

10 September 2020

Eyeopener

What is the ECB going to say?

Rise in volatility ahead of ECB decision
Zloty benefitting from weaker dollar
Polish debt stronger despite weaker Bund
Today ECB decision

Wednesday's session saw a rebound on world equity markets after the recent declines. There was no fundamental factor behind it, so the reaction of bond and FX markets to this rebound was quite modest. Only in the afternoon the volatility has risen in reaction to anonymous rumours from the ECB saying that the message from the September's meeting may show more conviction about further economic recovery and that the new GDP forecasts would not differ much from the June's numbers. After the Fed governor announced the change in monetary strategy at the end of August, market started anticipating that the ECB rhetoric could become softer as well. Therefore, the suggestions that the direction could be the opposite triggered a strong market reaction at the end of yesterday's session, mainly in the form of euro appreciation. Apart from signals from the ECB, today there may be new information about the EU-UK talks about the trade agreement.

S&P rating agency said it predicts Poland's GDP to fall by 4% in 2020 and to rise 5% in 2021, stressing the downward risk for next year's estimate. In turn, **Fitch Ratings' Paul Gamble** pointed to the high fiscal deficit planned by the government for 2021 (GG deficit at 6% of GDP). He noticed that other countries plan to reach or go below the EU's deficit threshold of 3% of GDP. Fitch may review its rating for Poland on 25 September and S&P on 2 October. Meanwhile, **finance minister Tadeusz Kościński** said yesterday that he does not expect any rating change in reaction to deterioration of fiscal situation due to pandemic. He added that in his opinion the constitutional limit of debt-to-GDP should be increased or abandoned.

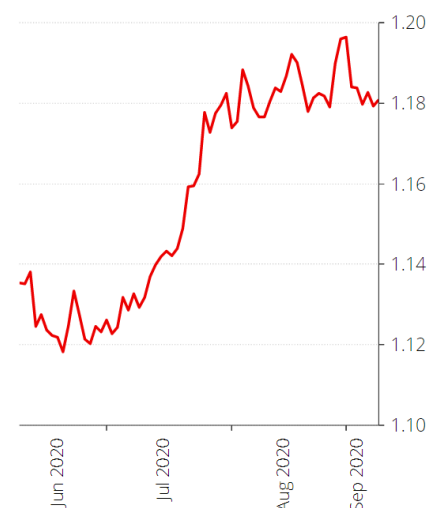
EURUSD was easing slowly in the first part of the day but when it reached 1.175, the euro started to gain fast in reaction to the media reports about the likely message from the today's ECB meeting. EURUSD neutralised the whole Tuesday's drop and was near 1.182 at the end of the day. The ECB rhetoric could set the direction for the exchange rate for at least a couple of days. Should the wording be positive indeed, then the euro could try to recover after the losses suffered in the last few days. However, the dovish tone could encourage EURUSD to test 1.17.

EURPLN eased to 4.445 from 4.455 and USDPLN to 3.76 from 3.78 mainly owing to the sharp rise of EURUSD. EURPLN remained between the last Friday's low and high and the EURUSD reaction to the outcome of the ECB meeting may determine the direction for the coming days. The euro's appreciation could be zloty-positive while the dollar strengthening may push EURPLN up.

Among the **other CEE currencies** it was the ruble that gained the most thanks to the dollar weakening. The Russian currency neutralised nearly all losses from Tuesday. EURHUF rose temporarily to 359 but at the end of the day was back near the Tuesday's closing and Wednesday's open at c357. The koruna underperformed with EURCZK holding at an elevated level slightly above 26.5.

On the **domestic interest rate market** IRS and bond yields continued the down trend moving by next 1-3bp, mostly on the belly of the curves. Polish debt remained resilient to weakening of Bund and Treasuries that allowed the spreads to narrow. Meanwhile, Polish curves continued to steepen and the asset swap spreads narrowed slightly. Yesterday the domestic bonds did not follow the core markets but should today Bunds see stronger changes in response to the signals from the ECB, Polish yields may head the same direction. Even if the yesterday's unofficial news about the possible ECB rhetoric prove correct, there seems to be still room for higher yields on the core and Polish markets.

EURUSD exchange rate



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.4388	CZKPLN	0.1673
USDPLN	3.7531	HUFPLN*	1.2310
EURUSD	1.1829	RUBPLN	0.0499
CHFPLN	4.1209	NOKPLN	0.4175
GBPPLN	4.8854	DKKPLN	0.5965
USDCNY	6.8379	SEKPLN	0.4294

*for 100HUF

Last session in the FX market

09.09.2020

	min	max	open	close	fixing
EURPLN	4.437	4.460	4.450	4.439	4.455
USDPLN	3.754	3.791	3.778	3.759	3.787
EURUSD	1.175	1.183	1.178	1.181	-

Interest rate market 09.09.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.08	-5
PS0425 (5Y)	0.72	-1
DS1030 (10Y)	1.39	-1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.20	0.24	-0.50
2L	0.27	0.22	-0.46
3L	0.34	0.23	-0.45
4L	0.48	0.28	-0.43
5L	0.62	0.34	-0.40
8L	0.92	0.56	-0.28
10L	1.06	0.70	-0.18

WIBOR rates

Term	%	Change (bps)
O/N	0.08	-1
T/N	0.09	0
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.23	0
6M	0.26	-1
1Y	0.27	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	0
3x6	0.20	0
6x9	0.17	1
9x12	0.18	2
3x9	0.23	0
6x12	0.22	0

Measures of fiscal risk

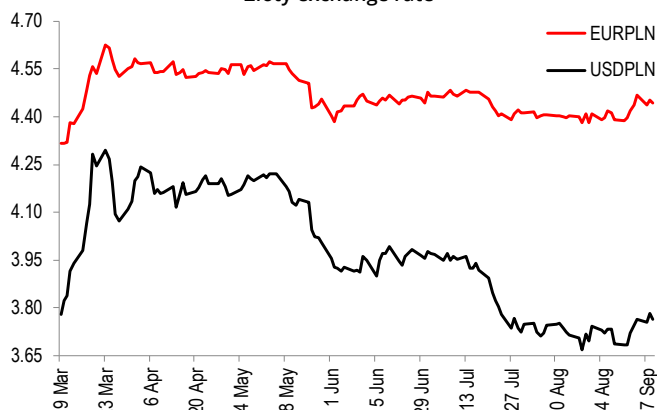
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	56	189
France	10	30
Hungary	61	293
Spain	54	83
Italy	93	160
Portugal	36	86
Ireland	17	38
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

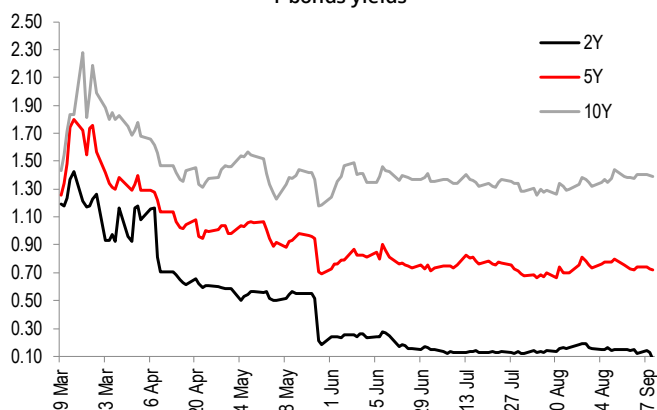
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

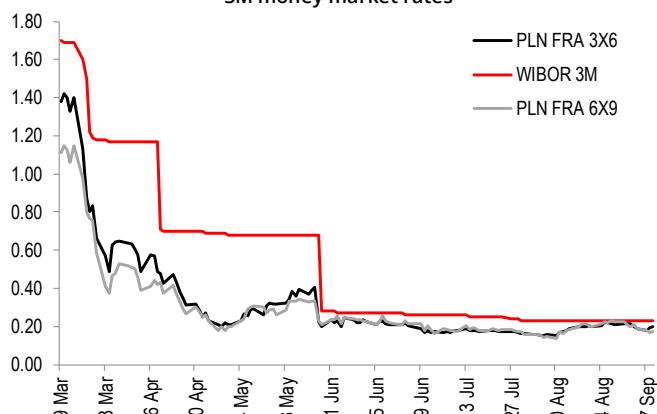
Zloty exchange rate



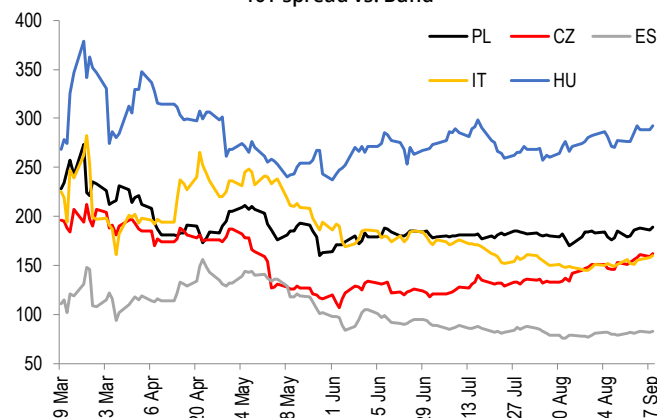
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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	-	-4.9	-5.6
TUESDAY (8 September)								
08:00	DE	Exports SA	Jul	% m/m	5.0	-	4.7	14.9
11:00	EZ	GDP SA	2Q	% y/y	-15.0	-	-14.7	-3.2
WEDNESDAY (9 September)								
09:00	HU	CPI	Aug	% y/y	3.9	-	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	850	-		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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