

21 September 2020

# Eyeopener

## Output rebound slows down

The momentum of industrial output rebound decreased

Zloty slightly weaker

Polish bonds gained

Today Polish retail sales and construction output

Friday's session passed amid increased uncertainty regarding economic outlook in the face of recent weaker-than-expected US data and rising number of Covid-19 cases in some parts of the world, including Europe. As a result, equity indices in Europe recorded slight declines and CEE currencies depreciated. In the last two weeks Czechia and Hungary recorded record-high daily coronavirus counts, at 3123 and 916 respectively; Poland also hit new record during the weekend (1002).

Poland's **Industrial output** grew by 1.5% y/y in August, less than we (2.9%) and the market (3.4%) had expected. The rebound of industrial activity is still led by durable consumer goods albeit with some moderation of the pace of the recovery. Producer prices fell 1.2% y/y, in line with our forecast. We expect the industrial recovery to proceed at a reduced pace now with output growth increasing above 2% before the end of the year, but not much higher. We are entering a period when some government support measures lowering labour costs and improving liquidity will be gradually phased out, which could lead to more layoffs. Find more in our Friday's [Economic comment](#). Today at 10:00CET the stat office will release August retail sales data. We think the annual pace of growth eased below the July reading, but by less than the market expects. The data should confirm the moderation of pace of an economic revival. Today also the construction output will be published – in contrast to the consensus, we expect deterioration of an y/y result.

According to **MPC member Cezary Kochalski** interest rates should remain unchanged as long as Polish economy does not enter the path of stable and durable growth. There is no need of a theoretical discussion if rates could possibly be cut even further. The Q2 GDP decrease that turned up smaller than NBP projection assumed has not changed his opinion. He also revealed that the new monetary policy assumptions (approved, but not yet published) do not differ by much from the previous ones.

On Friday EURUSD remained within a narrower range than on Thursday and finished the day only slightly below the market open at 1.185. The currency pair currently remains at the elevated level but in a horizontal trend. This situation might last till Wednesday when the new preliminary PMIs, both manufacturing and services, in Germany and Eurozone will be published.

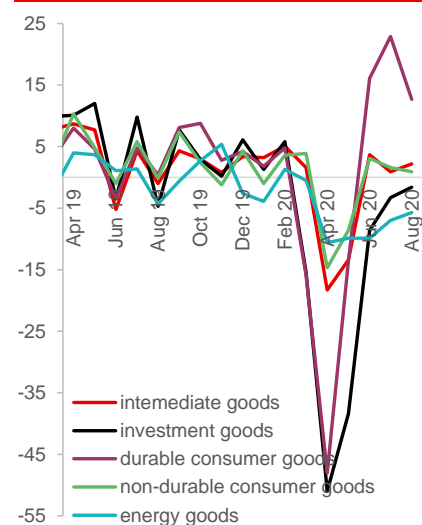
After opening at 4.45, **EURPLN** climbed to 4.46 but at the end of the day was slightly below the daily maximum. The zloty lost somewhat due to a rather negative global mood and weakness of other CEE currencies. The Polish currency did not benefit from dovish signals from the ECB and the Fed or from the fact that EURUSD remained above an important support. We think that EURPLN consolidation visible since early September could be a good starting point for another upward wave and 4.48 could be tested shortly.

As regards **other CEE currencies**, EURHUF and EURCZK remained at elevated levels close to their weekly peaks. USDRUB climbed to 75.5 from 75.0. The central bank of Russia held interest rates unchanged, with the main one at 4.25%, but announced that a return to rate cuts could occur if the economic situation develops in line with forecasts.

On the **domestic interest rate market** IRS and bond yields fell 4-5bp on the belly and long end and slightly less on the front end. Looking through the steepness of the bond curve, there seems to be still room for the long-end yields to fall amid the recent (and expected) signals of a slowing economic revival. Should flash PMIs show slower growth, the 10Y Bund could test -0.50% support which could strengthen the Polish debt, mainly on the long end.

The beginning of the **week** may bring more information from the political scene. Law and Justice (PiS) leaders suggested recently that among possible options is the breakdown of the coalition followed by minority government or even early elections. We do not think the latter is a base-case scenario for now, but the next few days should reveal more clarity on this front (today the PiS leadership meets to decide on further steps). Abroad, it is worth to mention flash PMIs and German Ifo index that will be the first to signal level of an economic activity in September. Czech and Hungarian central banks rate decision should not bring any changes. Friday is the Fitch rating review day for Poland but we do not expect any rating decision.

Output in main industrial groups, % y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.4534	CZKPLN	0.1663
USDPLN	3.7542	HUFPLN*	1.2366
EURUSD	1.1861	RUBPLN	0.0498
CHFPLN	4.1271	NOKPLN	0.4133
GBPPLN	4.8588	DKKPLN	0.5989
USDCNY	6.7583	SEKPLN	0.4284

\*for 100HUF

### Last session in the FX market

18.09.2020

	min	max	open	close	fixing
EURPLN	4.445	4.460	4.454	4.457	4.457
USDPLN	3.746	3.770	3.759	3.759	3.759
EURUSD	1.183	1.187	1.185	1.185	-

## Interest rate market 18.09.2020

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

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.03	-3
PS0425 (5Y)	0.68	-1
DS1030 (10Y)	1.35	-2

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

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.19	-1	0.22	0	-0.53	-1
2L	0.25	-1	0.22	1	-0.48	0
3L	0.33	-2	0.24	1	-0.48	-1
4L	0.45	-2	0.27	1	-0.45	0
5L	0.57	-3	0.34	1	-0.42	1
8L	0.85	-5	0.56	1	-0.31	0
10L	0.99	-4	0.69	1	-0.22	1

## WIBOR rates

Term	%	Change (bps)
O/N	0.10	2
T/N	0.10	0
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.23	0
6M	0.26	0
1Y	0.27	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	0.21	-1
3x6	0.18	0
6x9	0.16	0
9x12	0.16	-1
3x9	0.21	0
6x12	0.21	-3

## Measures of fiscal risk

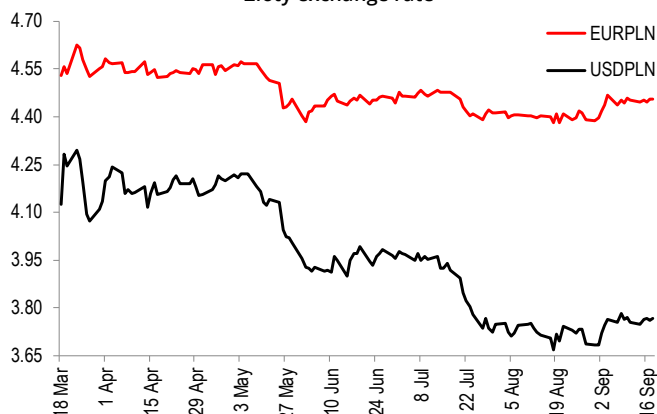
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	184	-3
France	9	0	26	0
Hungary	64	0	292	-2
Spain	52	0	77	1
Italy	93	1	145	1
Portugal	33	0	79	1
Ireland	16	0	36	0
Germany	8	0	-	-

\* 10Y treasury bonds over 10Y Bunds

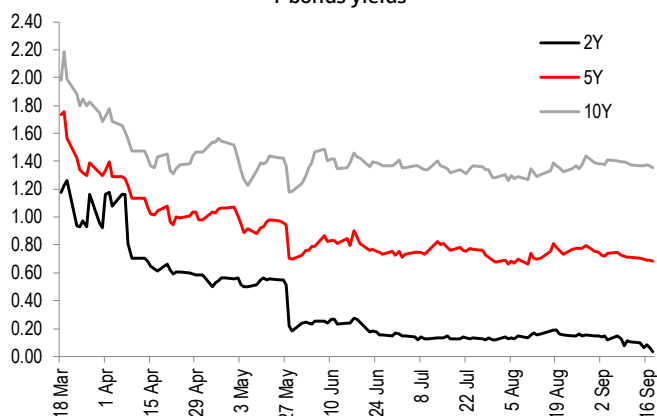
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

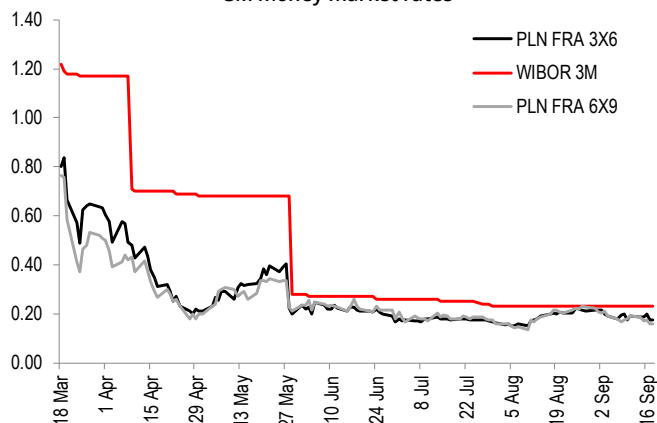
## Zloty exchange rate



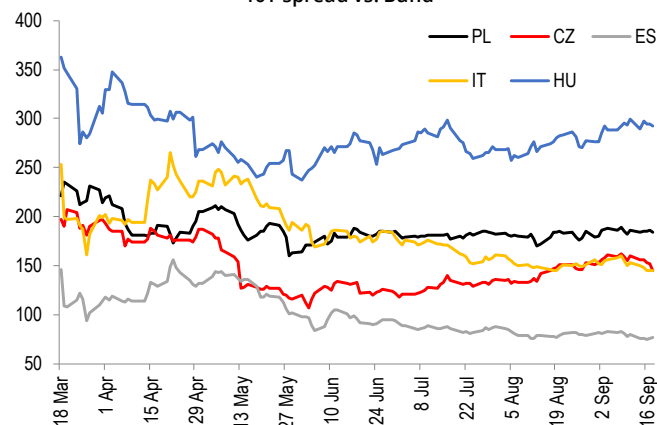
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (18 September)								
10:00	PL	Industrial output	Aug	% y/y	3.4	2.9	1.5	1.1
10:00	PL	PPI	Aug	% y/y	-1.0	-1.2	-1.2	-0.6
16:00	US	Flash Michigan index	Sep	pts	76.0	-	78,9	74.1
MONDAY (21 September)								
10:00	PL	Real retail sales	Aug	% y/y	3.0	2.7		3.0
10:00	PL	Construction and assembly output	Aug	% y/y	-7.9	-11.7		-10.9
TUESDAY (22 September)								
14:00	PL	Money supply M3	Aug	% y/y	16.4	15.9		16.8
14:00	HU	Central bank decision		%	0.60	-		0.60
16:00	US	Home sales	Aug	% m/m	2.4	-		24.7
WEDNESDAY (23 September)								
9:30	GE	Flash PMI – manufacturing	Sep	pts	52.1	-		52.2
9:30	GE	Flash PMI – services	Sep	pts	52.9	-		52.5
10:00	EZ	Flash PMI – manufacturing	Sep	pts	51.5	-		51.7
10:00	EZ	Flash PMI – services	Sep	pts	50.6	-		50.5
10:00	PL	Unemployment rate	Aug	%	6.1	6.1		6.1
14:30	CZ	Central bank decision		%	0.25	-		0.25
THURSDAY (24 September)								
10:00	GE	Ifo index	Sep	pts	93.8	-		92.6
14:30	US	Initial jobless claims	week	k	880	-		901
16:00	US	New home sales	Aug	% m/m	-2.3	-		13.9
FRIDAY (25 September)								
	PL	Rating review by Fitch						
	HU	Rating review by Moody's						
14:30	US	Durable goods orders	Aug	% m/m	1.0	-		11.4

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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