

22 October 2020

Eyeopener

Zloty pressured by infections data

European equities decline while US gain
 EURPLN slightly higher amid high intraday volatility
 Polish bonds decline following core markets
 Today in Poland money supply, in the US initial jobless claims

On Wednesday European stock indexes were going down after information about record high number infections in Germany and risk of tighter restrictions in Italy. In the USA, the White House informed, that it aims at finishing negotiations with the Democrats within the next 48 hours – the news made US 10Y yield rose for the fifth session in a row, to 0.82%, the highest since June. German bond yields followed Treasuries, 10Y Bund closed at -0.59%. The weakening of the dollar continued, which let EM currencies and metals (precious and industrial) gain. Oil price dropped by c.2% after a surprisingly high increase of US inventories.

Poland September retail sales accelerated to 2.5% y/y from 0.5% y/y in August (we: 0.3% y/y, market: 2.4%). In October and in the upcoming months retail sales are likely to be negatively hit by wider range of COVID-19 restrictions and in our view it is likely to move back into negative territory. Construction output fell in September 9.8% y/y, less than expected (we: -15%, consensus: -11.2% y/y), joining the streak of positively surprising September's data. We think that the activity in the construction sector will remain subdued in the next few quarters and will be recovering at much slower pace than in manufacturing. Find more in our yesterday's [Economic comment](#).

According to the [report of the European Fiscal Board in 2019 Poland breached significantly the indicators of the Stability and Growth Pact](#): the structural deficit threshold by 1.4pp, the expenditure indicator by 2.0pp. In total, a significant breach was seen in eight countries, with Poland in top three of offenders (with Romania and Hungary). Normally, Poland would be at risk of falling under the Excessive Deficit Procedure, but due to the pandemic such risk is most likely postponed by several years. Once it is possible to assess the state of public finances after the pandemic, the European Commission will reassess the fiscal developments and lack of quick reduction of deficit (Poland's medium term objective is 1% of GDP), the EDP might be launched. Non-compliance with EC's guidelines may lead to sanctions, e.g. financial penalty of up to 0.2% of GDP or freeze of structural funds' disbursement.

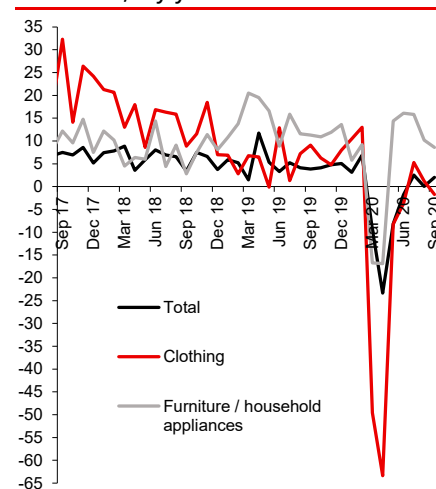
EURUSD was rising for the third day in a row (upward move since the start of the week amounts to 1.2%) and closed at 1.186. FX options market again starts to increase probability attached to euro appreciation, and it cannot be ruled out that in the coming days EURUSD will rise towards 1.195 – the local peak from August and September.

EURPLN opened on Wednesday at 4.563 but quickly started rising towards 4.60. After reaching 4.595 (below its September's high 4.596) the rate retreated to 4.57, also due to large euro selling orders by exporters. Rise of EURUSD had slight influence on the zloty, which yesterday started depreciating just after the information about the new record number of Covid-19 cases in Poland.

As to the other regional currencies, EURHUF after in a previous day tried to break above 366 for the 4th time and failed, retraced back abruptly and closed at 363.6 (with daily low near 362). This behaviour suggests, in our opinion, that EURHUF is overbought and might move back to the 50-day moving average near 358. EURCZK remained stable for another day near 27.15-27.20 despite the fact that Prime Minister Babis decided to close most of stores and many services till 3 November. The rouble basket declined by 0.7%, which given the weakening dollar meant USDRUB fell by 0.9% to 76.8. This is not typical behaviour of commodity currency given the context of falling oil prices hence – similarly to EURHUF – it might suggest that rouble is slightly oversold and might gain in the short term.

On the Polish fixed income market 2Y bond yield stabilized near 0% while that at the longer tenors followed the core markets e.g. 5Y to 0.51% (+2bp), 10Y to 1.28% (+2bp). The spread vs Bund remained at 187bp. On the IRS curve – there were more buyers in the first part of the day which pushed the curve slightly higher. In the second part of the day the flows ceased and IRS moved back to the opening levels.

Retail sales, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5694	CZKPLN	0.1675
USDPLN	3.8556	HUFPLN*	1.2448
EURUSD	1.1856	RUBPLN	0.0502
CHFPLN	4.2559	NOKPLN	0.4179
GBPPLN	5.0666	DKKPLN	0.6140
USDCNY	6.6612	SEKPLN	0.4411

*for 100HUF

Last session in the FX market

10/21/2020

	min	max	open	close	fixing
EURPLN	4.550	4.593	4.560	4.569	4.587
USDPLN	3.836	3.879	3.849	3.851	3.871
EURUSD	1.184	1.188	1.185	1.187	-

Interest rate market 10/21/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.00	-2
PS0425 (5Y)	0.51	2
DS1030 (10Y)	1.28	1

IRS on the interbank market**

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.16	2	0.20	0	-0.53	-1
2L	0.20	3	0.23	0	-0.52	1
3L	0.28	3	0.27	1	-0.51	2
4L	0.38	3	0.33	0	-0.49	1
5L	0.50	4	0.42	1	-0.46	2
8L	0.78	4	0.69	3	-0.35	2
10L	0.93	2	0.84	3	-0.26	2

WIBOR rates

Term	%	Change (bps)
O/N	0.11	0
T/N	0.11	1
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.22	0
6M	0.25	0
1Y	0.26	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.19	2
3x6	0.16	3
6x9	0.14	3
9x12	0.13	3
3x9	0.18	2
6x12	0.17	2

Measures of fiscal risk

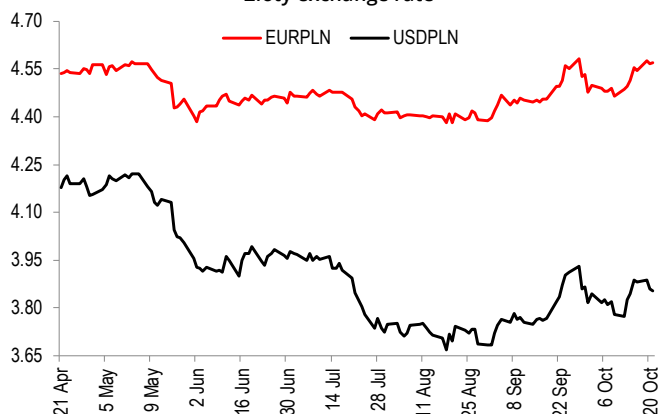
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	60	0	186	-1
France	10	0	28	-1
Hungary	64	0	297	4
Spain	58	-2	79	0
Italy	90	-1	137	2
Portugal	38	0	78	0
Ireland	18	0	37	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

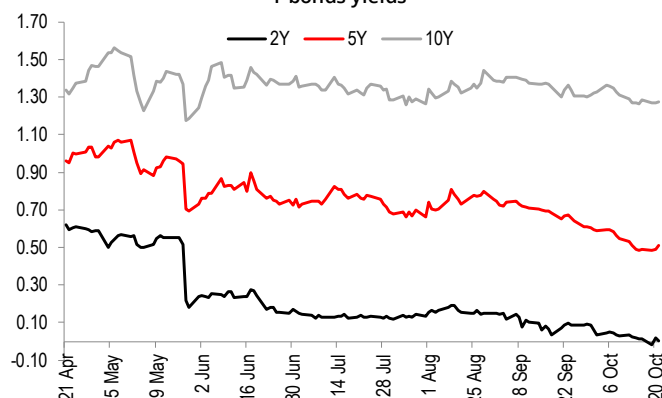
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

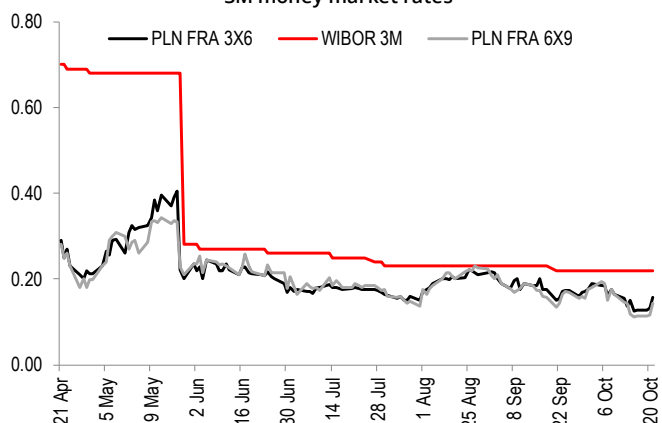
Zloty exchange rate



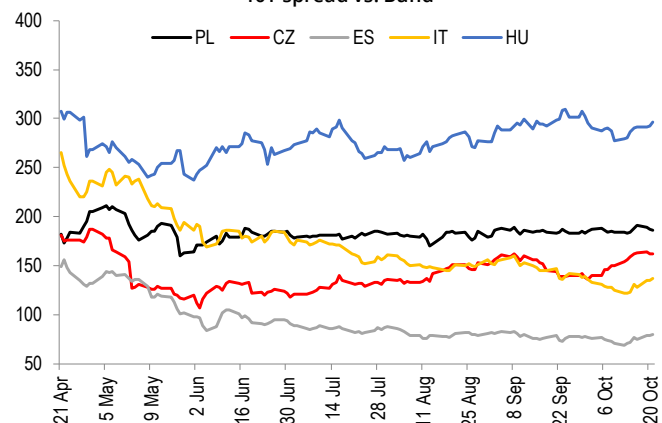
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (16 October)								
11:00	EZ	HICP	Sep	% y/y	-0.3	-	-0.3	-0.2
14:00	PL	CPI Core	Sep	% y/y	4.2	4.3	-4.3	4.0
14:30	US	Retail Sales Advance	Sep	% m/m	0.8	-	1.9	0.6
15:15	US	Industrial Production	Sep	% m/m	0.5	-	-0.6	0.4
16:00	US	Michigan index	Oct	pts	80.5	-	81.2	80.4
MONDAY (19 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	-1.1	-1.0	-1.2	-1.5
10:00	PL	Average Gross Wages	Sep	% y/y	4.4	4.8	5.6	4.1
TUESDAY (20 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	3.7	3.1	5.9	1.5
10:00	PL	PPI	Sep	% y/y	-1.5	-1.4	-1.6	-1.3
14:00	HU	Central Bank Rate Decision		%	0.6	-	0.6	0.6
14:30	US	Housing Starts	Sep	% m/m	3.5	-	1.9	-6.7
WEDNESDAY (21 October)								
10:00	PL	Construction Output	Sep	% y/y	-10.8	-15.1	-9.8	-12.1
10:00	PL	Retail Sales Real	Sep	% y/y	1.9	0.3	2.5	0.5
THURSDAY (22 October)								
14:00	PL	Money Supply M3	Sep	% y/y	16.2	15.6		16.2
14:30	US	Initial Jobless Claims	week	k	825	-		898
16:00	US	Existing Home Sales	Sep	% m/m	3.33	-		2.39
FRIDAY (23 October)								
09:30	DE	Flash Germany Manufacturing PMI	Oct	pts	55.25	-		56.4
09:30	DE	Flash Markit Germany Services PMI	Oct	pts	49.75	-		50.6
10:00	EZ	Flash Eurozone Manufacturing PMI	Oct	pts	53.0	-		53.7
10:00	EZ	Flash Eurozone Services PMI	Oct	pts	47.0	-		48.0
10:00	PL	Unemployment Rate	Sep	%	6.1	6.1		6.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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