

29 April 2020

Eyeopener

US GDP data, FOMC meeting

Markets expect the growth rebound
Zloty does not gain due to Forint weakness
Volatile EURUSD and EURCHF
POLGBs lower, Bund gains
Today important data in the US and the FOMC meeting

Through most of the Tuesday session the sentiment on the global market was very positive due to positive surprises from quarterly financial reports of US corporations and hopes for a gradual removal of Covid-19 restriction. As a result, stock indexes rose, despite some profit taking late in the session. Bonds on core markets were moving in the other direction than equities – yields went up at first and for the rest of the session the losses were covered, more than proportionately. The dollar and the franc were depreciating in the first half of the day but reversed the move in the second part. Fitch lowered Italy's credit rating to BBB-, only a notch above junk status.

According to Dziennik Gazeta Prawna daily the government's **Convergence Program Update** assumes GDP drop this year by 3.4%, rise of GG deficit to 8.4% of GDP and public debt at 55.2% of GDP. Average CPI inflation was assumed at 2.8%, private consumption at -3.0% and total investments at -11.4%. The document assumes public investment spending to stay at 4.3% of GDP – same as in 2019 – which, taking into account the predicted drop in nominal GDP, implies that public investments are also about to decrease this year..

The **MPC's Kamil Zubelewicz** said in an interview that the MPC should not have cut interest rates and their current level is too low. Zubelewicz also said there was a risk that the monetary policy easing instruments could be overdosed, which could undermine the zloty. According to Zubelewicz, the negative nominal interest rates on deposits is a significant and long-term risk factor for Poland. Zubelewicz also commented on bill discount credit, saying that implementing it could be challenging for the financial system.

EURUSD rose to almost 1.09 from just above 1.08, but the euro failed to keep the gains until the end of the day and the closing level was close to the opening level. Today we will see the first estimate of US GDP for 1Q20 and in the evening the Fed will announce its rate decision. In our view, the central bankers will not ease monetary policy any more for now, because the market sentiment stabilised after the decisions the Fed took in March. We think the GDP release may be a more market-moving event.

EURPLN fell only early in the session, to c.4.535 from 4.54, but in the following hours the zloty was losing systematically despite a quite positive sentiment on stock exchanges. At the end of the day EURPLN was close to 4.55. USDPLN was moving in a similar way – after an opening around 4.20 it fell to 4.17 only to rebound by three figures in the following hours. It seems that the zloty was influenced more by the Hungarian market (see next paragraph) rather than equities. We still think that in the coming days there might be another wave of PLN depreciation.

As regards **other CEE currencies**, the Czech koruna benefitted from the positive global moods more than its peers and EURCZK declined to 27.1 from 27.3. USDRUB remained stable, while EURHUF jumped to 350 from 355. The forint could have been undermined by the MNB decision, which decided to leave interest rates unchanged, with the main one at all-time low 0.90% and to start purchases of government and mortgage-backed bonds on 4 May. The MNB is to buy papers on weekly auctions. The upper limit of purchases was not set, but deputy governor Nagy said that HUF100bn per week (EUR280mn) is a possible number.

On the **domestic interest rate market** IRS remained stable while the bond curve steepened noticeably amid higher yields on the belly (+5bp) and long end (+8bp). Next to widening of the asset swap spread, yesterday the spread vs Bund rose as well since German bonds gained (10Y yield -2bp to -0.46%).

Yesterday the stat office informed that after a one month break it will **resume publications of the flash inflation** and on Thursday its first estimate of April CPI will be released. Our forecast assumes a noticeable drop from March 4.6% y/y to even below 3% y/y.

EURHUF Exchange Rate



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.5482	CZKPLN	0.1673
USDPLN	4.1921	HUFPLN*	1.2716
EURUSD	1.0849	RUBPLN	0.0568
CHFPLN	4.3075	NOKPLN	0.4028
GBPPLN	5.2247	DKKPLN	0.6100
USDCNY	7.0784	SEKPLN	0.4250

*for 100HUF

Last session in the FX market 4/28/2020

	min	max	open	close	fixing
EURPLN	4.532	4.553	4.538	4.548	4.5399
USDPLN	4.170	4.202	4.193	4.199	4.184
EURUSD	1.081	1.089	1.082	1.083	-

Interest rate market 4/28/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	0.57	-1	5.03.2020	OK0722	1.225
DS0725 (5L)	1.01	3	5.03.2020	PS1024	1.431
DS1029 (10L)	1.42	6	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	0.32	0	0.43	-4	-0.25	-3
2L	0.39	1	0.35	-3	-0.30	-3
3L	0.43	0	0.35	-3	-0.30	-3
4L	0.48	0	0.38	-3	-0.28	-3
5L	0.54	-1	0.43	-3	-0.25	-3
8L	0.70	-1	0.56	-4	-0.15	-2
10L	0.80	0	0.63	-4	-0.07	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.45	-7
T/N	0.51	-1
SW	0.52	0
2W	0.56	0
1M	0.64	0
3M	0.69	0
6M	0.70	0
9M	1.80	0
1Y	0.75	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.56	0
3x6	0.20	-1
6x9	0.17	-2
9x12	0.19	-1
3x9	0.25	-1
6x12	0.20	-1

Measures of fiscal risk

Measures of riskiness				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			1.90	7
France	43	-3	0.48	1
Hungary			2.64	-11
Spain	121	3	1.33	2
Italy	215	12	2.28	8
Portugal	121	4	1.45	2
Ireland	43	3	0.66	1
Germany	25	-1	-	-

* 10Y treasury bonds over 10Y Bunds

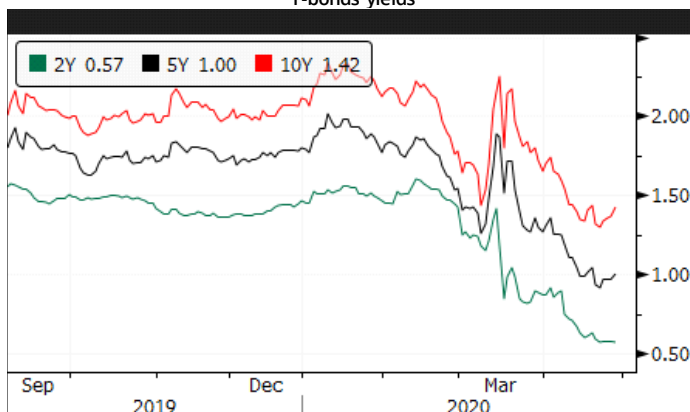
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

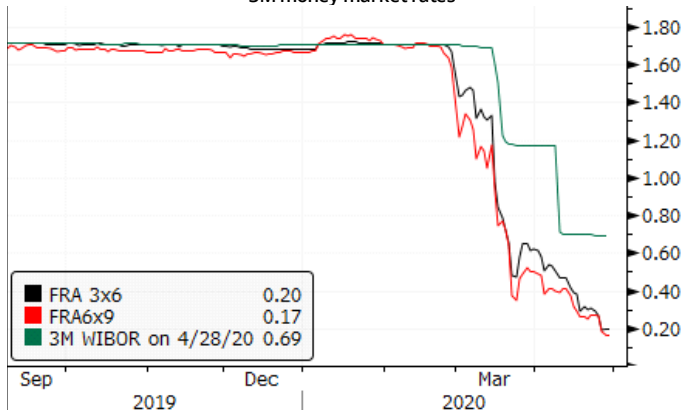
Zloty exchange rate



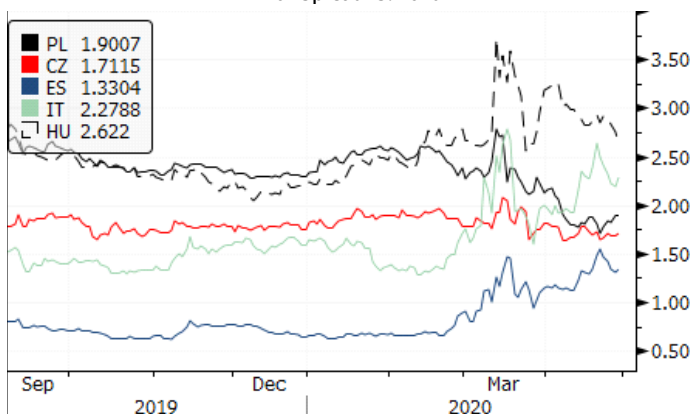
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		REALIZED	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (24 April)								
10:00	DE	IFO Business Climate	Apr	pts	80.0	-	74.3	86.1
10:00	PL	Unemployment Rate	Mar	%	5.6	5.5	5.4	5.5
14:30	US	Durable Goods Order	Mar	%	-11.0	-	-14.4	1.1
16:00	US	University of Michigan Sentiment	Apr	pts	69	-	70.1	71
MONDAY (27 April)								
15:00	RU	Retail sales	Mar	% y/y	2.0	-	5.6	4.6
TUESDAY (28 April)								
16:00	US	Consumer confidence index	Apr	pts	88.0	-	86.9	118.8
WEDNESDAY (29 April)								
14:30	US	Advance GDP	Q1	% q/q	-3.7	-		2.1
16:00	US	Pending home sales	Mar	% m/m	-12.5	-		2.4
20:00	US	Fed decision		%	0.0	-		0.0
THURSDAY (30 April)								
8:00	DE	Retail sales	Mar	% m/m	-8.4	-		1.2
10:00	PL	Flash CPI	Apr	% y/y				
13:45	EZ	ECB decision		%	0.0	-		0.0
14:30	US	Initial jobless claims	week	k	3250	-		4427
FRIDAY (1 may)								
	PL	Market holiday						
16:00	US	ISM – manufacturing	Apr	pts	36.7	-		49.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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