

8 October 2020

Eyeopener

Monetary policy unchanged

MPC's policy unchanged, Sejm approved 2020 budget amendment
Stable day on markets, oil declines after an increase in inventories
EURPLN stable, Polish bonds slightly gain
Today German export and Hungarian inflation

On Wednesday, the global equity indexes were pretty calm. The Bund yield rose (+2bp to -0.48%) while the UST closed unchanged on daily basis (0.77%) although in the morning it fell temporarily to 0.73% in reaction to Donald Trump tweet about the fiscal aid. The dollar and gold were stable while the oil price fell c3% after data showed that oil inventories were the highest since May. In Italy, retail sales surprised to the upside while Spanish industrial output proved weaker than expected.

Polish MPC kept interest on hold, as expected. The timing of decision announcement was one of the latest on record, but it seems that overall the central bank's policy stance has not changed much. The MPC recognized the vigorous rebound of economic activity in recent months but at the same time emphasized that the pace of the recovery in the coming months may slow due to high uncertainty and persisting pandemic. The MPC repeated the sentence that lack of clear and persistent zloty depreciation may curb the pace of recovery. The final fragment of the official press release has been shortened a bit, but the general message remained unchanged in our view: there is no reason to think about changes in monetary policy anytime soon. We think that interest rates will remain on hold probably until the end of this MPC's term of office (early 2022).

NBP governor Adam Glapiński said in the press interview said that "the recent data show that the actions taken have yielded a positive effect and the worst is behind us. Relatively small rise of the unemployment rate and rebound of industrial output and retail sales suggest that the Polish economy is recovering fast".

Yesterday in the evening, the Sejm has **approved the 2020 budget amendment** which increases the budget deficit limit to PLN109.3bn. The project has changed only in very minute details hence the whole project is largely unchanged from the government proposal, which we [wrote about in the commentary](#).

Ministry of Finance informed that at the end of September the level of Polish marketable debt equalled PLN 745.8bn (vs 747.0bn a month ago and 646.0bn at the end of 2019). Moreover, the average duration of the Polish debt equalled 4.29 (vs 4.32 in the previous month) while that of the overall debt at 4.67 (vs 4.71 in previous month).

In the US, the **minutes from the September meeting** showed that the central bank fears that the fiscal help launched so far might be insufficient (but latest Fed forecasts assume an increase in fiscal spending in 2020 still). Minutes also showed that the forward guidance is not an unconditional liability and that the interest rate path will be dependent on the changing outlook for the economy. Some of the FOMC members have not excluded increasing the QE in the future.

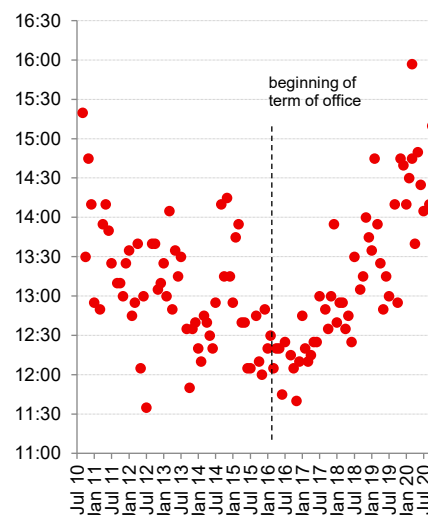
EURUSD opened at 1.174 and was rising slowly to 1.176 at the end of the day. Low volatility could have been explained by the fact that investors were awaiting FOMC September minutes.

EURPLN did not move much on Wednesday since it opened and closed the session near 4.48. The outcome of the MPC meeting was market-neutral. USDPLN was stable around 3.81. Today in the morning EURPLN is still close to 4.48.

Other CEE currencies: EURHUF was following a similar pattern as one day before – initially it rose to 361 from 360 and then fell to 359.2 (-0.2%). Weak reading of Czech industrial output did not affect the EURCZK exchange rate, which closed the day at 27.08 (+0.2%). The USDRUB was stable, with the latter ending the session at 78.25.

The **Polish bond curve** was extraordinarily stable – only the longer end saw some minor declines with 10Y paper down to 1.35%. This was contrasting with rising Bund yields, so spread to German papers narrowed to 184bp. The IRS curve declined somewhat on the longer end: 10Y ended the day at 1.04% (-2bp). A slightly bigger move was seen on the shorter end with 2Y rate down to 0.26%. **State-owned BGK bank** sold 5Y bonds FPC0725 worth PLN3.3bn (PLN2.8bn on a regular auction with PLN9.4bn demand and PLN0.5bn in a top-up auction. In total, the bank has already sold about PLN85bn bonds.

Time of MPC decision announcement



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.4774	CZKPLN	0.1649
USDPLN	3.8028	HUFPLN*	1.2457
EURUSD	1.1776	RUBPLN	0.0489
CHFPLN	4.1498	NOKPLN	0.4099
GBPPLN	4.9195	DKKPLN	0.6015
USDCNY	6.7898	SEKPLN	0.4287

*for 100HUF

Last session in the FX market

07/10/2020

	min	max	open	close	fixing
EURPLN	4.471	4.490	4.488	4.480	4.483
USDPLN	3.801	3.827	3.824	3.807	3.813
EURUSD	1.173	1.178	1.173	1.177	-

Interest rate market 07/10/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.05	0
PS0425 (5Y)	0.59	-1
DS1030 (10Y)	1.35	-1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.19	0.22	-0.52
2L	0.26	0.24	-0.50
3L	0.35	0.27	-0.49
4L	0.47	0.33	-0.46
5L	0.60	0.41	-0.42
8L	0.88	0.67	-0.30
10L	1.04	0.80	-0.20

WIBOR rates

Term	%	Change (bps)
O/N	0.11	1
T/N	0.10	0
SW	0.12	-1
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	0.19	-1
3x6	0.16	-2
6x9	0.15	-4
9x12	0.16	-4
3x9	0.21	-1
6x12	0.20	-3

Measures of fiscal risk

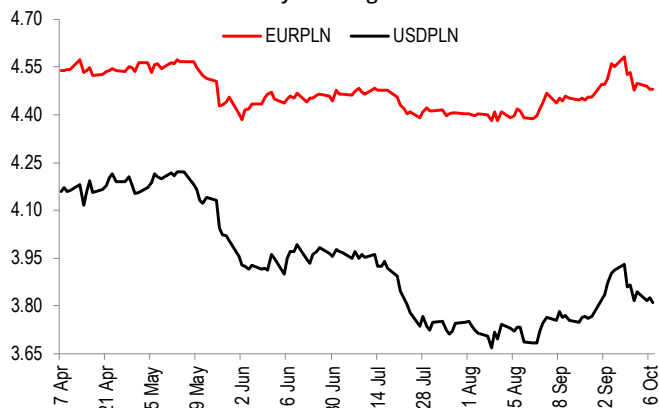
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	59	184
France	10	26
Hungary	72	290
Spain	53	74
Italy	87	128
Portugal	33	74
Ireland	18	35
Germany	9	-

* 10Y treasury bonds over 10Y Bunds

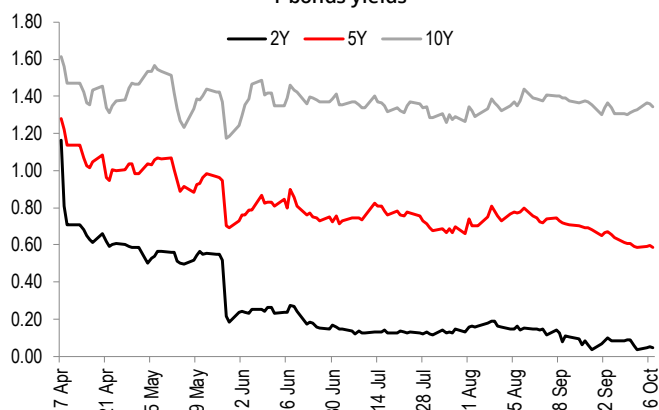
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

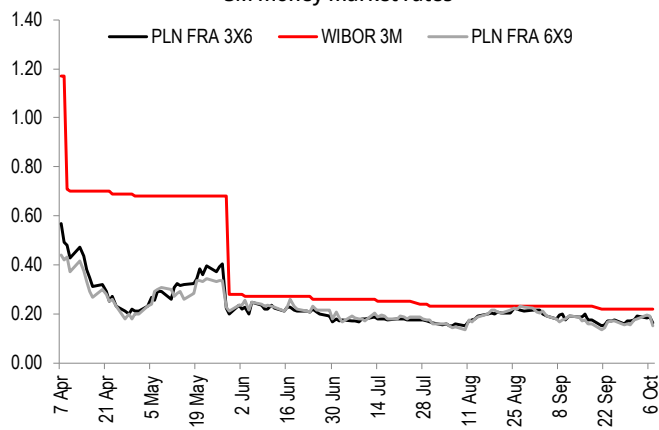
Zloty exchange rate



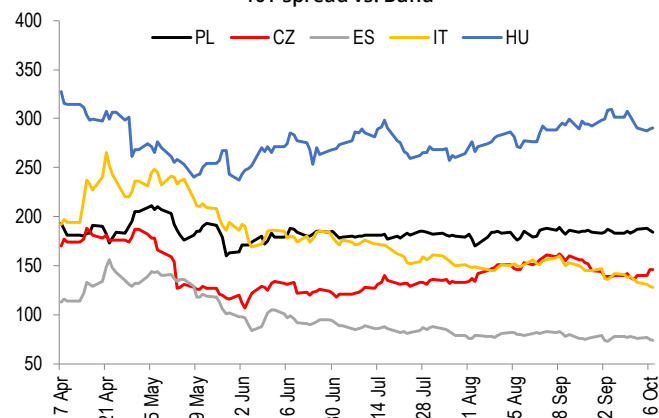
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
FRIDAY (2 October)								
09:00	CZ	GDP SA	2Q	% y/y	-11.0		-10.9	-11.0
11:00	EZ	Flash HICP	Sep	% y/y	-0.2		-0.3	-0.2
14:30	US	Change in Nonfarm Payrolls	Sep	k	859.0		661.0	1489.0
14:30	US	Unemployment Rate	Sep	%	8.2		7.9	8.4
16:00	US	Michigan index	Sep	pts	79.0		80.4	78.9
16:00	US	Durable Goods Orders	Aug	% m/m	0.4		0.5	0.4
16:00	US	Factory Orders	Aug	% m/m	0.9		0.7	6.5
MONDAY (5 October)								
09:55	DE	Markit Germany Services PMI	Sep	pts	49.1		50.6	49.1
10:00	EZ	Eurozone Services PMI	Sep	pts	47.8		48.0	47.6
11:00	EZ	Retail Sales	Aug	% m/m	2.5		4.4	-1.8
16:00	US	ISM services	Sep	pts	56.2		57.8	56.9
TUESDAY (6 October)								
08:00	DE	Factory Orders	Aug	% m/m	3.0		4.5	2.8
09:00	HU	Industrial Production SA	Aug	% y/y	-3.1		-0.2	-7.3
WEDNESDAY (7 October)								
	PL	MPC decision		%	0.1	0.1	0.1	0.1
08:00	DE	Industrial Production SA	Aug	% m/m	1.5		-0.2	1.4
09:00	CZ	Industrial Production	Aug	% y/y	-4.3		-8.0	-4.9
20:00	US	FOMC Meeting Minutes	Sep.20		-		-	0.0
THURSDAY (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	54.3		-	54.0
08:00	DE	Exports SA	Aug	% m/m	0.0		-	4.7
09:00	HU	CPI	Sep	% y/y	3.8		-	3.9
14:30	US	Initial Jobless Claims	Oct.20	k	850.0		-	837.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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