

2 November 2020

Eyeopener

Extension of restrictions

Quiet end of the week on European stock exchanges
 EURPLN stable
 Yield of 10Y POLGB reaches minimum at 1.12% then rebounds to 1.19%
 Today manufacturing PMI in Poland, Europe and the US

On Friday European equity markets got calmer before the weekend and the looming US elections – changes of main indices did not exceed 0.5%; US stock market indices ended the session in red. Bund yield, after declining at the start of the week, stabilised near -0.62%, while yield of 10Y UST rose by 4bp to 0.87%. Gold price was declining during the week, and on Friday after small rise closed at US\$1878/oz. Brent oil price ended the week at US\$38/barrel. Macroeconomic data in Europe (3Q GDP) positively surprised in Germany, France and Czechia. Similarly, Michigan index of US consumer confidence rose to 81.8 pts while consumers' incomes and spending rose more than expected. Today in the morning the manufacturing PMI from China also surprised positively. During the weekend the UK PM Boris Johnson announced a month-long lockdown. Similar restrictions have been decided in Austria.

Flash CPI print for October was 3.0% y/y, down from 3.2%. Market consensus was around 3.1-3.2% and our estimate was 3.1%. Some of the downside surprise came from faster food inflation decline, some from easing core CPI – after the release our estimate of inflation ex food and energy moved to 4.1% y/y from 4.3%, which would offset most of its unexpected September rise. Headline CPI should be now moving towards the 2.5% y/y target in December and dip below 2% in the course of 1Q21. Core inflation should also be falling, possibly going to around 3.5% y/y still this year and below 2% by the middle of next year as the pandemic keeps weighing on domestic demand.

Polish PM Mateusz Morawiecki said at the Friday's press conference that current pandemic-related curbs would be extended by further 2 weeks. PM said that he hopes the curbs will be removed in late November/early December and very likely before Christmas. As to the PFR shield and related subsidies, PM Morawiecki said that in the face of the 2nd wave of Covid-19 the conditions for obtaining a subsidy (keeping employment for 12 months) might be changed (in favour of companies). Deputy PM Jarosław Gowin said that potential further curbs might touch on trade and, possibly, non-work related activities of Poles.

EURUSD after the whole week of declines (in total 1.5% to 1.168), stabilised on Friday and after reaching a weekly minimum at 1.165 rebounded late last week as the fx market awaited this week's upcoming events (US presidential elections, Fed meeting) which are all important for the dollar.

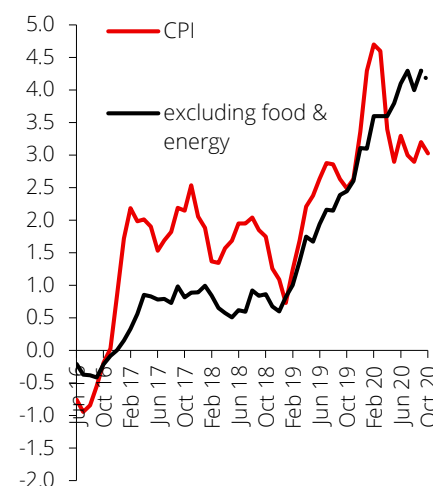
EURPLN stabilised on Friday to conclude the week during which it rose 0.8% to 4.606. The daily volatility of the exchange rate remains low which suggest this market is also awaiting the result of the US elections. However, as long as the Covid-19 statistics are deteriorating, we think EURPLN could remain above 4.60.

In case of the **other CEE currencies**, EURHUF was stable like EURPLN, it managed even to decline 0.4% on Friday to 366.3 and the weekly rise stood at 0.5%. EURCZK fell by 0.4% to 27.3 ending the week with a 0.5% rise. Only USDRUB rose 0.6% and was testing Thursday's peak at 79.6 (it closed the week at 79.5).

On the domestic **interest rate market** FRAs did not change much, 9x12 rate was still at 0.11%. The 2Y IRS rose 1bp to 0.2%, 5Y by 2bp to 0.50% and 10Y by 2bp to 0.95%. Only bonds of longer time to maturity yield above zero, e.g. 4Y at 0.20% and 5Y at 0.40%. The 10Y bond yield rebounded to 1.19% after it temporarily fell to its new all-time-low of 1.12%. On weekly basis, however, it fell by 7bp.

Ministry of Finance said that in November there will be outright sale auction. The Ministry announced two switch auctions however (6 and 26 November). It also informed that the share of foreign investors in POLGBs dropped once again at the end of September (by PLN0.8bn m/m to PLN135.7bn), while total indebtedness in PLN-denominated government bonds was PLN784.9bn (up PLN0.1bn m/m). Banks' share stayed at 55.9% of outstanding debt. BGK will hold two auctions this month (10 and 25 November, selling FPC0630 and FPC0733, it might add another series too). **NBP** at its Friday auction sold 7-day NBP bills worth PLN161.1bn and informed that a QE auction will take place on 18 November.

CPI inflation, % y/y



Source: GUS, NBP, Santander

Yield of 10Y Polish government bond



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.6093	CZKPLN	0.1676
USDPLN	3.9611	HUFPLN*	1.2464
EURUSD	1.1637	RUBPLN	0.0494
CHFPLN	4.3235	NOKPLN	0.4150
GBPPLN	5.1096	DKKPLN	0.6159
USDCNY	6.6931	SEKPLN	0.4453

*for 100HUF

Last session in the FX market

30.10.2020

	min	max	open	close	fixing
EURPLN	4.607	4.631	4.622	4.611	4.619
USDPLN	3.944	3.969	3.957	3.958	3.956
EURUSD	1.164	1.170	1.168	1.165	-

Interest rate market

30.10.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.01	2
PS0425 (5Y)	0.38	0
DS1030 (10Y)	1.19	4

IRS on the interbank market**

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.15	1	0.21	0	-0.55	-1
2L	0.20	1	0.24	0	-0.54	-1
3L	0.27	2	0.28	0	-0.54	-1
4L	0.38	2	0.35	0	-0.52	0
5L	0.50	2	0.44	1	-0.49	-1
8L	0.79	2	0.73	3	-0.37	0
10L	0.95	2	0.88	4	-0.27	0

WIBOR rates

Term	%	Change (bps)
O/N	0.10	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	0
3x6	0.15	1
6x9	0.11	0
9x12	0.11	1
3x9	0.17	0
6x12	0.15	0

Measures of fiscal risk

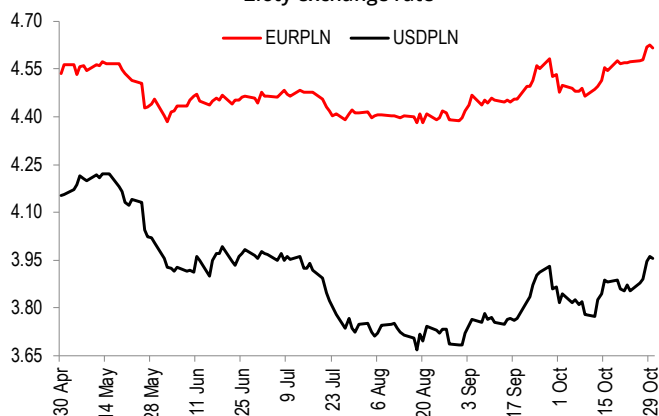
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	60	0	181	2
France	10	0	28	0
Hungary	63	0	295	-4
Spain	60	0	76	-1
Italy	89	0	134	0
Portugal	38	0	74	-1
Ireland	18	0	37	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

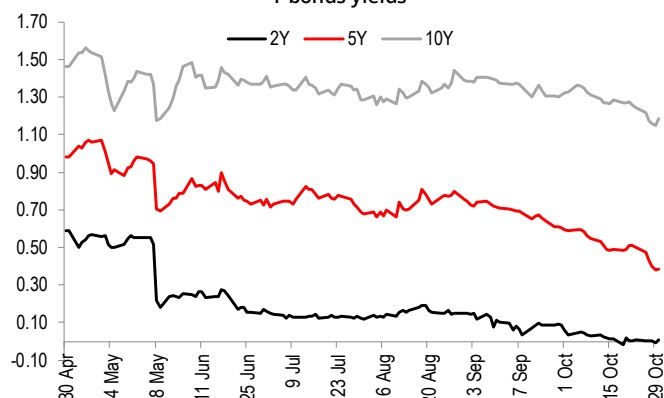
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

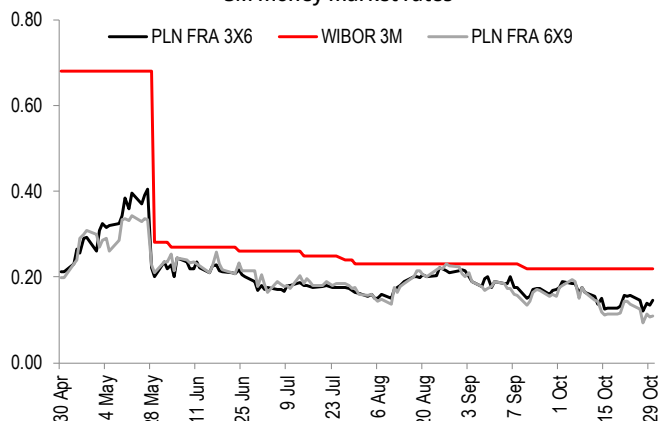
Zloty exchange rate



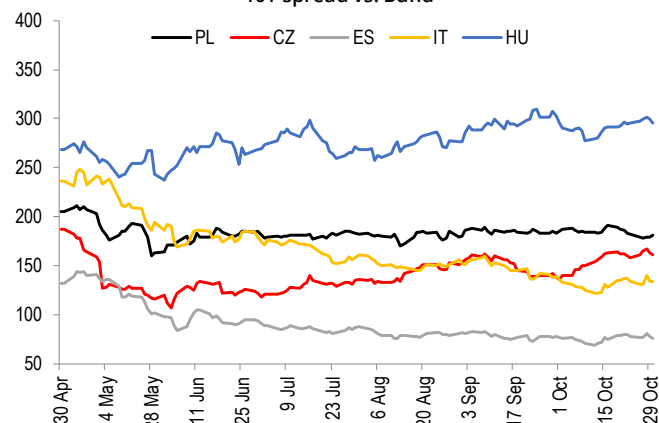
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
FRIDAY (30 October)								
08:00	DE	Retail Sales	Sep	% m/m	-0.6		-2.2	1.8
09:00	CZ	GDP SA	3Q	% y/y	-6.7		-5.8	-10.9
10:00	PL	CPI	Oct	% y/y	3.1	3.1	3.0	3.2
10:00	DE	GDP WDA	3Q	% y/y	-5.5		-4.3	-11.3
11:00	EZ	Flash HICP	Oct	% y/y	-0.3		-0.3	-0.3
11:00	EZ	GDP SA	3Q	% y/y	-7.0		-4.3	-14.8
11:00	EZ	Unemployment Rate	Sep	%	8.2		-8.3	8.1
13:30	US	Personal Spending	Sep	% m/m	1.0		1.4	1.0
13:30	US	Personal Income	Sep	% m/m	0.4		0.9	-2.7
13:30	US	PCE Deflator SA	Sep	% m/m	0.2		0.2	0.3
15:00	US	Michigan index	Oct	pts	81.2		81.8	81.2
MONDAY (2 November)								
09:00	PL	Poland Manufacturing PMI	Oct	pts	51.2	50.7	-	50.8
09:55	DE	Germany Manufacturing PMI	Oct	pts	58.8		-	58.0
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	54.4		-	54.4
16:00	US	ISM manufacturing	Oct	pts	55.6		-	55.4
TUESDAY (3 November)								
16:00	US	Durable Goods Orders	Sep	% m/m	-		-	1.9
16:00	US	Factory Orders	Sep	% m/m	0.3		-	0.7
WEDNESDAY (4 November)								
	PL	MPC decision		%	0.1	0.1	-	0.1
02:45	CN	Caixin China PMI Services	Oct	pts	55.0		-	54.8
09:55	DE	Markit Germany Services PMI	Oct	pts	48.9		-	48.9
10:00	EZ	Eurozone Services PMI	Oct	pts	46.2		-	46.2
14:15	US	ADP report	Oct	k	750.0		-	748.7
16:00	US	ISM services	Oct	pts	57.5		-	57.8
THURSDAY (5 November)								
08:00	DE	Factory Orders	Sep	% m/m	2.0		-	4.5
11:00	EZ	Retail Sales	Sep	% m/m	-1.5		-	4.4
13:30	US	Initial Jobless Claims		k	770.0		-	751.0
14:30	CZ	Central Bank Rate Decision	Nov.20		-		-	0.3
20:00	US	FOMC decision	Nov.20		0.25		-	0.25
FRIDAY (6 November)								
08:00	DE	Industrial Production SA	Sep	% m/m	3.5		-	-0.2
09:00	CZ	Industrial Production	Sep	% y/y	-		-	-8.0
09:00	HU	Industrial Production SA	Sep	% y/y	-		-	-0.2
14:30	US	Change in Nonfarm Payrolls	Oct	k	610.0		-	661.0
14:30	US	Unemployment Rate	Oct	%	7.7		-	7.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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