

23 April 2020

Eyeopener

More data showing recession

Major decline of retail sales in March, slump of business sentiments
EURPLN and EURUSD still stable
Polish bond yields somewhat lower, core markets higher
Today construction output, M3, flash PMI in Europe

On Wednesday, stock exchanges finished the day with gains, mostly in the 1-2% range. The impulse came from oil trading, where there was a strong rebound after several days of weakness. Yields rose on core markets. Out of EM fx, the Turkish lira underperformed after a rate cut, while the ruble strengthened. April Consumer confidence index published by the European Commission for the euro zone was worse than expected and the weakest since 2013. The Turkish central bank cut rates by as much as 100bp to 8.75%, and this accelerated the losses of the currency. In the USA, weekly data on mortgage loan applications showed a decline of growth rate by almost 8pp vs the previous week. The ECB relaxed the range of eligible collateral for its programme of bank loans, by deciding to also accept bonds which have lost investment grade.

Retail sales dropped by 9% y/y in March in real terms, while the market had expected a decline of 5.2% and we of 4.2%. Several categories showed a massive drop of sales as the lockdown was announced, and the extra spending on food and pharmaceuticals did little to offset this. In our view the next months will show a much greater decline of retail sales. April set of **GUS business sentiment** indicators was the first one to cover the lockdown period. All sectoral indexes collapsed way below the minima from the Global Financial Crisis. More in our [Economic Comment](#).

Ministry of Finance chief economist Łukasz Czernicki said in an interview for Dziennik Gazeta Prawna daily that a discussion should start on changes to the spending rule and the current public debt thresholds should not be treated as carved in stone in case the bad macroeconomic scenario was to materialise.

S&P analyst Karen Vartapetov told PAP that the base scenario for Polish rating is that it remains stable while the economy is coming out of the pandemic in a U-shaped recovery. The Polish bond-buying program does not worry the agency. There could be pressure to change the rating if fiscal indicators deviate much to the bad side from what S&P predicts and there was a need to deliver more support to companies. Currently the agency thinks GDP will fall by 2% this year and the fiscal deficit goes to 6.1% of GDP in 2020 and 3.1% in 2021.

EURUSD started the day at 1.085 and was rising until early afternoon reaching daily peak at 1.0875. At the end of the day, correction to 1.0845 was recorded. This does not change the fact that during this week EURUSD volatility is rather low – similar to January and February, yet before the pandemic. This is a typical phenomenon that could be observed before a major move that in our view will be to the downside.

EURPLN opened and closed at c4.537 after one of the calmest days as of recently. No big changes were seen if we ignore short term drop to 4.535 after Polish retail sales data. Only after closing of the domestic session the zloty depreciated more noticeably and today in the morning EURPLN is near 4.54. We expect that the upside move may continue and take the exchange rate to 4.60 in the nearest future.

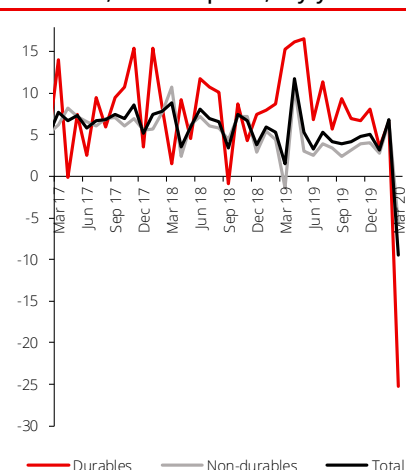
In case of the other **CEE currencies**, EURHUF rose to 356.2 from 354 (+0.6%). The exchange rate is now 1.4% higher vs the April's low and if it breaks 357.7 (local peak from mid-March), it will have opened door for further rise to 366.4 (+2.7% from the current level). EURCZK was hovering around 27.5 for the whole day but we expect the exchange rate might climb towards 28.0 in the short-term. The ruble benefited from oil price rise and USDRUB eased 2% to 76.3. We view the ruble strengthening as temporary.

On the domestic **interest rates market** the IRS curved moved 1-2bp up while the bond curve shifted 1-2bp down leading to asset swap narrowing by c4bp (10Y spread at 48bp). Core bond yields rose together with stock indexes and oil price. Thus, the PL-DE 10Y bond yield spread narrowed by 6bp to 175bp.

Polish Development Fund (PFR) head Paweł Borys said yesterday that in the coming days the sale of PFR bonds will start, at first offered to institutional investors, possibly also to retail clients at a later stage. PFR wants to place PLN100bn of its bonds in the course of the next 4-8 weeks.

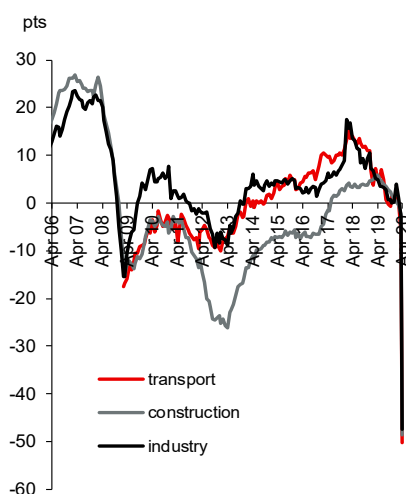
Today a streak of April flash PMI releases starts. Japanese and Australian indexes have shown big falls this morning in services and a small rise in industry. In Poland, data on construction output and money supply as well as minutes from the last MPC meeting will be released.

Retail sales, constant prices, % y/y



Source: GUS, Santander

Seasonally adjusted business climate indicators



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.5422	CZKPLN	0.1645
USDPLN	4.2015	HUFPLN*	1.2706
EURUSD	1.0810	RUBPLN	0.0559
CHFPLN	4.3194	NOKPLN	0.3934
GBPPLN	5.1842	DKKPLN	0.6089
USDCNY	7.0723	SEKPLN	0.4161

*for 100HUF

Last session in the FX market

4/22/2020

	min	max	open	close	fixing
EURPLN	4.521	4.552	4.531	4.551	4.533
USDPLN	4.161	4.205	4.179	4.203	4.174
EURUSD	1.082	1.089	1.084	1.083	-

Interest rate market

4/22/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.59	-3	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.95	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.31	-2	5.03.2020	DS1029	1.725

IRS on the interbank market**

Risks on the Interbank Market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.37	-2	0.53	-1	-0.23	3
2L	0.42	-1	0.40	0	-0.19	3
3L	0.46	-2	0.39	1	-0.20	3
4L	0.51	-1	0.42	2	-0.18	5
5L	0.58	1	0.45	2	-0.16	5
8L	0.72	-1	0.60	3	-0.07	5
10L	0.83	0	0.65	3	0.01	5

WIBOR rates

Term	%	Change (bps)
O/N	0.46	-3
T/N	0.47	-3
SW	0.52	-1
2W	0.57	-1
1M	0.65	0
3M	0.70	0
6M	0.71	0
1Y	0.76	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.57	-1
3x6	0.25	-4
6x9	0.25	-3
9x12	0.28	2
3x9	0.28	-4
6x12	0.28	-5

Measures of fiscal risk

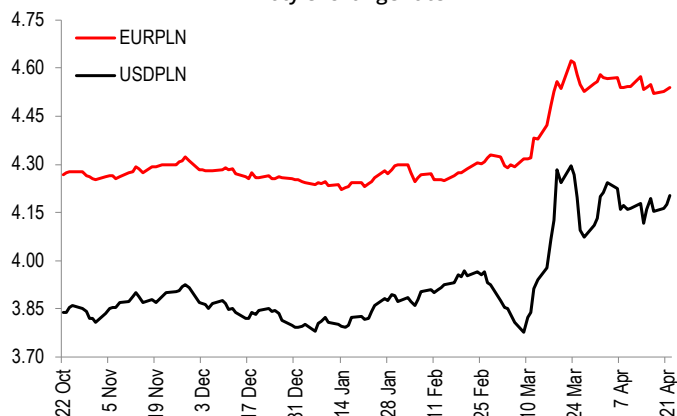
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	59	0	173	-8
France	33	3	54	-2
Hungary	78	0	299	-8
Spain	140	2	156	7
Italy	188	-14	253	-13
Portugal	100	0	171	5
Ireland	41	2	74	1
Germany	21	0	-	-

* 10Y treasury bonds over 10Y Bunds

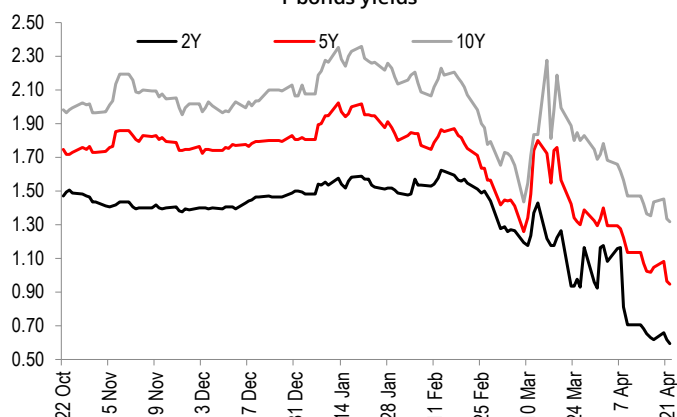
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

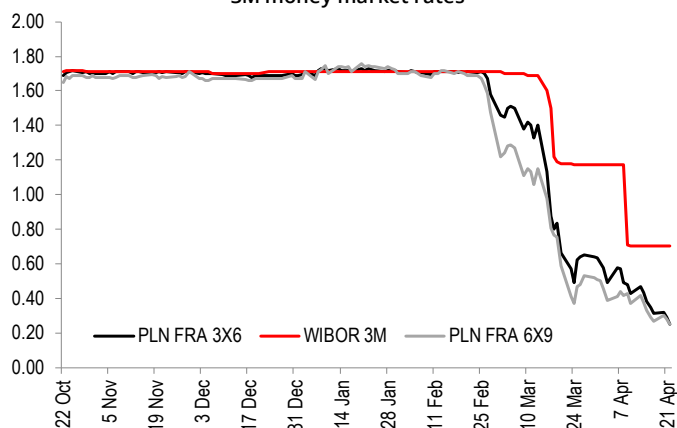
Zloty exchange rate



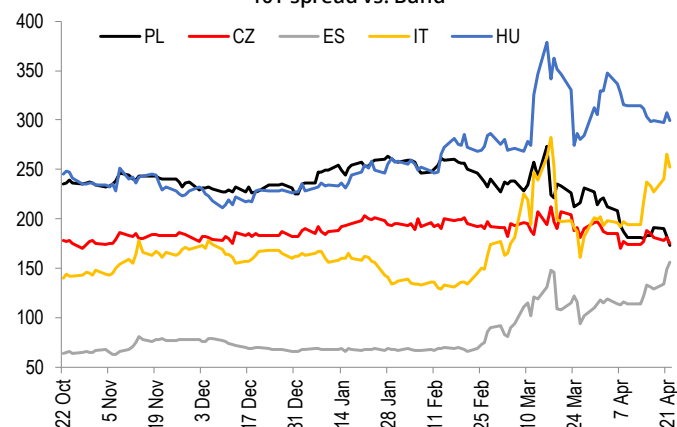
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST			REALIZED	LAST VALUE
				MARKET	SANTANDER			
MONDAY (20 April)								
08:00	DE	PPI	Mar	% y/y	-0.8	-	-0.8	-0.4
10:00	PL	Average Gross Wages	Mar	% y/y	6.6	7.0	6.3	7.7
10:00	PL	Employment	Mar	% y/y	0.8	0.8	0.3	1.1
TUESDAY (21 April)								
10:00	PL	Sold Industrial Output	Mar	% y/y	-3.3	1.4	-2.3	4.8
10:00	PL	PPI	Mar	%y/y	-0.4	-0.9	-0.5	0.2
11:00	DE	ZEW Expectations	Apr		-42.0	-	28.2	-49.5
16:00	US	Existing Home Sales	Mar	Mio	5.25	-	5.27	5.76
WEDNESDAY (22 April)								
10:00	PL	Retail Sales, constant prices	Mar	% y/y	-5.1	-4.2	-9.0	7.3
13:00	US	MBA Mortgage Applications	Apr 17 th	%			-0.3	7.3
16:00	EZ	Consumer Confidence	Apr	pts	-19.8		-22.7	-11.6
THURSDAY (23 April)								
08:00	DE	GfK Consumer Confidence	May		-1.8	-	-23.4	2.7
09:30	DE	PMI manufacturing	Apr	pts	-	-		45.4
10:00	EZ	PMI manufacturing	Apr	pts	38.5	-		44.5
10:00	PL	Construction Output	Mar	% y/y	2.5	-0.5		5.5
14:00	PL	Minutes						
14:00	PL	M3 Money Supply	Mar	% y/y	9.6	10.0		9.4
14:30	US	Initial Jobless Claims	week	k	4500	-		5245
15:45	US	PMI manufacturing	Apr	Pts				48.5
16:00	US	New Home Sales	Mar	K	661	-		765
FRIDAY (24 April)								
10:00	DE	IFO Business Climate	Apr		80.0	-		86.1
10:00	PL	Unemployment Rate	Mar	%	5.6	5.5		5.5
14:30	US	Durable Goods Order	Mar	%	-11.0	-		1.2
16:00	US	University of Michigan Sentiment	Apr	pts	69	-		71

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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.