

6 May 2020

Eyeopener

Markets price in fast revival

Easing lockdown boosted market optimism

EURPLN down and this may continue

Polish yields down, IRS up

Today euro zone and German services PMIs, in US ADP report

US services ISM index for April – the most important Tuesday's data release – fell by more than 10pts to 41.8, the lowest level for 11 years, but was above consensus forecast (38.0). Sub-components were very weak, showing business activity falling to 26.0, new orders to 31.9 and employment to 30.0 – the lowest levels since the data is collected (1997). Moods in stock markets were still quite positive – indices finished the day in green (S&P500 rose 1.5%, DAX 2.0%), as investors were optimistic about increasing number of countries lifting their coronavirus-related restrictions. VIX index fell by over 2pts, from 36% to 34%, crude oil price and US bond yields went up and gold price remained roughly unchanged (\$1697/oz).

According to the NBP credit survey, in 1Q20 banks tightened lending criteria in all segments and are planning a further tightening in 2Q20. In 1Q20, demand for corporate and consumer loans fell, while demand for mortgage loans rose (banks named housing market situation and search for investment options as reasons). Lending criteria were tightened mostly due to elevated economic risk, own capital concerns, sector risks in case of companies and housing market risk in case of mortgage loans. For the third time in a row the survey pointed to a decline in companies investment financing needs. Moreover, the drop in demand for consumer durable goods financing was the biggest in a decade. The results of the survey clearly suggest that the economy was sliding into recession in 2Q20.

Today the Sejm (Poland lower house of Parliament) may vote on rejecting the Senate's veto to the draft bill allowing to run presidential elections (scheduled on May 10th) by a postal vote. Head of PM's chancellery Michał Dworczyk said that if the veto cannot be rejected due to lack of agreement within the ruling coalition, then the early parliamentary elections cannot be ruled out.

Known hawk member of MPC Kamil Zubelewicz said that „ultra easy monetary policy is not necessary”. In his opinion, the risk of inflation going higher in the long term is increasing and it is important for the MPC to react quickly to prevent this from happening. We think that if the economy will start recovering from the coronavirus-induced shock from the mid of this year, the first motions regarding rate hikes might occur still this year, but in our view are unlikely to be accepted by the majority of MPC.

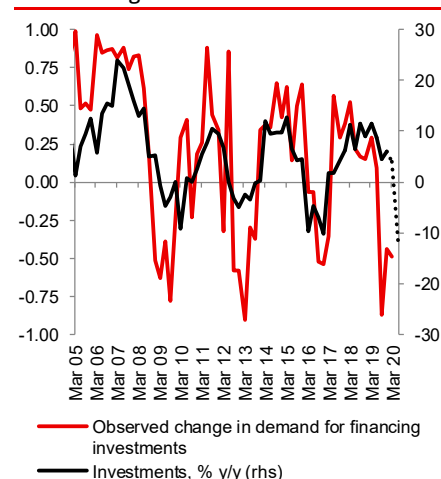
After reaching 1.10 on Thursday, **EURUSD** keeps on falling, recording a third downward day in a row. On Tuesday the pair opened at 1.09 and then fell temporarily to 1.0826 before climbing to 1.086 at the close. The downward momentum was delivered by the German constitutional court, which was investigating the Bundesbank's role in ECB's asset purchases. The verdict does not apply to pandemic-related PEPP programme, which is intended to buy bonds worth EUR750bn this year. The programme is less strict than the previous ones allowing the ECB to buy papers below the investment grade and buy more peripheral bonds than the GDP key would suggest. We think that the German verdict could limit EURUSD potential to go up in the nearest term.

EURPLN slowly confirms our scenario of a short term correction lower. On Tuesday after opening at 4.55 and trying to rise above 4.555, in the second part of the day the currency pair took advantage of the positive mood on the equities markets and fell to 4.53 and closed at 4.535. The level 4.53 is also a minimum from last Thursday and if the level does not hold, opens the way to 4.49 – the short term support.

In the case of other CEE currencies, EURHUF dropped below 350.0 (1.3%) thanks to the global optimism. The exchange rate is now below 50-day moving average, which is in contrast to e.g. EURPLN and means that there is a possibility of further declines, to, say, 342.5 – another important technical analysis level. EURCZK tried unsuccessfully to break through 27.00 – it closed above the level and the respective moving average. USDRUB gained from stocks optimism and the rising oil price and fell by 2.0% to 73.9.

On the Polish fixed income market, the IRS curve barely moved (up by 1-3bp) on the short end (including FRAs), the turnover was low. The bond curve also moved only a little. 10Y bond closed at 1.52%. 10Y asset swap is 65bp. The German Constitutional Court's ruling sent Bund yields higher at first, but later on the day they dropped, with 10Y closing at -0.58%, which means that the spread to the Polish benchmark was 211bp.

Signals from senior loan officers' survey vs investment growth



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4,5297	CZKPLN	0,1674
USDPLN	4,1852	HUFPLN*	1,2821
EURUSD	1,0826	RUBPLN	0,0569
CHFPLN	4,2995	NOKPLN	0,4083
GBPPLN	5,2016	DKKPLN	0,6070
USDCNY	7,0876	SEKPLN	0,4262

*for 100HUF

Last session in the FX market 05.05.2020

	min	max	open	close	fixing
EURPLN	4,529	4,553	4,542	4,531	4,548
USDPLN	4,157	4,201	4,165	4,179	4,193
EURUSD	1,082	1,093	1,091	1,084	-

Interest rate market 05.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,53	3	5.03.2020	OK0722	1,225
PS1024 (5Y)	1,03	-1	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,53	0	5.03.2020	DS1029	1,725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,37	2	0,35	0	-0,39	0
2L	0,43	2	0,31	0	-0,33	0
3L	0,47	1	0,32	0	-0,35	-1
4L	0,53	1	0,35	-1	-0,35	-1
5L	0,59	0	0,41	1	-0,32	0
8L	0,77	-1	0,56	1	-0,23	-1
10L	0,88	-1	0,65	2	-0,15	-1

WIBOR rates

Term	%	Change (bps)
O/N	0,44	2
T/N	0,47	-1
SW	0,51	0
2W	0,55	-1
1M	0,64	0
3M	0,68	0
6M	0,69	0
1Y	0,75	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0,40	0
3x6	0,27	4
6x9	0,24	1
9x12	0,25	0
3x9	0,30	2
6x12	0,29	2

Measures of fiscal risk

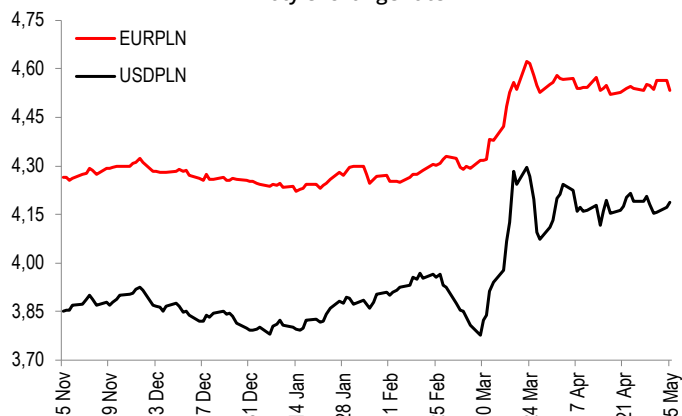
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	-1	211	2
France	28	-1	52	1
Hungary	77	0	271	-3
Spain	126	4	144	5
Italy	174	12	245	14
Portugal	90	5	149	5
Ireland	34	-2	69	1
Germany	19	0	-	-

* 10Y treasury bonds over 10Y Bunds

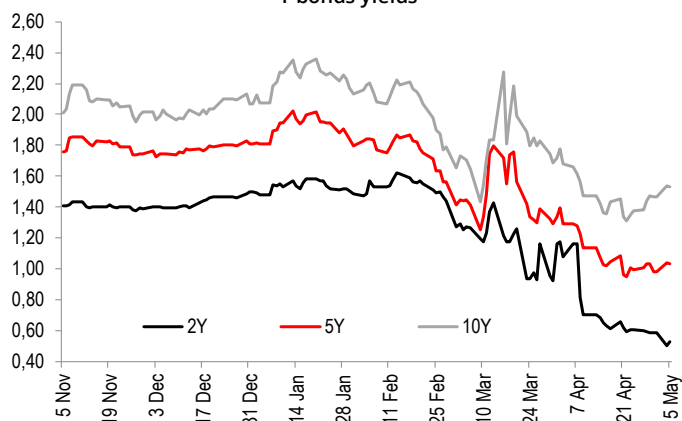
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

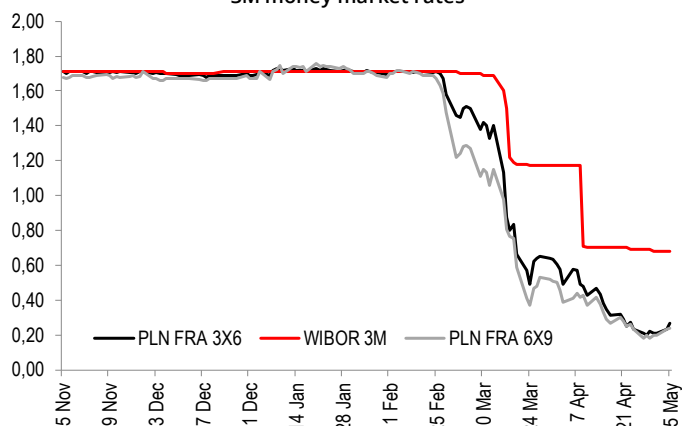
Zloty exchange rate



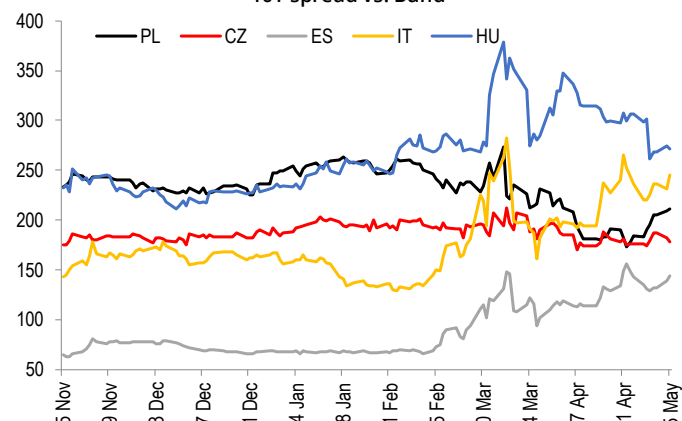
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	REALIZED	LAST VALUE*
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	34.4	-	34.5	34.4
10:00	EZ	PMI – manufacturing	Apr	pts	33.6	-	33.4	33.6
TUESDAY (5 May)								
16:00	US	ISM – services	Apr	pts	38.0	-	41.8	52.5
WEDNESDAY (6 May)								
8:00	DE	Factory orders	Mar	% m/m	-	-	-15.6	-1.2
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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