

6 November 2020

Eyeopener

US vote count continues

Another session in very positive risk mood, election result still unknown
 EURPLN only slightly lower
 POLGBs slightly weaker
 Today MPC, in the US non-farm payrolls, in Europe industrial production

After it turned out that the Democratic candidate Joe Biden has high probability to win Wisconsin and Michigan and therefore getting close to winning the presidential elections, markets reacted with another wave of optimism – main stock indices in Europe were rising 1.5%-2.0%. Dollar was weakening (breaking through October's low) and EM currencies had one of the best sessions in many weeks. Core markets bond yields were rising by around 2bp: 10Y Bund to -0.62%, 10Y UST to 0.78%. Bank of England did not change interest rates, but increased its QE programme. It was the second central bank, after the Australian RBA, that boosted QE recently, which may be a signal about the broad consensus among central banks how to deal with the second wave of pandemic (more QE, no negative interest rates). September retail sales data released in the euro zone, Hungary and Czechia were all below expectations. Moreover, German factory orders and industrial output were also lower than forecast in September.

The **FOMC** did not make any changes in monetary policy, as expected. The Fed signalled it will keep targeting inflation moderately above 2% for some time and throughout this period, and until the economy approaches the full employment, interest rates will remain stable. Fed also ensured about continuation of QE purchases, at the current or higher pace.

PM Mateusz Morawiecki said that the "national quarantine" could be introduced in 7 or 14 days and it will imply "very strict limitations of movement". We think that the development of the pandemic shows that the further extension of restrictions is very likely.

In the **autumn forecast update the European Commission** increased Poland's 2020 GDP forecast to -3.6% from -4.6%, while the 2021 got lowered to 3.3% from 4.3%. 2022 was shown at 3.5%. Polish growth is expected to be 4th best in the EU (after Lithuania, Ireland and Sweden) while in July EC forecast update Poland was expected to perform the best in EU. Only in the case of Spain and Malta the forecasts were lowered considerably vs July. According to EC the HICP inflation in Poland will equal on average 3.6% in 2020 and 2.0% in 2021 and then it will rebound to 3.1% in 2022. In 2020 and 2022 the Polish inflation would be the highest in the EU (the EU average for those years equals, respectively, 0.7% and 1.5%) while in 2021 it will be 4th highest (after Hungary, Romania and Czechia). According to EC the GG deficit will equal 8.8% this year (of which 2pp comes from the part of the loans coming from Financial Shield that would not be paid back) while in 2021 4.2%. The former forecast from May expected the deficits at 9.5% and 3.8%. The structural budget balance in 2020 would equal -8.2% (second worst after Romania, with EU average of -4.8%) and -3.7% in 2021 (biggest improvement over the year, better than EU average of -4.2%). As for the downside GDP risks in 2021 the EC pointed to labor market and corporates' reaction to withdrawal of government support.

EURUSD was on the rise as information regarding the US elections was coming into the market. The exchange rate rose 1.2% to 1.186 intraday and closed at 1.182 (+1%).

EURPLN started the day at 4.544 and fell right away setting the daily minimum 0.8% lower at 4.51. However, in the second part of the day the zloty gave up most of the earlier gains and EURPLN closed at 4.533 (-0.1% vs opening level).

The **other CEE currencies** gained much on Thursday. EURHUF fell by as much as 1.2% to 359.2 despite poor September retail sales data (-2% y/y vs +1% y/y expected). At the weekly tender organised by the Hungarian central bank the deposit rate was left unchanged (0.75%). EURCZK fell 0.7% to 26.67, alike in Hungary, despite somewhat disappointing September retail sales data (-2.8% y/y vs consensus at -0.6% y/y). Moreover, the Czech central bank left interest rates unchanged with main rates still at 0.25%. The ruble also gained amid high intraday volatility triggered by poor services PMI reading (-0.7pt to 46.9pt). USDRUB closed 1% lower at 76.9.

On the domestic **interest rate market** FRA3x6 was hovering around 0.12% (vs 3M WIBOR at 0.22%) a day before the MPC meeting which shows that the market does not exclude a rate cut in Poland. The 5Y bond yield fell 0.39% and the 10Y rebounded to 1.16% at the end of the day. Similarly significant upside move was recorded in case of the 10Y IRS: +5bp to 0.94%. Today the Ministry of Finance will hold a bond **switch auction**: it will offer OK0423, PS0425, WZ1126, WZ1129, DS1030 and will repurchase WZ0121, PS0421, OK0521, PS0721 and DS1021.

Today the MPC will hold a meeting. Council's members have recently clearly stated that further rate cuts would be pointless. We assume that today the MPC could stress its readiness to support government's anti-crisis measures but not via interest rate cuts but by the unlimited QE program. However, the sudden postponement of the meeting from Wednesday spurs some uncertainty.

European forecasts	Commission's GDP growth	
	2020	2021
EU	-7.4(0.9)	4.1(-1.7)
Euro area	-7.8(0.9)	4.2(-1.9)
Germany	-5.6(0.7)	3.5(-1.8)
France	-9.4(1.2)	5.8(0.8)
Italy	-9.9(1.3)	4.1(-2.0)
Spain	-12.4(-1.5)	5.4(-1.7)
Sweden	-3.4(1.9)	3.3(0.2)
Poland	-3.6(1.0)	3.3(-1.0)
Czechia	-6.9(0.9)	3.1(-1.4)
Hungary	-6.4(0.6)	4.0(-2.0)
Romania	-5.2(0.8)	3.3(-0.7)
UK	-10.3(-0.6)	3.3(-2.7)

Note: in parentheses are differences versus July 2020
 Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.5339	CZKPLN	0.1681
USDPLN	3.8315	HUFPLN*	1.2602
EURUSD	1.1831	RUBPLN	0.0496
CHFPLN	4.2203	NOKPLN	0.4160
GBPPLN	5.0261	DKKPLN	0.6159
USDCNY	6.6220	SEKPLN	0.4399

*for 100HUF

Last session in the FX market

05.11.2020

	min	max	open	close	fixing
EURPLN	4.503	4.546	4.530	4.532	4.523
USDPLN	3.803	3.877	3.862	3.838	3.835
EURUSD	1.173	1.186	1.173	1.181	-

Interest rate market 05.11.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.00	-1
PS0425 (5Y)	0.33	1
DS1030 (10Y)	1.16	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.14	0.21	-0.55
2L	0.18	0.23	-0.54
3L	0.25	0.27	-0.54
4L	0.36	0.32	-0.52
5L	0.48	0.39	-0.49
8L	0.77	0.65	-0.37
10L	0.94	0.79	-0.28

WIBOR rates

Term	%	Change (bps)
O/N	0.09	0
T/N	0.10	0
SW	0.11	-1
2W	0.16	-1
1M	0.20	0
3M	0.22	0
6M	0.25	0
1Y	0.25	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.16	-1
3x6	0.12	1
6x9	0.09	1
9x12	0.10	1
3x9	0.16	2
6x12	0.14	2

Measures of fiscal risk

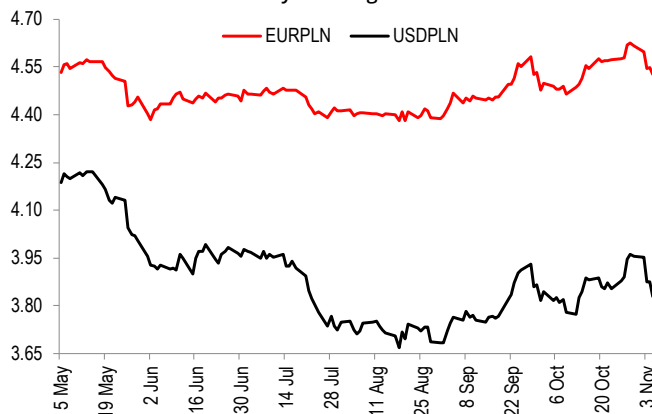
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	59	179
France	10	28
Hungary	63	289
Spain	57	73
Italy	82	130
Portugal	33	71
Ireland	15	36
Germany	8	-

* 10Y treasury bonds over 10Y Bunds

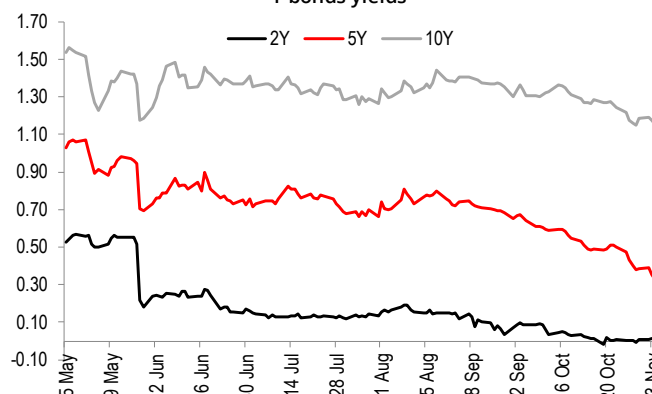
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

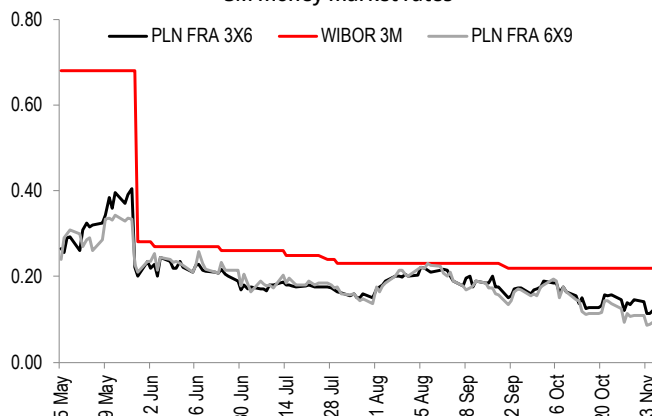
Zloty exchange rate



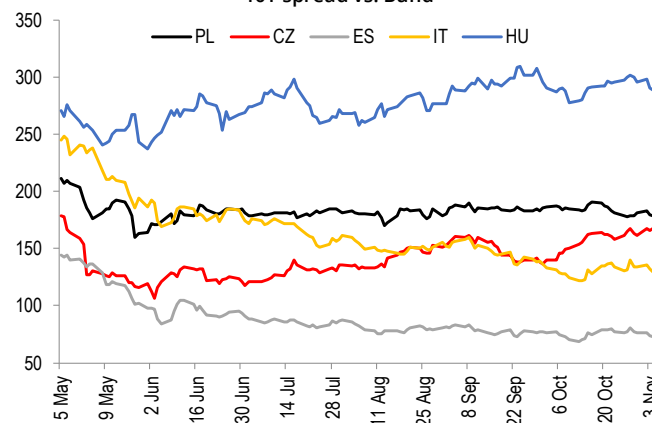
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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	50.8
09:55	DE	Germany Manufacturing PMI	Oct	pts	58.8		58.2	58.0
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	54.4		54.8	54.4
16:00	US	ISM manufacturing	Oct	pts	55.6		59.3	55.4
TUESDAY (3 November)								
16:00	US	Durable Goods Orders	Sep	% m/m	1.9		-	1.9
16:00	US	Factory Orders	Sep	% m/m	1.0		1.1	0.7
WEDNESDAY (4 November)								
02:45	CN	Caixin China PMI Services	Oct	pts	55.0		56.8	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	643.0		365.0	748.7
16:00	US	ISM services	Oct	pts	57.5		56.6	57.8
THURSDAY (5 November)								
08:00	DE	Factory Orders	Sep	% m/m	2.0		0.5	4.9
11:00	EZ	Retail Sales	Sep	% m/m	-1.5		-2.0	4.4
13:30	US	Initial Jobless Claims		k	735.0		751	751.0
14:30	CZ	Central Bank Rate Decision	Nov.20		0.25		0.25	0.25
20:00	US	FOMC decision	Nov.20		0.25		-	0.25
FRIDAY (6 November)								
	PL	MPC decision		%	0.1	0.1	-	0.1
08:00	DE	Industrial Production SA	Sep	% m/m	3.5		1.6	0.5
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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