

16 April 2020

# Eyeopener

## Inflation has not given up (yet)

Worse sentiment on US company results  
Smaller-than-expected decline of Polish inflation  
Zloty and other CEE fx weaker  
Domestic IRS rates at new record lows  
Today Polish core CPI and plenty of US data

Wednesday saw a correction of earlier market optimism, prevailing on the markets for a couple of days. Worse than expected financial results of US banks and weaker March data from the USA triggered a sell-off on the stock market, a further strengthening of bonds, USD appreciation and EM currencies depreciation. Additionally, diminishing hopes for a quick rebound in the global economy were visible in a considerable decline in oil prices, despite Sunday OPEC+ decision to cut output.

According to Fed's report about the business sentiment (the so called **beige book**), based on surveys conducted up to April 6th, there was a rapid drop in activity, especially in entertainment, leisure and retail sales, except for basic goods. The reaction of the industrial sector varied. In the sectors where the demand increased (food, medical equipment) there were supply chain disruptions reported. In general, the US companies expect further deterioration of business environment in the months to come and a need for further employment reductions. The inflation is subdued, many discounts occurred due to much lower demand – the exception being freight, agriculture commodities and some of the consumption goods.

**Polish CPI inflation** fell in March to 4.6% y/y from 4.7% in February, vs our forecast and market consensus at 4.4%. Core inflation ex food and energy rose in March to 3.7% y/y, according to our estimate. Inflation did not fall in categories where coronavirus should have put a negative pressure, while some price rise occurred in categories where the epidemic should have put upside pressure. The results should be approached with caution, as the inflation measurement during the lockdown is difficult and subject to many errors. Overall, we would not draw very strong conclusions from the March CPI number. We still think that the large-scale contraction of demand is likely to result in strongly disinflationary environment and as a result inflation rate should be descending quite quickly in the following months. The majority of Polish MPC members share a similar view, it seems, which was expressed in their latest press release. Find more in our yesterday's [Economic comment](#).

**MPC member Jerzy Kropiwnicki** is concerned that the epidemic will actually cause an acceleration of inflation and not deflation, against a widely held view. The reason for such price behaviour would be the clash of the delayed demand with limited supply, once the pandemic will start stepping back. The MPC member hopes that the measures taken to fight the rising inflation would not "kill" the future economic rebound.

**IMF has updated its fiscal forecasts for Poland**, from Autumn 2019. The fund currently forecasts the 2020 general government deficit to reach 6.7% GDP (up from 2.5%), while in 2021 to 3.5% (up from 2.5% as well). In case of the euro zone, the 2020 numbers are forecasted to be 7.5%, in Germany 5.5%, in France and in Spain over 9.0%. In the United States the 2020 deficit is expected to rise to 15.4% from 5.8%. Averaging globally, this year's GG balance might equal around -10%.

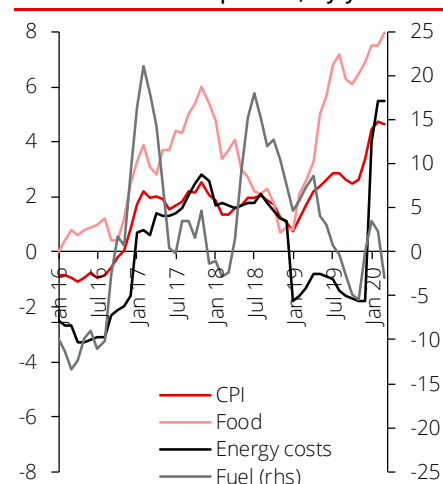
**EURUSD** more than neutralized Tuesday's rise and at the end of the day was below 1.09 vs nearly 1.10 at the opening. The dollar was supported by higher risk aversion fuelled by the below-consensus US data and disappointing company earnings. Today the next data will be released in the US – real estate and weekly job report – that could trigger EURUSD move.

**EURPLN** corrected roughly a half of the Tuesday's drop and USDPLN nearly the whole move after exchange rates rose to 4.53 and 4.16, respectively. The zloty lost vs the euro and dollar (and pound and franc as well) amid the retreat of global optimism. EURPLN trading range is narrowing gradually and the next down waves when the exchange rate tries to approach 4.50 are getting shorter. This suggests that the zloty could be under pressure in the short term.

In case of the **other CEE currencies**, the forint outperformed since it remained roughly stable around 351 per euro. EURCZK rebounded above 27.0 from 26.8. USDRUB rose significantly to 75 from 73 amid cheaper oil and stronger dollar.

On the domestic **interest rate market** IRS and yields continued the down move to their fresh all-time-lows. Both curves shifted down by c5-7bp. This trend was supported by deterioration of the global market mood resulting in stronger Bund and UST (yields fell by c10bp).

CPI and selected components, %y/y



Source: GUS, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.5368	CZKPLN	0.1675
USDPLN	4.1663	HUFPLN*	1.2901
EURUSD	1.0884	RUBPLN	0.0558
CHFPLN	4.3119	NOKPLN	0.3936
GBPPLN	5.2051	DKKPLN	0.6079
USDCNY	7.0765	SEKPLN	0.4143

\*for 100HUF

### Last session in the FX market 15.04.2020

	min	max	open	close	fixing
EURPLN	4.515	4.546	4.516	4.538	4.539
USDPLN	4.114	4.184	4.115	4.160	4.152
EURUSD	1.086	1.098	1.097	1.091	-

## Interest rate market 15.04.2020

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.65	-3	5.03.2020	OK0722	1.225
PS1024 (5Y)	1.03	-4	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.37	-5	5.03.2020	DS1029	1.725

### IRS on the interbank market\*\*

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.43	-3	0.54	-2	-0.34	1
2L	0.45	-6	0.41	-2	-0.29	0
3L	0.48	-5	0.40	-3	-0.29	-1
4L	0.51	-6	0.42	-5	-0.27	-2
5L	0.57	-5	0.47	-8	-0.24	-3
8L	0.72	-4	0.63	-9	-0.13	-4
10L	0.79	-4	0.70	-11	-0.06	-4

### WIBOR rates

Term	%	Change (bps)
O/N	0.61	3
T/N	0.61	3
SW	0.56	0
2W	0.59	0
1M	0.65	0
3M	0.70	0
6M	0.72	0
1Y	0.76	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	0.50	-6
3x6	0.38	-5
6x9	0.33	-5
9x12	0.30	-6
3x9	0.40	-6
6x12	0.35	-6

### Measures of fiscal risk

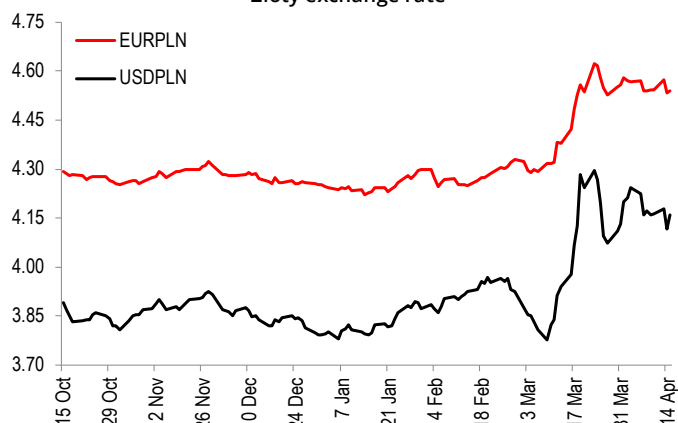
Measures of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	59	0	181	0
France	28	1	45	0
Hungary	78	-2	314	0
Spain	123	10	113	0
Italy	181	20	194	0
Portugal	90	7	123	0
Ireland	38	1	58	0
Germany	20	0	-	-

\* 10Y treasury bonds over 10Y Bunds

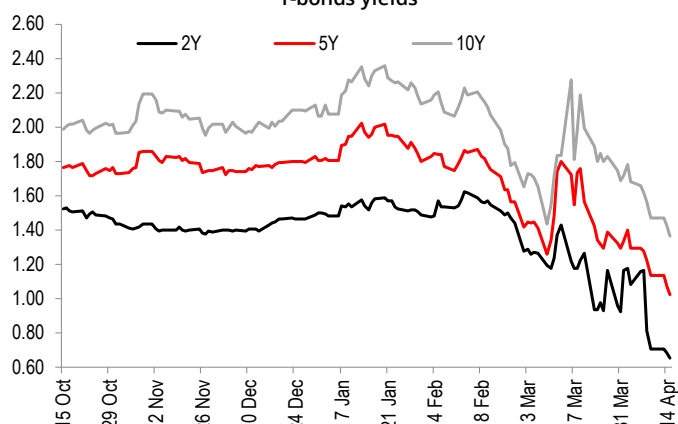
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

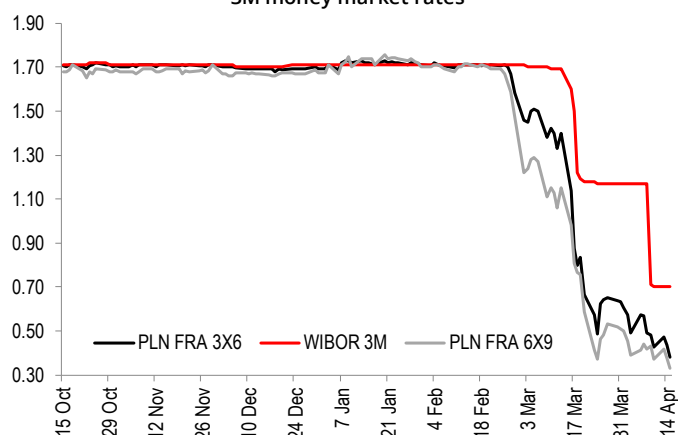
## Zloty exchange rate



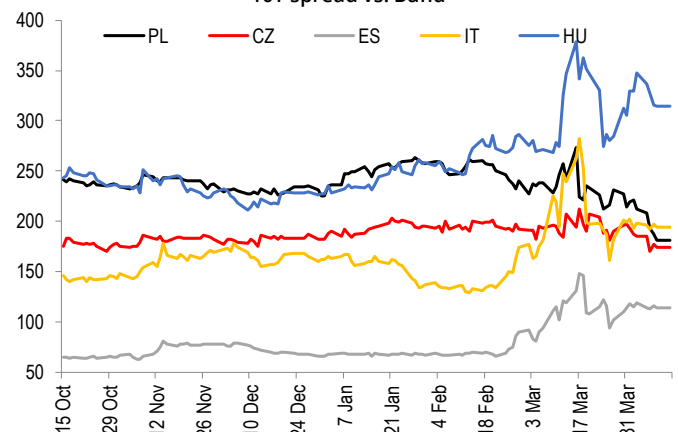
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	OSTATNIA WARTOŚĆ*	
				MARKET	SANTANDER			
THURSDAY (9 April)								
08:00	DE	Exports	II	% m/m	-	-	1.3	0.1
14:30	US	Initial jobless claims	week	k	5250	-	6606	6867
16:00	US	Michigan index	Apr	pts	82.0	-	71.0	89.1
FRIDAY (10 April)								
14:30	US	CPI	Mar	% m/m	-0.3	-		0.1
TUESDAY (14 April)								
9:00	CZ	CPI	Mar	% y/y	3.7	-	3,4	3.7
14:00	PL	Current account	Feb	€m	2542	902	659	2 348
14:00	PL	Exports	Feb	€m	-	19800	19 463	19 362
14:00	PL	Imports	Feb	€m	-	19289	18 938	18 882
WEDNESDAY (15 April)								
9:00	HU	Industrial output	Feb	% y/y	-	-	4.1	4.1
10:00	PL	CPI	Mar	% y/y	4.4	4.4	4.6	4.7
14:30	US	Retail sales	Mar	% m/m	-3.4	-	-8.7	-0.5
15:15	US	Industrial output	Mar	% m/m	-3.9	-	-5.4	0.5
20:00	US	Fed Beige Book						
THURSDAY (16 April)								
11:00	EZ	Industrial output	Feb	% m/m	-0.2	-		2.3
14:00	PL	Core inflation	Mar	% y/y	3.5	3.7**		3.6
14:30	US	Building permits	Mar	k	1300	-		1452
14:30	US	House starts	Mar	k	1300	-		1599
14:30	US	Philly Fed index	Apr	pts	-30.0	-		-12.7
14:30	US	Initial jobless claims	week	k	5105	-		6606
FRIDAY (17 April)								
4:00	CN	GDP	Q1	% y/y	-6.0	-		6.0
4:00	CN	Industrial output	Mar	% y/y	-5.6	-		-13.5
4:00	CN	Retail sales	Mar	% y/y	-8.8	-		-20.5
11:00	EZ	HICP	Mar	% y/y	1.4	-		1.2

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

\*\*estimate after CPI inflation data

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