

4 May 2020

Eyeopener

Long weekend unsupportive for PLN

Selloff in risky assets, PLN weaker during the long weekend
Polish bonds stable but could catch up with falling core yields
Today manufacturing PMIs in Europe

On Thursday and Friday (the latter being a holiday in Poland and most of Europe) risky assets saw a sell-off globally, e.g. S&P500 index dropped by almost 5% in a matter of two days. US bond yields were stable (10Y UST at 0.62%), but the German declined significantly (Bund down to -0.58% from -0.48%). The US dollar index fell by c0.5%. EM currencies' performance varied: Asian ones were gaining while the oil-linked were losing, despite sizeable rise of crude prices (Brent up to US\$26.6); the zloty was also depreciating. Precious metals regained value after a light decline – gold at Friday close again reached US\$1700/oz. As for the macro data: the euro zone 1Q GDP fell -3.3% y/y, slightly better than expected. April inflation in the euro zone dropped to 0.4% y/y, just above expectations, as did core inflation (0.9% y/y). In the USA, March data showed, among others, the largest ever drop of personal spending, by 7.5% m/m. It was another week of a massive rise of US unemployment - this time by 3.84 mn.

The ECB kept interest rates unchanged. Central bankers did not discuss the Asset Purchase Programme and the size of Pandemic Emergency Purchase Programme (PEPP) was left unchanged at €750bn, but it was signalled that it will be increased if necessary. Still, the ECB announced a new loan programme for the banking sector. As credit spreads widened after Italy's credit rating was cut by Fitch, ECB's Christine Lagarde said she will not tolerate the risk of monetary fragmentation. According to ECB forecasts, the euro zone economy may shrink by 15% q/q in 2Q20 and by 12% in the entire 2020.

Polish central budget finished March with a deficit of PLN9.4bn after PLN3.3bn at the end of February. The increase of the deficit in March was higher than in 2017-2019 but not far away from the long-term average (slightly above PLN4.0bn). As far as tax revenues are concerned the evidence of the coronavirus impact can already be seen: VAT revenues fell 7% y/y, PIT around 10% y/y while CIT as much as 22% y/y. Expenditures have not differed much from the seasonal pattern, however we reckon this is about to change soon. We expect a further decline in budget revenues in the following months and the general government deficit to increase even above 10% of GDP. Most of the deficit will be however pushed outside of the central budget.

Polish manufacturing PMI fell to 31.9 in April, the lowest level in history. All-time lows were also hit by subindices for output, new orders, stocks of purchases and suppliers' delivery times. Employment subindex was very close to record low. Declines in the index were obviously caused by the coronavirus-related lockdown and herald significant drop in industrial output.

EURUSD rose on Thursday post ECB meeting to 1.095 from 1.085. On Friday it continued gains briefly breaking 1.10 however then it retraced and today opens at 1.0930.

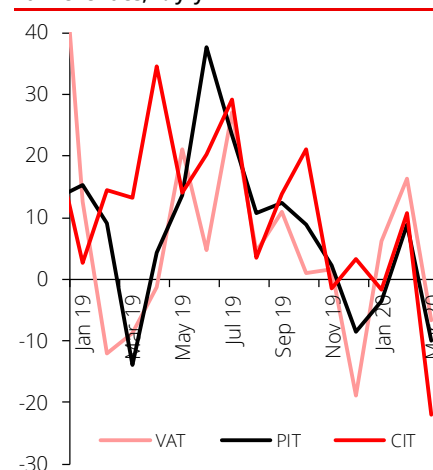
EURPLN is recently underperforming its regional peers, on Thursday the exchange rate briefly declined to 4.53 from 4.55 but rebounded back in the second half of the day and on Friday – where the liquidity was much lower due to bank holiday it even breached 4.57. We expect further zloty weakening in the nearest future and a break of 4.60

As to the **other regional currencies**, EURHUF has not changed much over two days (354.0) however in the meantime on Thursday briefly dropped below 352.0. EURCZK after being stable on Thursday, on Friday started to rise again and close the week at 27.23. Towards the end of the week oil prices have increased which in theory would support the ruble. This was not the case however and the USDRUB after reaching a many day minimum on Thursday at 72.7 shoot up on Friday to 75.6 (by 4%). We expect the regional currencies to weaken further in the near future.

On the **domestic interest rate market**, on Thursday IRS rates were rising, e.g. 10Y to 0.87% by 8bp. The 10Y bond yield, after a temporary rise to 1.50%, closed the shortened week unchanged at 1.46%. On Friday, Bund yields dropped significantly and may thus put downside pressure on POLGB yields this morning. The Ministry of Finance informed it will not offer T-bills in May, having sold PLN13.2bn worth of them in April. Government bonds will be offered this month at two auctions (7/05 and 21/05), with supply planned at PLN3-7bn at each. MinFin also published March data on bond holders: foreign investors decreased their POLGB holdings by PLN5.4bn, and the gross borrowing needs for 2020 (the initially planned value) were already covered in full. The Ministry's cash holdings are PLN90bn. NBP issued a statement that there is no target size of the QE program, and it will be continued until further notice, with auction schedule published in further NBP statements. In May, NBP will be buying bonds at two auctions: 13/05 and 27/05.

Today April PMIs are being released in European economies. In Poland, due to scant macroeconomic data the focus will be on local politics – the fate of the presidential elections should be determined in the nearest days.

Tax revenues, % y/y



Source: Ministry of Finance, Santander

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FX market

Today's opening

EURPLN	4.5620	CZKPLN	0.1671
USDPLN	4.1768	HUFPLN*	1.2867
EURUSD	1.0925	RUBPLN	0.0556
CHFPLN	4.3263	NOKPLN	0.4015
GBPPLN	5.1873	DKKPLN	0.6110
USDCNY	7.0602	SEKPLN	0.4207

*for 100HUF

Last session in the FX market 03/05/2020

	min	max	open	close	fixing
EURPLN	4.547	4.566	4.549	4.561	4.542
USDPLN	4.137	4.162	4.154	4.150	4.173
EURUSD	1.094	1.102	1.095	1.100	-

Interest rate market 03/05/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.59	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.98	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.46	0	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.32	1	0.37	1	-0.40	0
2L	0.37	0	0.32	-1	-0.34	0
3L	0.42	0	0.33	-1	-0.35	0
4L	0.48	1	0.36	-2	-0.34	0
5L	0.54	1	0.40	-1	-0.32	0
8L	0.73	0	0.55	-1	-0.23	0
10L	0.84	1	0.62	-2	-0.15	0

WIBOR rates

Term	%	Change (bps)
O/N	0.53	0
T/N	0.54	2
SW	0.52	0
2W	0.56	0
1M	0.64	0
3M	0.68	-1
6M	0.69	0
1Y	0.75	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.40	0
3x6	0.21	0
6x9	0.20	0
9x12	0.17	0
3x9	0.23	0
6x12	0.25	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	59	0	205	0
France	29	0	48	0
Hungary	77	0	269	0
Spain	121	0	132	0
Italy	158	0	236	0
Portugal	85	0	141	0
Ireland	36	0	66	0
Germany	20	0	-	-

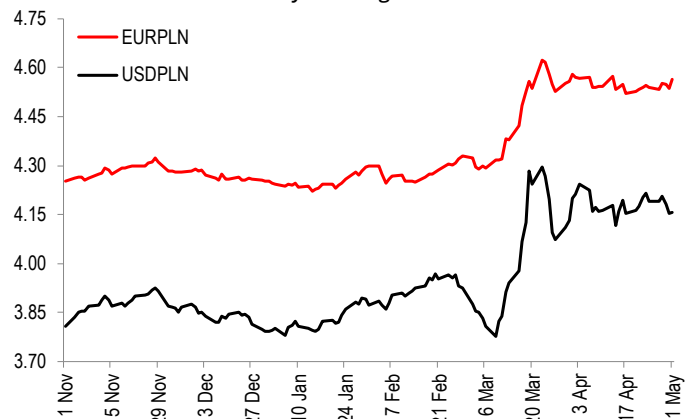
* 10Y treasury bonds over 10Y Bunds

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

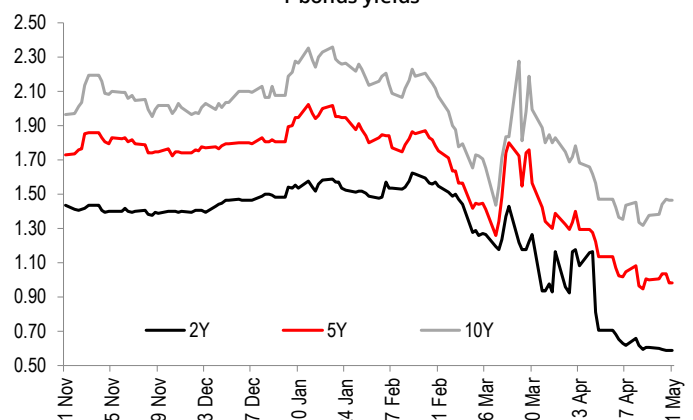
Source: Refinitiv, Datastream

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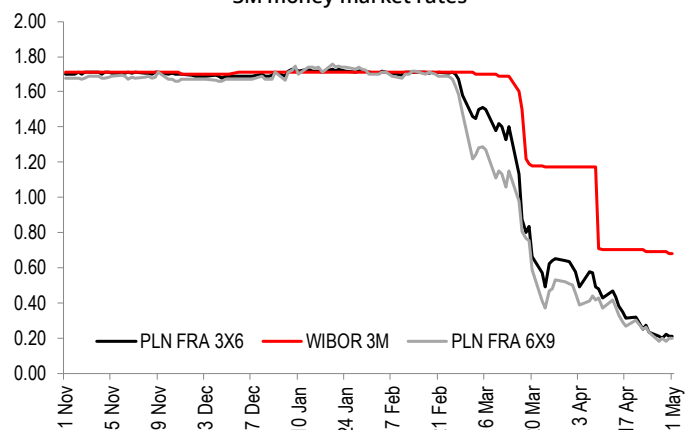
Zloty exchange rate



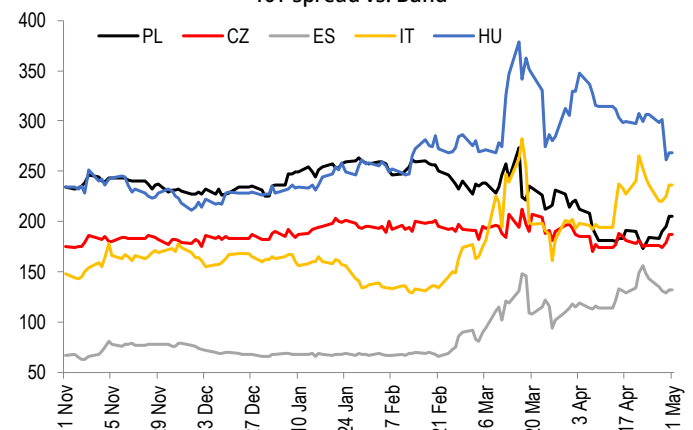
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZED	LAST VALUE*	
				MARKET	SANTANDER			
THURSDAY (30 April)								
8:00	DE	Retail sales	Mar	% m/m	-8.0	-	-5.6	0.8
10:00	PL	Flash CPI	Apr	% y/y	-	2.6	3.4	4.6
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	39.1	-	41.5	49.1
MONDAY (4 May)								
9:00	PL	PMI – manufacturing	Apr	pts	-	35.3	31.9	42.4
9:55	DE	PMI – manufacturing	Apr	pts	45.5	-		34.4
10:00	EZ	PMI – manufacturing	Apr	pts	44.7	-		33.6
TUESDAY (5 May)								
No important data releases								
WEDNESDAY (6 May)								
8:00	DE	Factory orders	Mar	% m/m	-	-		-1.4
9:55	DE	PMI – services	Apr	pts	34.3	-		15.9
10:00	EZ	PMI – services	Apr	pts	28.4	-		11.7
14:15	US	ADP report	Apr	k	-13 050	-		-27
THURSDAY (7 May)								
4:00	CN	Exports	Apr	% y/y	-	-		-6.6
15:00	RU	CPI	Apr	% y/y	3.1	-		2.5
FRIDAY (8 May)								
14:30	US	Nonfarm payrolls	Apr	k	-20 000	-		-701
14:30	US	Unemployment rate	Apr	%	14.0	-		4.4

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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