

7 May 2020

# Eyeopener

## Coalition still holds

Stocks fall after the worst ADP report ever  
 EURPLN up after initial drop  
 Polish IRS rise more than bond yields  
 Today Czech central bank decision

Wednesday was calm on the financial markets. The dollar index climbed above 100.0, and opened the door to further rises to 103.0. The oil price fell by 4%, but prices of industrial metals went up. EM currencies were doing quite well for the better part of the day, but most of them started to lose at the end of the day. In the USA, the ADP report proved to be one of the worst ever with a 20.2m decline in employment. FOMC's James Bullard (non-voter) said that the economy cannot be locked down forever and it should be opened gradually in the second half of the year. Bullard stated that the current Fed liquidity programmes are enough, but the central bank is ready to do more if necessary. ECB's François Villeroy de Galhau said that the ECB will act flexibly and innovatively if there is such a need. April's service PMI in the euro zone and Germany were slightly better than expected, but remained at all-time lows below 20.0.

Presenting its **Spring forecasts, the European Commission** stressed that the EU has entered the deepest recession in its history. It is assumed that the EU economy will get out of hibernation in 2H20, but under many conditions regarding the development of the pandemic and the effectiveness of support measures. EC assumes that it will not be possible to return to the pre-Covid starting point in 2021 when it comes to GDP and employment level. Average EU growth is to be -7.4% this year and +6.3% next year, with Poland being the "growth leader" with a -4.3% forecast. Poland is also expected to be the only EU country to see higher average inflation in 2020 (2.5%) than in 2019. EC thinks the unemployment rate will rise by 2.3pp to 9.0% on average in the EU, the assumed rise by 4.2pp (to 7.5%) in Poland would be the second highest after Spain. In 2020 a huge rise of fiscal deficits is assumed by EC, with EU average going from 0.6% GDP to 8.3%, and the Polish deficit seen at 9.5% (including the part of the Polish Development Fund loans that are likely to be cancelled) is to be the fourth largest in the EU after Italy, Spain and France. The **EC forecasts** are similar to ours presented in the latest **MACROscope**.

**Yesterday the Sejm** postponed its vote about Senate's veto to postal voting in the upcoming presidential election for today. However, it seems that the risk of coalition collapse decline markedly as PiS and Porozumienie agreed for another solution: election deadline at 10th May will remain intact, but the officials will not organise any voting. The ruling coalition hopes that such faulty election will be declared void by the Supreme Court. After the Supreme Court does that (it has 30 days to do so), the Sejm Speaker will have 14 days to set a new election date at 60 days after the announcement.

**Labour minister Marlena Maląg** said that April saw an increase in unemployment rolls by 58k, indicating a rise in unemployment rate to 5.7-5.8%, i.e. by 0.3-0.4pp. Usually April sees a drop by 0.3-0.5pp and 70-80k (and about 50k in 2018-2019 as the labour supply was drying up).

**EURUSD** declined for 4th day in a row. From the local maximum at 1.10 last Friday, the total move lower has been already 2%, of which 0.6pp took place yesterday, and the EURUSD closed at 1.079. Weaker euro and cheapening European debt are a result of Tuesday's German Constitutional Court ruling, which albeit touched on the unconstitutionality of the old purchase programme (from 2015) but in the minds of the investors can also have impact on the current important one – the PEPP.

**EURPLN** after opening at 4.535 traded lower in the morning session and reached a local low of 4.527. Still before the noon the currency pair bounced back to 4.54 and towards close as far as 4.553. We expected the pair to correct lower to the nearest support level at 4.49, however such a poor behavior of PLN means that most plausibly the correction will not happen in the nearest futures and the EURPLN will slowly march towards 4.57.

**As to other regional currencies** EURHUF after opening at 350 fell to 348, likely partly as a result of the decent March retail sales reading (3.5% y/y vs 1.3% expected). However – as in the case of EURPLN – at the close it suddenly jumped above 351. EURCZK behaved in a similar fashion: opened at 27.05, minimum at 26.95 and rebound to 27.13 (Czech retail sales was much worse than in Hungary – at -15.5% y/y). USDRUB closed at 74.6, by 1.7% higher than at the open.

**On the Polish fixed income market** FRAs rose for another day e.g. 9x12 by 7bp to 0.325%. Also 2Y IRS increased to 0.48%, by 5bp. 2Y bonds were more stable and hence 2Y ASW again moved towards zero (5bp). On the long end of the curve both IRS (e.g. 10Y to 0.93%) and bond yields (10Y to 1.55%) increased just a bit, however in our opinion the latter has room to rise to 1.60%. At today's auction the Ministry of Finance will offer bonds for PLN3-5bn of bonds of series OK0722, PS0425, WZ0525, WZ1129 and DS1030.

### European Commission's GDP growth forecasts

	2019	2020
<b>EU</b>	<b>-7.4(-8.8)</b>	<b>6.1(4.7)</b>
<b>Euro area</b>	<b>-7.7(-8.9)</b>	<b>6.3(5.1)</b>
Germany	-6.5(-7.6)	5.9(4.8)
France	-8.2(-9.3)	7.4(6.2)
Italy	-9.5(-9.8)	6.5(5.9)
Spain	-9.4(-11.0)	7.0(5.5)
Poland	-4.3(-7.6)	4.1(0.8)
Czechia	-6.2(-8.3)	5.0(2.8)
Hungary	-7.0(-10.2)	6.0(3.2)
Romania	-6.0(-9.8)	4.2(0.7)
UK	-8.3(-9.5)	6.0(4.8)

Note: in parentheses are differences versus February 2020  
 Source: European Commission, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://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	4,5429	CZKPLN	0,1672
USDPLN	4,2082	HUFPLN*	1,2876
EURUSD	1,0797	RUBPLN	0,0566
CHFPLN	4,3152	NOKPLN	0,4099
GBPPLN	5,2013	DKKPLN	0,6090
USDCNY	7,0946	SEKPLN	0,4283

\*for 100HUF

### Last session in the FX market 06.05.2020

	min	max	open	close	fixing
EURPLN	4,525	4,556	4,535	4,554	4,539
USDPLN	4,177	4,222	4,183	4,216	4,202
EURUSD	1,078	1,084	1,084	1,080	-

## Interest rate market 06.05.2020

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

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,54	1	5.03.2020	OK0722	1,225
PS1024 (5Y)	1,06	3	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,56	3	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	0,40	3	0,34	-2	-0,37	3
2L	0,48	5	0,29	-2	-0,31	2
3L	0,52	6	0,30	-2	-0,32	3
4L	0,58	5	0,33	-2	-0,32	3
5L	0,65	6	0,39	-2	-0,29	3
8L	0,82	5	0,56	0	-0,19	4
10L	0,93	5	0,65	1	-0,10	5

## WIBOR rates

Term	%	Change (bps)
O/N	0,32	-12
T/N	0,35	-12
SW	0,51	0
2W	0,54	-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	0,43	3
3x6	0,26	-1
6x9	0,29	5
9x12	0,32	7
3x9	0,30	0
6x12	0,36	7

## Measures of fiscal risk

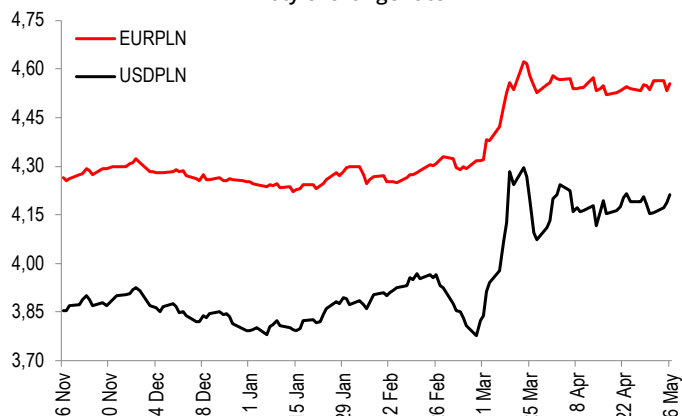
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	207	-5
France	28	0	52	0
Hungary	77	0	265	-6
Spain	125	0	143	-1
Italy	176	2	248	3
Portugal	90	0	149	0
Ireland	34	0	69	0
Germany	19	0	-	-

\* 10Y treasury bonds over 10Y Bunds

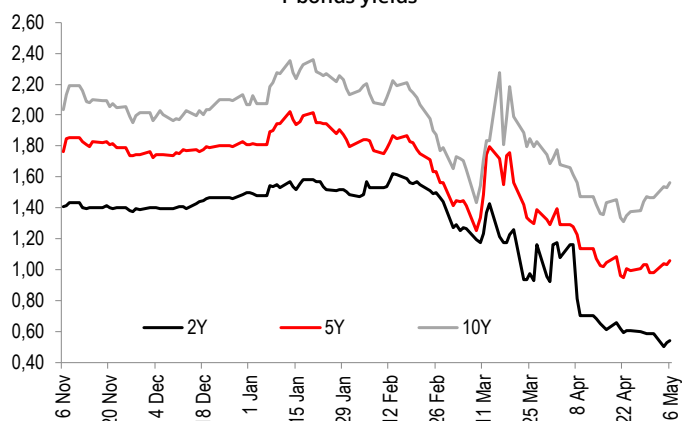
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

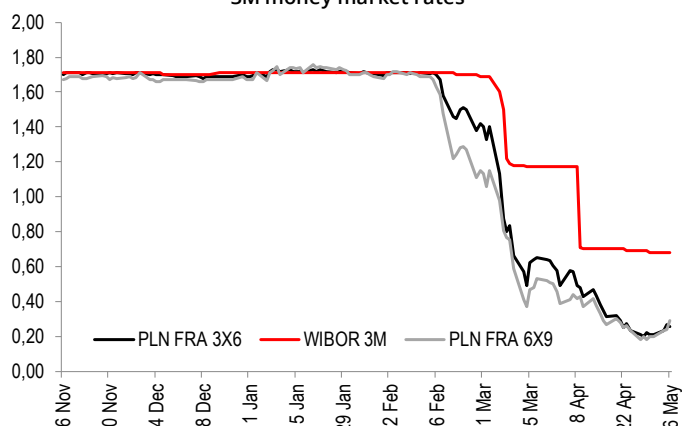
## Zloty exchange rate



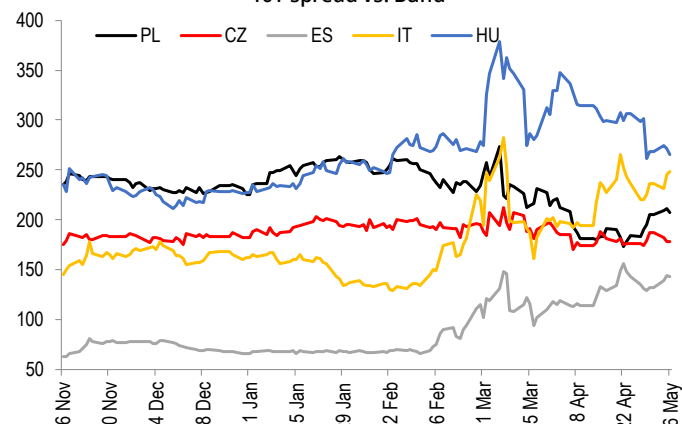
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		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	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	-10.0	-	-15.6	-1.2
9:55	DE	PMI – services	Apr	pts	15.9	-	16.2	15.9
10:00	EZ	PMI – services	Apr	pts	11.7	-	12.0	11.7
14:15	US	ADP report	Apr	k	-20 550	-	-20 236	-149
THURSDAY (7 May)								
4:00	CN	Exports	Apr	% y/y	-11.0	-	3.5	-6.6
14:30	CZ	Central bank decision		%	0.50	-		1.0
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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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>.