

2 October 2020

Eyeopener

Inflation above expectations

Calm session in quite good moods
CPI above expectations, PMI below
EURPLN strongly down after one day of pause
Polish bonds stable, IRS up
Today S&P rating review, US labour market data

Thursday's session brought no important changes on the markets. Stock market indices, bonds and currencies did not deviate from the bands observed earlier this week. The euro held gains against the dollar, which was favourable for CEE currencies. Final manufacturing PMIs in the euro zone did not differ much from the flash releases, indices remained above 50 level. US manufacturing ISM declined slightly. US personal income fell more than expected in August, while spending exceeded expectations. Today the markets will focus on monthly employment report from the USA. Wednesday's ADP report showed higher than expected non-farm employment rise, which is a good harbinger for today's release. US House of Representatives passed yesterday the economic stimulus worth \$2.2bn prepared by the Democrats. The bill is unlikely to go through the Senate, where Republicans have the majority, as they opt for a lower sum. Today in the morning Donald Trump informed he tested positive for the coronavirus.

Flash September CPI was 3.2% y/y, up from 2.9%, vs market consensus expecting a stabilisation and our 2.8% forecast. What the partial data imply for core inflation is a rise to c.4.2% y/y from 4.0% and this comes as the biggest surprise of this release as it seemed after August data that the core measure embarked on a downward trend, depressed by reduced domestic demand. This means that core inflation may end the year closer to 3.5% than 3% we indicated earlier, and headline CPI is still likely to be much lower in 2021 than this year, pressured by negative output gap. The starting point will be higher than we previously thought though.

Polish manufacturing PMI improved only marginally in September, to 50.8 from 50.6 seen in August. Sub-indices of employment, new orders and stock purchases improved slightly, while output worsened and delivery times shortened. Production was up but only marginally, being supported by slight export expansion. Situation on the 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.

The S&P rating agency has updated its 2020 growth forecast to -3.4% from -4.0%, while in 2021 the agency expects a 4.5% growth. According to S&P the actions of government and central banks have shielded the economy from a much deeper slowdown. Funds from the European will start inflows to Poland from mid-2021, they will contribute to an increase in investments and a creation of more jobs. The publication of the new forecasts took place 1 day before the scheduled forecast release which possibly means that today the agency will not publish any report anymore.

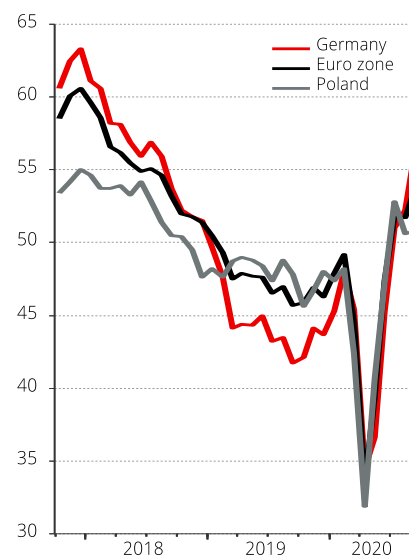
EURUSD did not change much yesterday and fluctuated around 1.172, only temporarily rising to 1.177. So far this week, the euro regained around half of its losses against dollar from the previous week.

EURPLN, after one-day break, recorded another significant decline and at the end of the session was below 4.48. USDPLN managed to reach 3.81 vs. 3.85 in the opening. At the end of the day EURPLN was testing the level, which in June and July was constraining its upside potential. We do not think that the breaching of this level could imply further sharp strengthening of the zloty. The last three sessions saw the fastest zloty appreciation vs euro since 2015 and after such a bold move the stabilisation seems increasingly likely.

On the **Polish fixed income market**, IRS rebounded by 3-5bp which was helped by local inflation data and the rise of yields on the core markets in the first part of the European session. Local bonds have remained stable in the belly and at the long end while they have gained at the front end.

Other CEE currencies also strengthened significantly yesterday, but only forint and koruna managed to hold gains until the end of the day. EURCZK fell to 26.85 from 27.05, EURHUF to 359 from 363.4. USDRUB ended the session close to opening level at 77.48 and the drop to 76.89 proved temporary.

Manufacturing PMI



Source: Refinitiv Datastream, Santander Bank Polska

Inflation in CEE region (% y/y)

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.4860	CZKPLN	0.1653
USDPLN	3.8230	HUFPLN*	1.2350
EURUSD	1.1732	RUBPLN	0.0492
CHFPLN	4.1691	NOKPLN	0.4085
GBPPLN	4.9222	DKKPLN	0.6083
USDCNY	6.7898	SEKPLN	0.4296

*for 100HUF

Last session in the FX market

01.10.2020

	min	max	open	close	fixing
EURPLN	4.472	4.528	4.524	4.476	4.515
USDPLN	3.804	3.855	3.851	3.809	3.851
EURUSD	1.172	1.177	1.175	1.175	-

Interest rate market 01.10.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.06	-3
PS0425 (5Y)	0.59	-1
DS1030 (10Y)	1.32	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.19	0.22	-0.51
2L	0.25	0.22	-0.49
3L	0.33	0.24	-0.48
4L	0.44	0.29	-0.46
5L	0.55	0.35	-0.43
8L	0.83	0.57	-0.32
10L	0.98	0.70	-0.23

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	0.21	0
3x6	0.18	0
6x9	0.18	2
9x12	0.18	3
3x9	0.22	1
6x12	0.22	2

Measures of fiscal risk

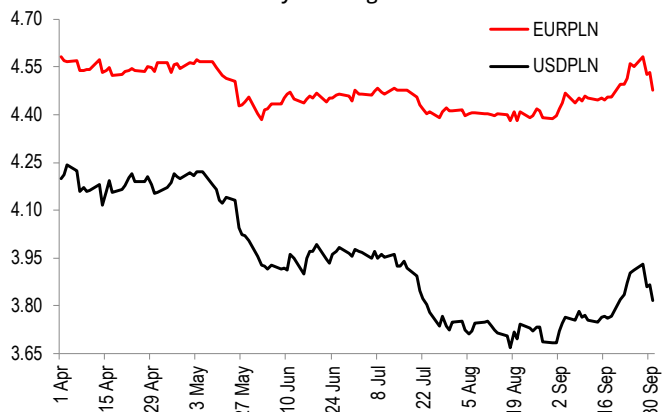
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	59	185
France	10	28
Hungary	72	296
Spain	56	77
Italy	92	136
Portugal	36	79
Ireland	18	37
Germany	9	-

* 10Y treasury bonds over 10Y Bunds

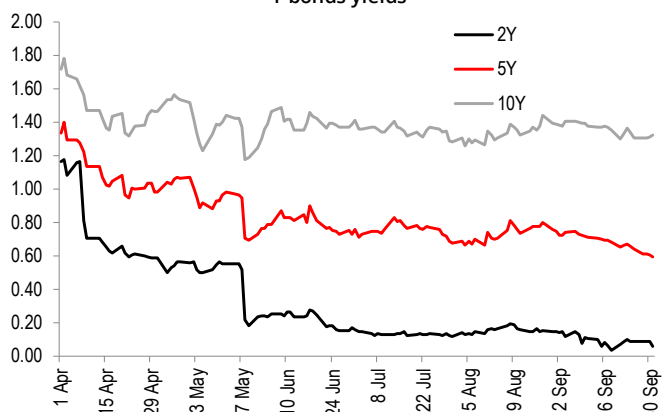
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

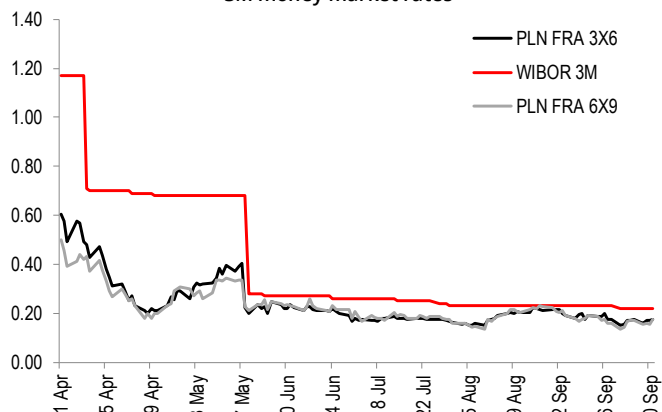
Zloty exchange rate



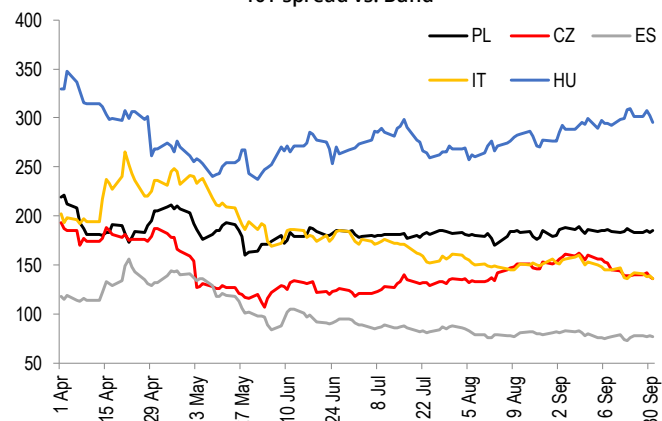
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (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	-	56.4	52.2
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	53.7	-	53.7	51.7
10:00	PL	Flash CPI	Sep	% y/y	2.9	2.8	3.2	2.9
11:00	EZ	Unemployment Rate	Aug	%	8.1	-	8.1	7.9
14:30	US	Initial Jobless Claims	week	k	840	-	837	870
14:30	US	Personal Spending	Aug	% m/m	0.7	-	1.0	1.5
14:30	US	Personal Income	Aug	% m/m	-2.1	-	-2.7	0.5
14:30	US	PCE Deflator SA	Aug	% m/m	0.3	-	0.3	0.4
16:00	US	ISM manufacturing	Sep	pts	55.9	-	55.4	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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.