

7 September 2020

Eyeopener

Positive US labour market data

Good US data at the end of the week
 EURPLN climbing higher, dollar getting stronger
 Some weakening of bonds at the end of the week
 Today data from Germany and Czechia

After the sudden worsening of moods recorded on Thursday in the USA, on Friday equity markets were calmer and indices were slowly offsetting losses. It was supported by data from the US labour market, which showed a rise in employment in August close to expectations and drop of unemployment rate well above forecast. Strong reading strengthened the dollar at the end of the week, which in turn was negative for CEE currencies. Steady making up for losses by equity markets weighed on bonds on core debt markets, which affected Polish market as well. Today's data about German industrial production were lower than expected.

On Friday the head of European Council Charles Michel said that working out the mechanism of linking the rule of law with payments from **the New Generation EU** fund approved in July would be a great challenge. The rules of the fund worth €750bn already refer to the rule of law, but the exact wording was not very precise. In order for the fund to become operational, it has to be approved by the European Parliament, which has already signalled many times that the requirement to respect the rule of law is insufficiently emphasised. On Friday the Hungarian PM Viktor Orban said he would not support establishment of the fund if the statements about payment conditions as regards rule of law will not be adequate. The agreement about the fund has been reached quite quickly at the level of heads of states, but it looks that its actual launch could be delayed.

EURUSD fell to 1.18 from 1.186 on Friday in response to the decent US labour market data. Also, the risk of prolonged introduction of the EU rescue fund might have also contributed to the fact that EURUSD closed near its weekly low. We see potential for the down move to continue in the coming days.

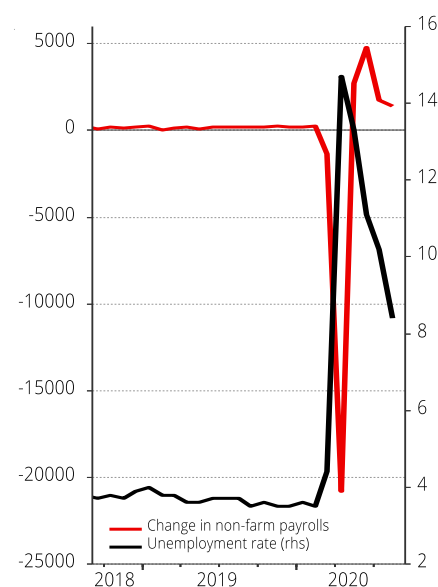
EURPLN rose third session in a row on Friday, at a similar scale as in the previous days. At the end of the day, the exchange rate was near 4.46. USDPLN closed at 3.78, its highest since early September.

Other CEE currencies also lost, the pressure was particularly strong at the end of the session. As a result, EURHUF closed near 361, its highest since early April. EURCZK set new weekly peak at 26.5. The rubel outperformed, after it was losing more than its CEE peers in the previous weeks. USDRUB rose to 75.55 from 75.0 and remained below the weekly peak reached on Thursday.

On the domestic interest rate market the end of the week saw a pause of the downward move observed in the previous days on the bond and IRS markets. The impulse came from abroad where core yields rose slightly. On Friday, the 10Y PL-DE bond yield spread rose 1bp to 188bp, its highest since mid-June.

The ECB meeting will be the most important event of the week. It will be interesting to see whether the European Council will refer anyhow to the change in monetary policy strategy announced recently by the US Fed. It is worth recalling that the ECB is currently also reviewing its monetary strategy, and this process has started in January. However, in April the deadline for the review has been postponed until mid-2021, due to the pandemic, so now it could be too early to see any decisive declarations. It is worth tracing Covid-19 new cases in the first two weeks after the school opening, as they may tell us a bit about probability of tightening restrictions by governments. After the zloty failed to benefit from the solid macro data and positive global sentiment, while FX volatility fell significantly in August, we were expecting a correction and it seems that it has just started. We do not expect to see EURPLN rising above 4.50 in this correctional wave, though. If the recent risk-off persists as we expect, then core yields are likely to trade flat to or to go down, while Polish yields might trade flat to higher. The steepening of the curve may be supported by any suggestion from the ECB that it may follow the path of the Fed as regards monetary strategy. We expect 10Y POLGB at 1.50% by the end of the quarter, partly due to increased issuance that we foresee by the year-end (PLN 20bn). Small part of the move might already take place in coming week.

Trends on the US labour market



Source: Refinitiv Datastream, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.4608	CZKPLN	0.1682
USDPLN	3.7713	HUFPLN*	1.2369
EURUSD	1.1828	RUBPLN	0.0499
CHFPLN	4.1252	NOKPLN	0.4220
GBPPLN	4.9825	DKKPLN	0.5995
USDCNY	6.8308	SEKPLN	0.4307

*for 100HUF

Last session in the FX market

04.09.2020

	min	max	open	close	fixing
EURPLN	4.432	4.470	4.433	4.467	4.451
USDPLN	3.739	3.794	3.741	3.779	3.753
EURUSD	1.178	1.186	1.185	1.182	-

Interest rate market 04.09.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.12	-3
PS0425 (5Y)	0.74	2
DS1030 (10Y)	1.41	3

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.21	0.24	-0.51
2L	0.29	0.23	-0.47
3L	0.37	0.24	-0.46
4L	0.50	0.29	-0.43
5L	0.64	0.36	-0.40
8L	0.93	0.58	-0.28
10L	1.07	0.71	-0.19

WIBOR rates

Term	%	Change (bps)
O/N	0.10	1
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	0.19	-1
6x9	0.19	-2
9x12	0.20	-3
3x9	0.23	-1
6x12	0.26	-1

Measures of fiscal risk

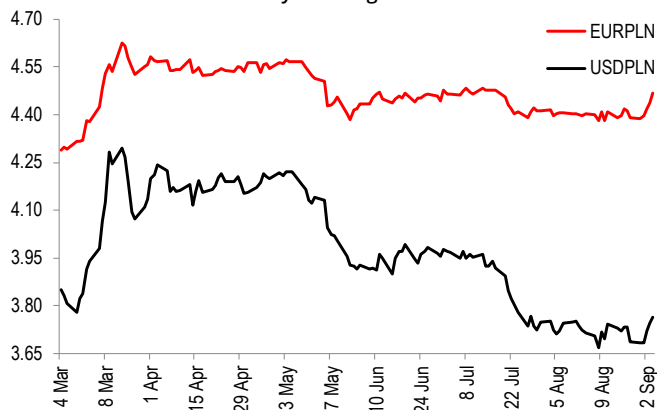
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	58	188
France	10	30
Hungary	63	289
Spain	53	83
Italy	94	156
Portugal	36	86
Ireland	17	38
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

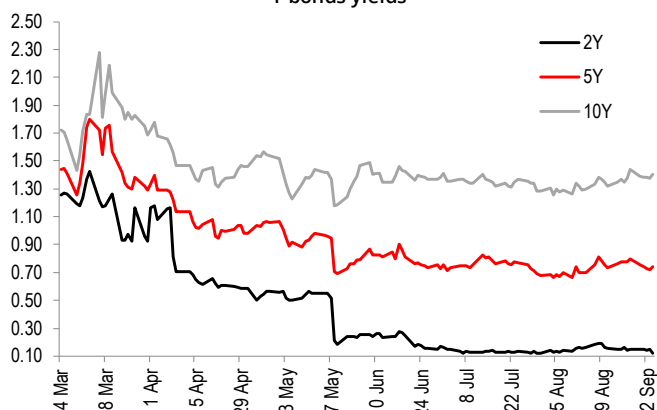
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

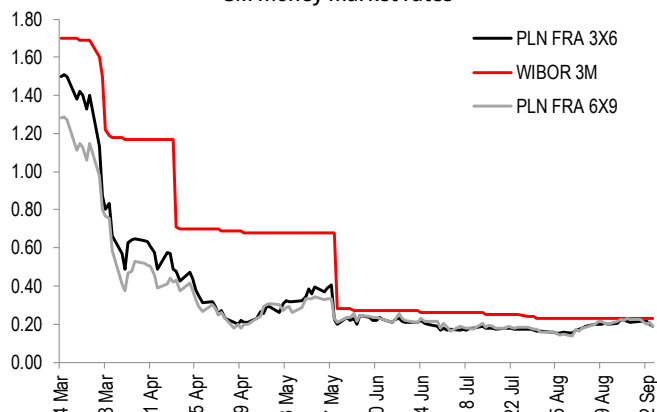
Zloty exchange rate



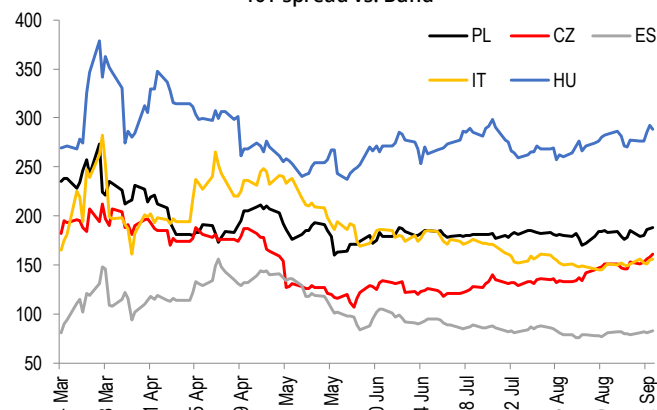
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (4 September)								
08:00	DE	Factory Orders	Jul	% m/m	5.0	-	2.8	27.9
09:00	HU	Industrial Production SA	Jul	% y/y	-7.7	-	-7.7	-12.2
14:30	US	Change in Nonfarm Payrolls	Aug	k	1 400	-	1 371	1 734
14:30	US	Unemployment Rate	Aug	%	9.8	-	8.4	10.2
MONDAY (7 September)								
08:00	DE	Industrial Production SA	Jul	% m/m	4.2	-	1.2	8.9
09:00	CZ	Industrial Production	Jul	% y/y	-6.7	-		-7.0
TUESDAY (8 September)								
08:00	DE	Exports SA	Jul	% m/m	0.0	-		14.9
11:00	EZ	GDP SA	2Q	% y/y	-15.0	-		-15.0
WEDNESDAY (9 September)								
09:00	HU	CPI	Aug	% y/y	3.9	-		3.8
THURSDAY (10 September)								
09:00	CZ	CPI	Aug	% y/y	3.3	-		3.4
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	950	-		881
FRIDAY (11 September)								
	PL	Rating review by Moody's						
08:00	DE	HICP	Aug	% m/m	-0.2	-		-0.2
14:30	US	CPI	Aug	% m/m	0.3	-		0.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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