

1 October 2020

Eyeopener

Inflation down again?

Signals from USA supported market moods
EURPLN and EURUSD with no major changes
Polish debt resilient to higher Bund yields
Today Polish PMI and flash CPI for September

On Wednesday the global market sentiment was positive, mainly due to signals from the USA. Investors started looking more positively on the chances of approving the next stimulus package for the economy after the House of Representative's speaker Nancy Pelosi announced resuming talks with the secretary of state Steve Mnuchin. Moreover, real estate data surprised positively again, and ADP employment report showed bigger rise than expected.

Polish manufacturing PMI improved only marginally in September, to 50.8 from 50.6 seen in August. Subindices of employment, new orders and stock purchases improved slightly, while output and delivery times subindices worsened. Production was up but only marginally, supported by slight export expansion. Labour market improved, with the first employment rise recorded since June 2019. Cost inflation eased slightly but remained high, partly due to weaker PLN, while prices of finished goods rose for the first time in 6 months. Overall, the survey confirms that the pace of recovery in Polish manufacturing slowed down at the end of Q3.

MPC member Jerzy Kropiwnicki said yesterday that rate cuts have had only mediocre impact and repeated that in mid-2021 the MPC should consider rate hikes. In his opinion, rate cuts have not supported investments because of: the uncertainty which lowered companies' activity as well as tighter loan standards in the situation of heightened risk. Kropiwnicki doubts that the NBP forecasts of next year's inflation at 1.5% will materialise in a situation where low interest rates discourage investing while in 2021 the prices of energy and some of the food are likely to increase due to new tax (sugar tax). Proponents of rate hikes are currently in majority in the RPP and we do not think it would be likely for them to gather a majority next year.

NBP revised the balance of payments data since 2004. Worth attention is the services balance since the start of the pandemic – export of services in 2Q20 was revised up by €2.2bn, import by €1.3bn, so the change was c.15%. The data show that the foreign travel was hit the most – export fell by 64.9% y/y, import by 69.6%. Export of transport services fell 19% y/y, import by 15.8% y/y. IT services proved immune to pandemic – export rose 1.9% y/y, import 6.7% y/y.

EBRD lowered the 2021 growth forecast in Poland to 3.0% from 4.0% y/y citing the increase in the Covid-19 cases. The growth forecast for 2020 remained unchanged at -3.5% y/y

EURUSD was hovering for the better part of the yesterday's session between the Tuesday's peak and low. The better-than-expected US data did not boost the dollar and at the end of the day EURUSD was close to 1.172. At the end of the week, we will see important US data, today September manufacturing ISM and tomorrow the monthly change of employment.

EURPLN corrected slightly after the strong Tuesday's drop and was near 4.54 for a while. USDPLN rose above 3.88 temporarily.

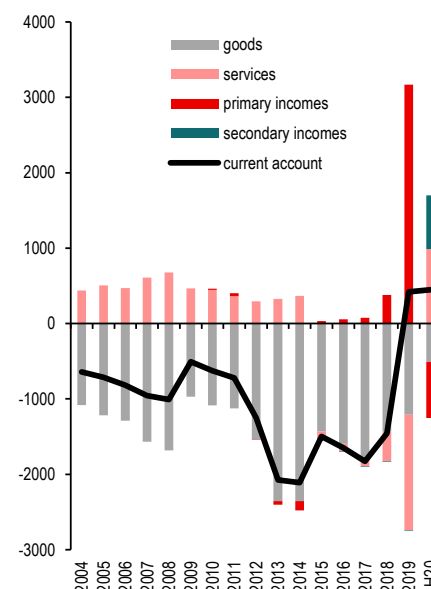
As to the other **CEE currencies**, most of them strengthened yesterday and the ruble in particular. USDRUB declined to 77.7 from 79.4 thanks to a rebound in oil prices (after Tuesday decline) and the fact that EURUSD managed to remain above 1.17. Both the forint and the koruna gained vs EUR.

On the domestic interest rate market IRS curve and 10Y bond yields were stable while 2Y and 5Y bonds gained further. The yield of the latter fell below 0.60% reaching new all-time low. Meanwhile, 10Y German and US bond yields rose 2-3bp amid decent global market mood.

The Ministry of Finance announced its bond supply plan for 4Q20. In the final three months of the year, the Ministry plans only one standard auction (for PLN5bn) and four-five switch auctions. Two of them will take place this month: 8 and 22 of October. According to the data released by the Ministry of Finance, at the end of August, foreign investors were holding Polish, PLN-denominated marketable Treasury bonds of the nominal value at PLN136.3bn (17.6% of total), that is PLN1bn less than at the end of July. The outflow was mainly due to foreign commercial banks selling (-PLN1.5bn). Under the geographical criteria, the most active sellers were from the euro zone (-PLN1.4bn). As far as domestic entities are concerned, commercial banks added PLN1.2bn (to PLN428.7, new record), mutual funds PLN1.4bn (to PLN48.3bn) and individuals PLN1.1bn (to PLN37.2bn, new record).

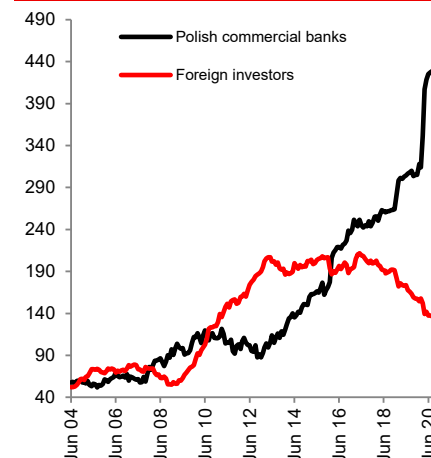
Today at 10:00CET we will get to see flash September CPI. We are expecting this measure to go further down to 2.8%, mainly on the back of lower core inflation.

Revision of current account, EURmn



Source: NBP, Santander Bank Polska

Nominal value of portfolio of Polish PLN marketable bonds



Source: Ministry of Finance, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.5224	CZKPLN	0.1659
USDPLN	3.8512	HUFPLN*	1.2329
EURUSD	1.1748	RUBPLN	0.0499
CHFPLN	4.1861	NOKPLN	0.4085
GBPPLN	4.9830	DKKPLN	0.6083
USDCNY	6.7898	SEKPLN	0.4296

*for 100HUF

Last session in the FX market

30.09.2020

	min	max	open	close	fixing
EURPLN	4.520	4.548	4.532	4.529	4.527
USDPLN	3.852	3.890	3.862	3.864	3.866
EURUSD	1.168	1.175	1.173	1.172	-

Interest rate market 30.09.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.09	0
PS0425 (5Y)	0.61	0
DS1030 (10Y)	1.31	1

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.18	-1	0.22	0	-0.51	1
2L	0.22	0	0.22	0	-0.49	0
3L	0.29	-1	0.24	0	-0.48	0
4L	0.40	0	0.28	1	-0.46	1
5L	0.51	0	0.34	1	-0.43	0
8L	0.78	0	0.57	2	-0.32	1
10L	0.93	0	0.71	3	-0.23	2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.22	0
6M	0.26	0
1Y	0.27	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.20	1
3x6	0.17	0
6x9	0.16	0
9x12	0.16	0
3x9	0.21	0
6x12	0.20	0

Measures of fiscal risk

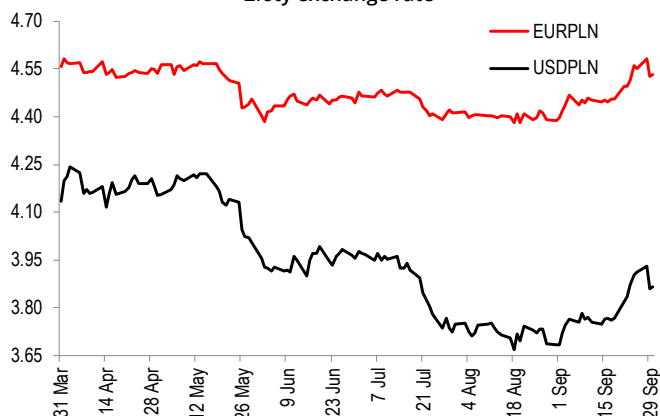
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	183	-1
France	10	0	28	1
Hungary	72	0	302	-5
Spain	56	0	77	1
Italy	95	0	139	1
Portugal	36	0	79	1
Ireland	18	0	37	0
Germany	9	2	-	-

* 10Y treasury bonds over 10Y Bunds

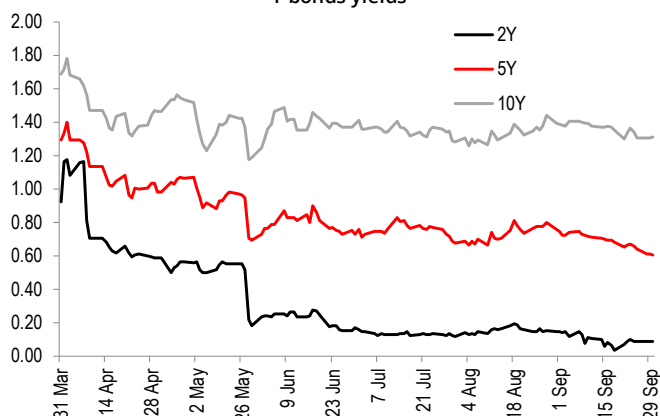
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

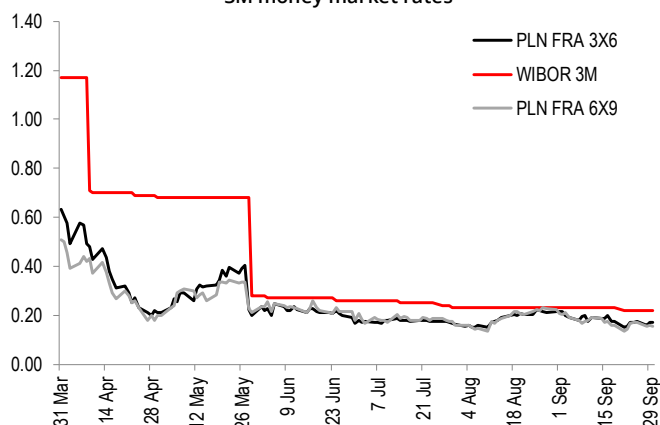
Zloty exchange rate



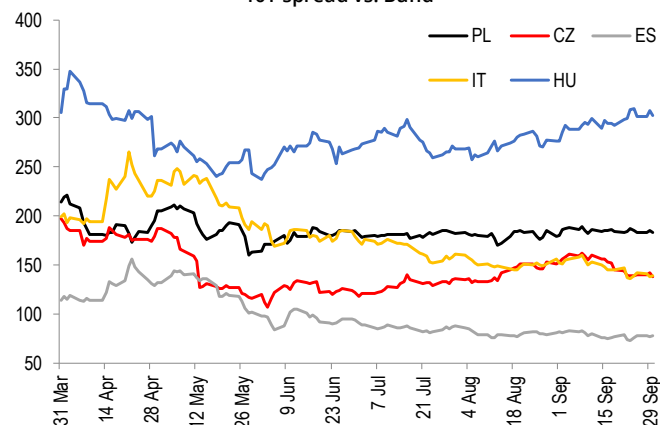
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (25 September)								
	PL	Rating review by Fitch						
	HU	Rating review by Moody's						
14:30	US	Durable Goods Orders	Aug % m/m	1.4	-	0.4	11.7	
MONDAY (28 September)								
No important data								
TUESDAY (29 September)								
11:00	EZ	ESI	Sep pct.	89.2	-	91.1	87.7	
14:00	DE	HICP	Sep % m/m	0.0	-	-0.4	-0.2	
16:00	US	Consumer Conference Board	Sep pts	90.0	-	101.8	86.3	
WEDNESDAY (30 September)								
08:00	DE	Retail Sales	Aug % m/m	0.4	-	3.1	-0.2	
14:00	PL	Current Account	2Q EURmn	-	6319	6 576	4 623	
14:15	US	ADP report	Sep k	650.0	-	749	481	
14:30	US	GDP Annualized	2Q % q/q	-31.6	-	-31.4	-31.7	
16:00	US	Pending Home Sales	Aug % m/m	2.0	-	8.8	5.9	
THURSDAY (1 October)								
09:00	PL	Poland Manufacturing PMI	Sep pts	51.6	51.2	50.8	50.6	
09:55	DE	Germany Manufacturing PMI	Sep pts	56.6	-	-	52.2	
10:00	EZ	Eurozone Manufacturing PMI	Sep pts	53.7	-	-	51.7	
10:00	PL	Flash CPI	Sep % y/y	2.9	2.8	-	2.9	
11:00	EZ	Unemployment Rate	Aug %	8.1	-	-	7.9	
14:30	US	Initial Jobless Claims	week k	840	-	-	870	
14:30	US	Personal Spending	Aug % m/m	0.7	-	-	1.9	
14:30	US	Personal Income	Aug % m/m	-2.1	-	-	0.4	
14:30	US	PCE Deflator SA	Aug % m/m	0.3	-	-	0.3	
16:00	US	ISM manufacturing	Sep pts	55.9	-	-	56.0	
FRIDAY (2 October)								
09:00	CZ	GDP SA	2Q % y/y	-11.0	-	-	-11.0	
11:00	EZ	Flash HICP	Sep % y/y	-0.1	-	-	-0.2	
14:30	US	Change in Nonfarm Payrolls	Sep k	865	-	-	1 371	
14:30	US	Unemployment Rate	Sep %	8.2	-	-	8.4	
16:00	US	Michigan index	Sep pts	78.9	-	-	78.9	
16:00	US	Factory Orders	Aug % m/m	1.0	-	-	6.4	

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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