

26 October 2020

Eyeopener

Entire country in the red zone

Flash PMIs improve moods

Red epidemic zone covering the entire country

Zloty did not benefit from rebounding stock markets

Polish bonds remain strong despite good data from Europe

Today German Ifo and new home sales in the USA

The sharp rise of new Covid-19 cases observed in the last few weeks caused that interest rate market and equity market started pricing-in a scenario with economic growth lower than anticipated just after an impressive rebound seen in mid-year. Meanwhile, October's flash readings of PMI indicators for Germany and the entire euro zone surprised clearly to the upside, especially in manufacturing, where they rose to the highest level since mid-2018. Indicators for services declined but less than expected. The data suggesting that – at least so far – the rise in coronavirus infections or new restrictions imposed by governments do not have a strongly negative impact on business sentiment, caused that equity markets, bond yields and EURUSD have increased on Friday.

MPC member Jerzy Żyżyński (considered dove) said that during the current MPC term he sees no scope for monetary policy tightening. He is also not in favour of further rate cuts, in his opinion the asset purchase program could be increased if necessary.

On Friday PM Mateusz Morawiecki announced extension of the pandemic restrictions, covering the entire country with rules applying earlier to red zones, and additionally forbidding eat-in services in bars and restaurants, shutting down sanatoriums, and advising senior citizens to stay home. The Prime Minister admitted for the first time in public that if the pandemic does not decelerate, more drastic steps may be needed, including "deep lockdown". We estimate that if today's additional restrictions are kept until the end of the year, it would reduce GDP forecast for 4Q by additional 1pp.

Detailed data about the labour market published on Friday showed that the strong wage growth in September was based on better situation in all main sectors. There was an interesting change of situation regarding employment: in the previous months employment was growing (due to normalisation of worktime), but the number of the employed was going down. In September employers increased less the worktime of employees (+17k) but started to recruit new ones (+11k persons). Detailed data showed a significant rise of the number of the registered unemployed in September to 131.4k from 99.2k in August. Total unemployment did not go up however, as many were removed from the registry, with numerous job seekers getting a job, which corresponds with the data from the corporate sector. Tighter restrictions in October are likely to affect the labour market negatively.

In September industrial new orders rose by 3.7% y/y vs -5.3% in August and this was the best reading since February. The result is close to levels before the pandemic: Dec'19-Feb'20 average was +2.9% y/y and Sep'19-Nov'19 average was +5.4% y/y. Foreign new orders rose by 0.5% y/y from 0.2%. October business sentiment in industry showed further improvement in new orders, the index of orders expected in the coming months was stable in SA terms at the highest level since February. General sentiment in industry worsened, but less than in spring.

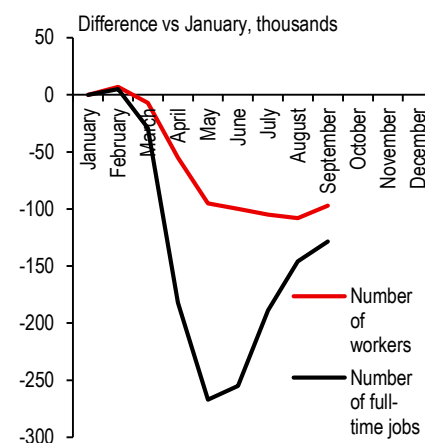
EURUSD closed Friday session near 1.183 due to better than expected macroeconomic data from Europe. The session high was at 1.186 but the euro did not manage to hold onto the gains till the end of the day.

EURPLN remained at the elevated level near 4.59. On the one hand, the zloty has not gained from the stock market gains, on the other hand the further news about Covid-19 cases in Poland have had not such a big impact as before in the week. As for the other CEE currencies koruna and forint lost while rouble remained stable.

On the Polish fixed income market yields declined 1-2bp, 2Y IRS has not changed while the 5Y and 10Y tenors moved up around 2bp.

This week news about the spread of the pandemic are likely to be still the key issue. Especially that only on Friday Poland flash CPI for October will be out (we expect a mild decline to 3.1% y/y). Zloty will be under influence of conflicting factors: on the one hand, quickly rising number of Covid-19 cases, on the other hand the potentially positive global markets in anticipation of US elections and the new fiscal stimulus. We do not rule out the testing (and breaching) of 4.60 by EURPLN. Polish bond yields at the short end of the curve remain unchanged and at low levels being under influence of the huge excess liquidity of the banking sector. At the long end of the curve, the yields decline might continue into the next week as fears about the growth outlook grow, at the end of the week might rebound a bit in line with rising core market yields.

Employment and employees in the enterprise sector, thousands



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FX market

Today's opening

EURPLN	4.5714	CZKPLN	0.1666
USDPLN	3.8646	HUFPLN*	1.2435
EURUSD	1.1830	RUBPLN	0.0506
CHFPLN	4.2753	NOKPLN	0.4172
GBPPLN	5.0233	DKKPLN	0.6159
USDCNY	6.6873	SEKPLN	0.4405

*for 100HUF

Last session in the FX market

23.10.2020

	min	max	open	close	fixing
EURPLN	4.568	4.590	4.576	4.574	4.577
USDPLN	3.858	3.889	3.878	3.863	3.867
EURUSD	1.179	1.186	1.180	1.184	-

Interest rate market 23.10.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.01	1
PS0425 (5Y)	0.50	-1
DS1030 (10Y)	1.24	-1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.16	0	-0.53
2L	0.20	0	-0.52
3L	0.28	0	-0.51
4L	0.39	0	-0.49
5L	0.52	0	-0.46
8L	0.80	1	-0.34
10L	0.96	1	-0.25

WIBOR rates

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.11	-1
SW	0.13	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	0.18	-1
3x6	0.16	0
6x9	0.14	-1
9x12	0.13	0
3x9	0.20	1
6x12	0.17	0

Measures of fiscal risk

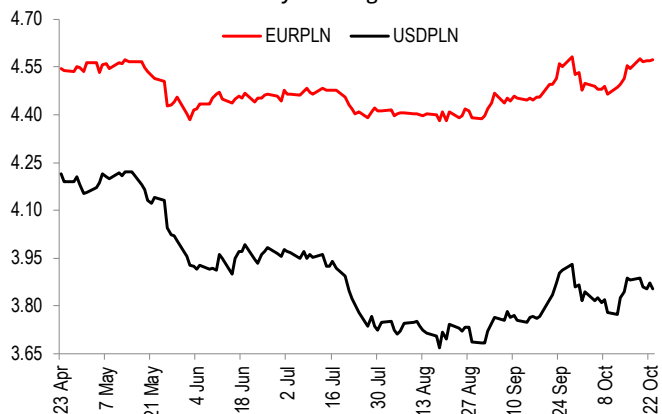
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	60	182
France	10	28
Hungary	63	0
Spain	58	77
Italy	87	134
Portugal	38	76
Ireland	18	36
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

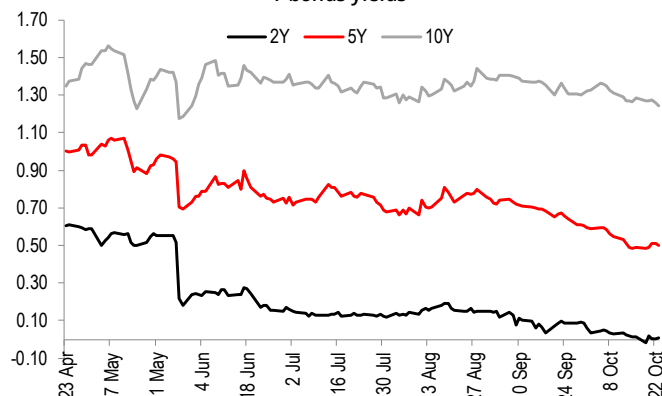
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

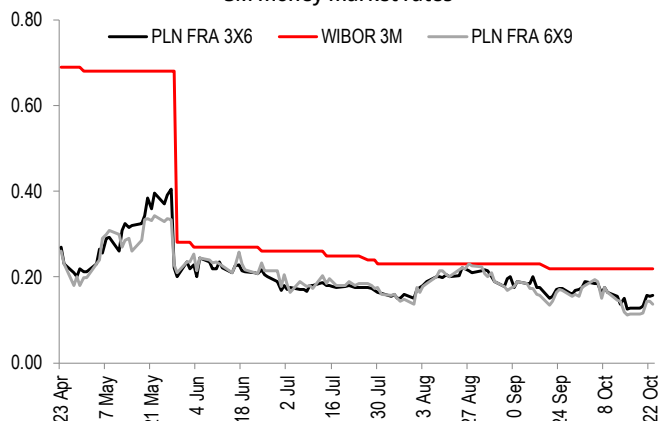
Zloty exchange rate



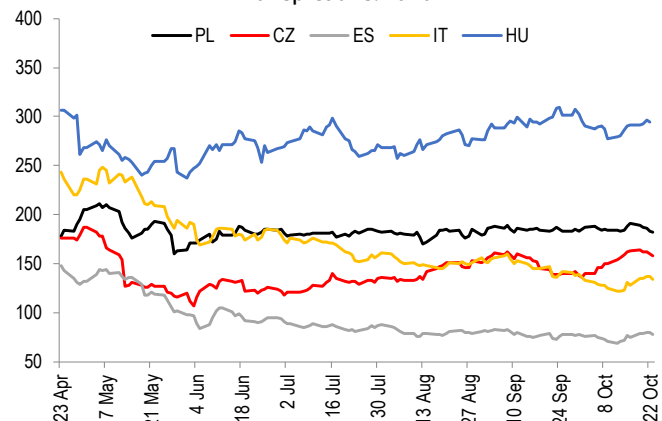
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (23 October)								
09:30	DE	Flash Germany Manufacturing PMI	Oct	pts	55.0	-	58.0	56.4
09:30	DE	Flash Markit Germany Services PMI	Oct	pts	49.4	-	48.9	50.6
10:00	EZ	Flash Eurozone Manufacturing PMI	Oct	pts	53.0	-	54.4	53.7
10:00	EZ	Flash Eurozone Services PMI	Oct	pts	47.0	-	46.2	48.0
10:00	PL	Unemployment Rate	Sep	%	6.1	6.1	6.1	6.1
MONDAY (26 October)								
10:00	DE	IFO Business Climate	Oct	pts	93.0	-		93.4
15:00	US	New Home Sales	Sep	% m/m	-0.1	-		4.8
TUESDAY (27 October)								
	DE	Retail Sales	Sep	% m/m	-0.8	-		1.8
13:30	US	Durable Goods Orders	Sep	% m/m	0.5	-		0.5
15:00	US	Consumer Conference Board	Oct	pts	101.9	-		101.8
WEDNESDAY (28 October)								
No important data releases								
THURSDAY (29 October)								
11:00	EZ	ESI	Oct	pct.	89.6	-		91.1
13:30	US	GDP Annualized	3Q	% Q/Q	31.9	-		-31.4
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:00	DE	HICP	Oct	% m/m	-0.2	-		-0.4
14:30	US	Initial Jobless Claims	week	k	870	-		787
15:00	US	Pending Home Sales	Sep	% m/m	3.5	-		8.8
FRIDAY (30 October)								
08:00	DE	GDP WDA	3Q	% y/y	-4.3	-		-11.3
09:00	CZ	GDP SA	3Q	% y/y	-6.6	-		-10.9
10:00	PL	Flash CPI	Oct	% y/y	3.2	3.1		3.2
11:00	EZ	Flash HICP	Oct	% y/y	-0.4	-		-0.3
11:00	EZ	GDP SA	3Q	% y/y	-7.4	-		-14.8
11:00	EZ	Unemployment Rate	Sep	%	8.3	-		8.1
13:30	US	Personal Spending	Sep	% m/m	1.0	-		1.0
13:30	US	Personal Income	Sep	% m/m	0.3	-		-2.7
13:30	US	PCE Deflator SA	Sep	% m/m	0.2	-		0.3
15:00	US	Michigan index	Oct	pts	81.2	-		81.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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