

22 September 2020

Eyeopener

Another weaker data from Poland

Poland retail sales and construction output below expectations

EURPLN near 4.50

Polish bonds gain, 10Y below 1.30%

Today Polish M3 money supply, Hungarian rates decision

On Monday markets were dominated by risk aversion with main European stock indices down by over 3%, and the dollar index up by 0.4% (the dollar gained), core market 10Y yields went down by 3-4bp and the "fear index" VIX jumped by 4 pp to over 30%. These were caused by rising investor worries about further lockdowns due to the coronavirus (especially in the United Kingdom) and about price bubbles on technological companies. Gold prices went down by 1.4% to \$1930/oz and Brent oil by 1.6% to \$42.3/bbl.

Poland retail sales in constant prices slowed to 0.5% y/y in August from 3.0% y/y in July and were below expectations. Details confirm that the postponed demand for durables that has driven the recovery is waning. We are expecting retail sales to record a rather paltry growth in the months to come as delayed effects of Covid-19 lockdown and labour market weakness will be becoming more apparent. In August Polish **construction output** dropped by 12.1% y/y, clearly below market expectations again – a rebound from declines of c.10% y/y or more is not going to come as easily as in industry. Find more in our yesterday's [Economic comment](#).

Monday brought no final decisions about the **ruling coalition crisis**. According to media reports, today or tomorrow the PiS head Jarosław Kaczyński is to hold the meeting of last chance with SP leader Zbigniew Ziobro. According to media reports, for the time being the PiS leader is ruling out snap elections and prefers minority government in case the coalition breaks up.

MPC member Kamil Zubelewicz in an interview for PAP (Polish Press Agency) published this morning stated that he would support motions for a rate hike if such motions were proposed. He added however that he does not expect such a motion in the near future "as the assessment of the effects of the monetary policy tools used so far, popularity of the bill discount credit and the shape of the 2021 fiscal budget". We think that the supporters of even gradual rate hikes are in minority in the current MPC.

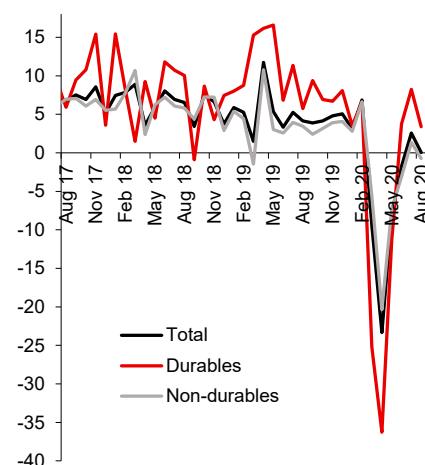
EURUSD opened on Monday at 1.185 and started to abruptly fall straight away reaching a day low of 1.173. FX options market have not reacted by much though and the risk reversals are still pointing towards higher EURUSD levels for tenors of 1Y and above. We think those expectations, especially for options with shorter maturities, are excessive and assess the risk of further USD strength in the coming days as significant. In the broader context, EURUSD still remains above the important 1.170 support level.

EURPLN rose 0.9% to 4.499 as a function of global equities sell-off as well as the local factors (crisis within the ruling coalition, weaker macro data). USDPLN up by almost 2% to 3.83 while CHFPLN by 1.2% to 4.18. We have no strong view as to the likely outcome of the political standoff in Poland however if the last chance meetings bring no solutions then EURPLN might easily break above 4.50 while the next target levels would be above 4.55.

Other currencies of the region also weakened. EURHUF rose by 1% to 363 and EURCZK by as much as 1.8% to 27.2. The ruble basket rose on Monday by 0.8% and USDRUB alone by 1.2% to 76.4 due to the dollar appreciation. Hungarian 2Q C/A deficit rose a lot, but less than expected. Today Hungarian central bank decides on rates and market consensus is for no change of the main rate, currently at 0.60%.

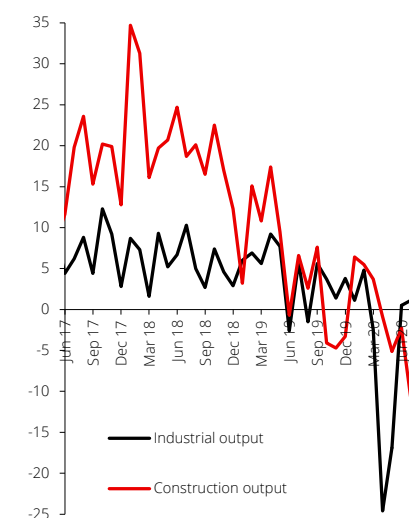
On the domestic interest rate market, rates of FRA contracts declined (9x12 by 1bp to 0.15% and 21x24 by 6bp to 0.18%) which means they are now some 5-8bp below 3M Wibor. Significant declines were also seen on IRS – 2Y down by 3bp to 0.21%, 5Y by 7bp to 0.50%, 10Y by c.10bp to 0.89%. The bond market was less active and only followed the IRS market, e.g. 2Y yield moved around 0.06% and 10Y yield fell to 1.30% from 1.34%. Thanks to the falling Bund yields (-0.52%), the 10Y spread stayed around 182bp. State owned BGK stated that on Wednesday it will sell 10Y (FPC0630) and 13Y (FPC0733) for a total of PLN1bn.

Poland retail sales, % y/y



Source: GUS, Santander

Industrial and construction output, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4992	CZKPLN	0.1654
USDPLN	3.8333	HUFPLN*	1.2256
EURUSD	1.1740	RUBPLN	0.0502
CHFPLN	4.1830	NOKPLN	0.4104
GBPPLN	4.8986	DKKPLN	0.6046
USDCNY	6.7922	SEKPLN	0.4316

*for 100HUF

Last session in the FX market

9/21/2020

	min	max	open	close	fixing
EURPLN	4.450	4.500	4.455	4.498	4.480
USDPLN	3.751	3.835	3.755	3.832	3.796
EURUSD	1.173	1.187	1.187	1.174	-

Interest rate market 9/21/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.07	4
PS0425 (5Y)	0.65	-3
DS1030 (10Y)	1.30	-5

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.17	0.23	-0.53
2L	0.21	0.21	-0.50
3L	0.28	0.23	-0.49
4L	0.38	0.26	-0.47
5L	0.49	0.32	-0.43
8L	0.76	0.53	-0.32
10L	0.89	0.66	-0.24

WIBOR rates

Term	%	Change (bps)
O/N	0.09	-1
T/N	0.09	-1
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.22	-1
6M	0.26	0
1Y	0.27	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.20	-1
3x6	0.15	-3
6x9	0.14	-2
9x12	0.13	-3
3x9	0.19	-3
6x12	0.20	-1

Measures of fiscal risk

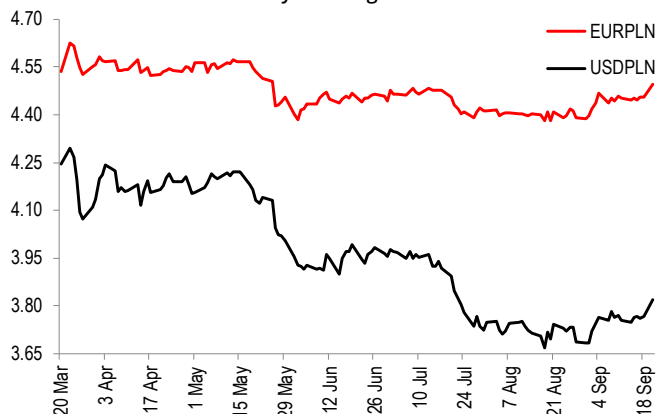
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	60	183
France	10	27
Hungary	75	299
Spain	59	79
Italy	100	147
Portugal	36	81
Ireland	17	37
Germany	6	-

* 10Y treasury bonds over 10Y Bunds

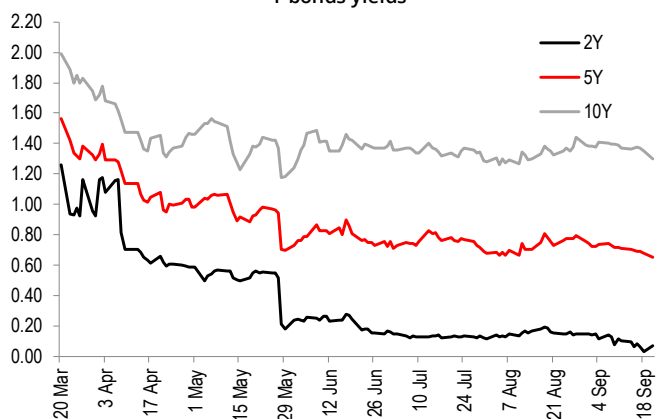
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

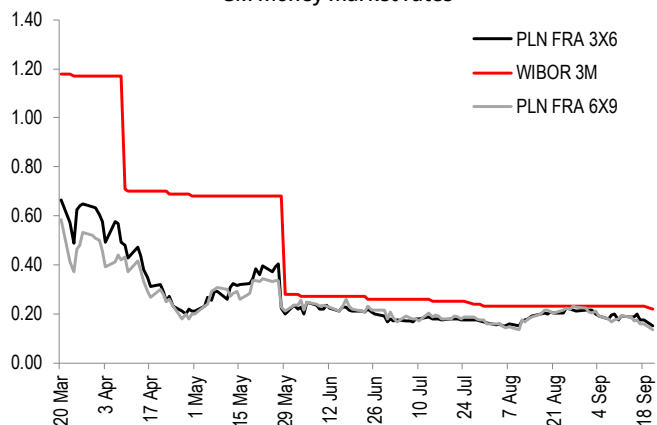
Zloty exchange rate



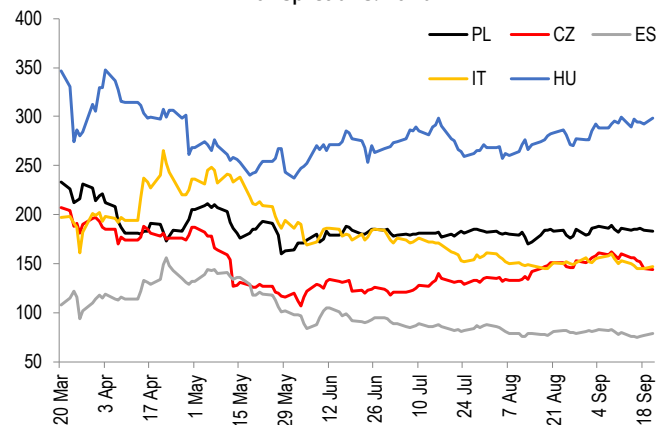
T-bonds yields



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	2.3	2.7	0.5	3.0
10:00	PL	Construction and assembly output	Aug	% y/y	-9.3	-11.7	-12.1	-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	Existing 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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