session on Friday, on Monday the forint was losing again and rose to 355.6 by 0.5%. June data showed a high (but also expected) wage growth 0 over 15% y/y. Also EURCZK was going up on Monday – by 0.5% to 26.23. USDRUB was quite volatile, in the first half of the day it went down by 0.7% to 73.5 and then rebounded to 74.5 ending the day by 0.4% higher.

In the **domestic interest rate market** the front end did not change amid low liquidity (2L IRS at 0.33%, 2Y bond yield at 0.13%). On the belly, bond yields fell amid month-end buying activity by 3bp to 0.73% which allowed the 5Y asset swap spread to narrow to 1bp since the respective IRS remained stable. The similar situation was seen on the long end – 10Y IRS did not change at 1.13%, bond yield fell to 1.40% and the asset swap spread narrowed 4bp to 27bp. The 10 PL-DE bond yield spread closed at 179bp.

Ministry of Finance scheduled two debt auctions in September – on the 3rd and 17th. Both of them will be switch auctions. According to MoF data, after July the percentage share of foreign investors in the Polish debt market has not changed from month to month and remains at 17.5%. What's more, Deputy Finance Minister Piotr Nowak announced that at the end of August the MoF accounts (both zloty and foreign exchange) stood at PLN 125bn equivalent, while the financing needs for the current year have been met in 97% already. It supports our view that any POGLBs issuance toward the end of the year will rather be used to pre-finance the 2021 financing needs.

BGK bank on the auction scheduled for 23 September will sell bonds of 3 series: FPC0725, FPC0630, PFC0733. While **NBP** announced that on 16 September it plans a single purchase auction.

Polish GDP growth



Source: GUS, Santander
Source: Ministry of Finance, Santander

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FX market

Today's opening

EURPLN	4.3908	CZKPLN	0.1670
USDPLN	3.6619	HUFPLN*	1.2355
EURUSD	1.1990	RUBPLN	0.0498
CHFPLN	4.0649	NOKPLN	0.4219
GBPPLN	4.9112	DKKPLN	0.5897
USDCNY	6.8180	SEKPLN	0.4251

*for 100HUF

Last session in the FX market 31/08/2020

	min	max	open	close	fixing
EURPLN	4.384	4.402	4.384	4.395	4.397
USDPLN	3.664	3.698	3.684	3.678	3.692
EURUSD	1.188	1.197	1.190	1.195	-

Interest rate market 00/01/1900

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.15	0
PS0425 (5Y)	0.76	-4
DS1030 (10Y)	1.39	-5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	-1	0.23	-1	-0.48	0
2L	0.33	-1	0.22	-1	-0.43	1
3L	0.43	-2	0.23	0	-0.42	1
4L	0.57	-2	0.27	-1	-0.39	1
5L	0.71	-2	0.33	-2	-0.36	1
8L	0.99	-2	0.56	-2	-0.23	1
10L	1.13	-1	0.70	-2	-0.14	0

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.11	1
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	0
6x9	0.22	0
9x12	0.24	0
3x9	0.26	1
6x12	0.28	0

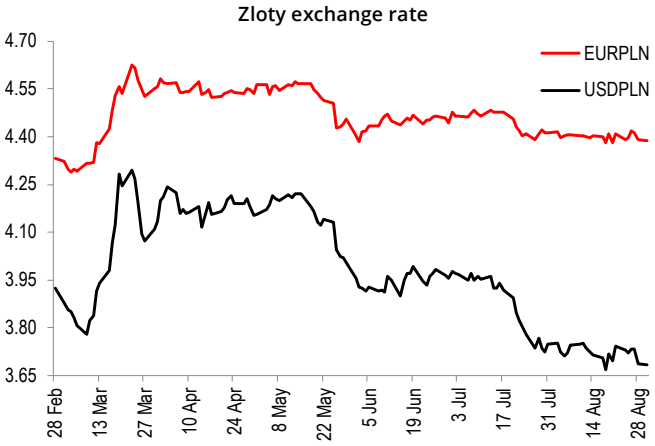
Measures of fiscal risk

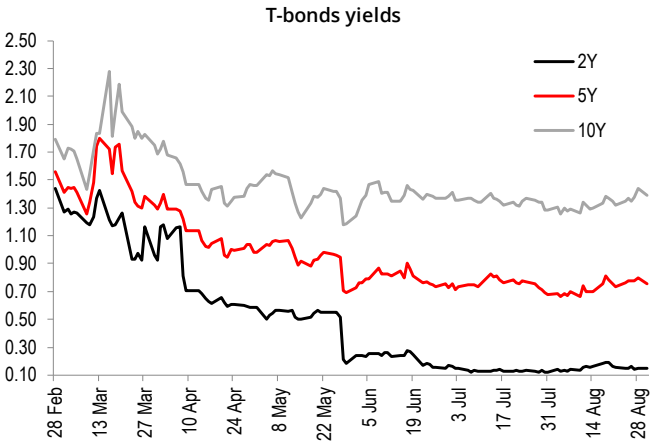
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	179	-6
France	10	0	30	0
Hungary	74	0	277	0
Spain	56	0	80	2
Italy	95	0	156	4
Portugal	38	0	84	2
Ireland	18	0	36	0
Germany	8	0	-	-

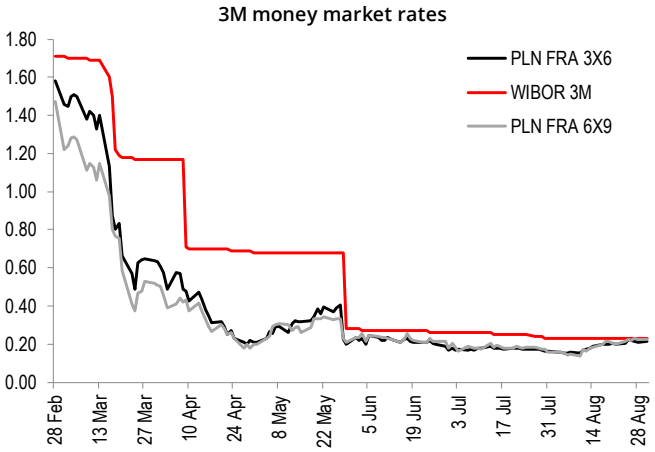
* 10Y treasury bonds over 10Y Bunds

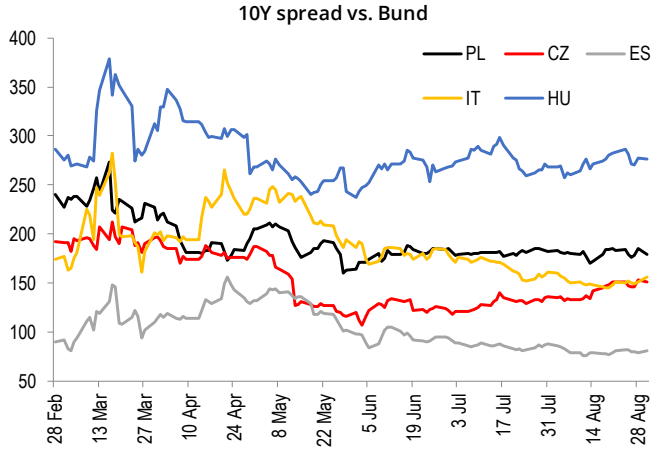
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream









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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			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**	**-8.2**
10:00	**PL**	**Private consumption**	**2Q**	**% y/y**	**-10.0**	**-8.0**	**-10.9**	**1.2**
10:00	**PL**	**Investments**	**2Q**	**% y/y**	**-12.0**	**-12.0**	**-10.9**	**0.9**
14:00	DE	HICP	Aug	% m/m	0.0	-	-0.2	-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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