

Eyeopener

Markets less optimistic

Market optimism in retreat at the start of the week
 PLN and other CEE currencies weaken
 EURUSD still close to 1.08
 Polish bonds slightly stronger
 Today US inflation

At the start of the week there was correction of optimism visible before the weekend. Investors noticed the risk of another wave of pandemic amid lifting the restrictions by many countries. Moreover, investors could have realised that the market has been pricing-in too aggressively the economies' quick return to normal functioning. As a result, stock market indices were falling, which helped bond yields to stay close to local lows, but weighed on EM currencies, also in our region. Crude oil price fell slightly, similarly to gold price.

S&P rating agency revised its GDP forecast for Poland to -4.0% y/y in 2020 and +5.0% y/y in 2021 (from earlier -2.0% and +4.8%, correspondingly).

According to the Institute of Soil Science and Plant Cultivation (IUNG) there is a rising probability that there will be **agricultural drought** in Poland this year. The state of drought will be stated if there is no rainfall of at least several dozen millimetres in the coming weeks. The drought would affect the growth of food prices in 2H20, and thus the entire CPI.

MPC member Eryk Łon, known for his ultra-dovish policy bias, said yesterday that in his view "there is no need for further interest rate reductions". He also thinks that negative interest rates should be avoided. Łon believes that inflation will soon return to the band of tolerable fluctuations around the target. In our view CPI growth will decelerate below 3% y/y in May and in July it may reach 2.5%. We do not expect more interest rate cuts in the baseline scenario.

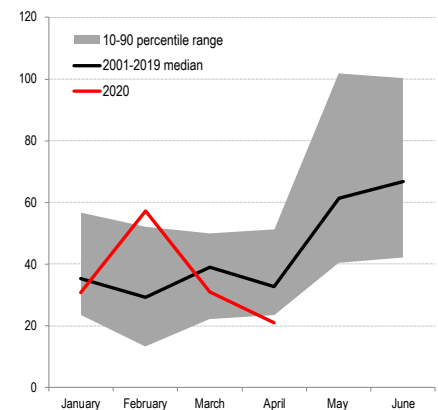
EURUSD was hovering around 1.08, just like on Friday, and at the end of the day the dollar was slightly stronger owing to the weaker optimism regarding pace of an economic revival. Today in the afternoon, we will see US inflation data but we do not expect this reading to trigger any meaningful market response while it is the economic growth that is now the main concern for states and central banks, not the pace of price growth.

EURPLN opened Monday near 4.545 but at the end of the day the pair traded near 4.56. USDPLN opened at 4.19 and have risen to 4.21 during the day. The zloty lost due to worsening global market sentiment. We still think the zloty might weaken in the nearest future, and expect EURPLN to trigger first 4.60 rather than 4.50.

As to the other **CEE currencies**, the forint, the ruble and the koruna also lost versus the dollar. The first two currencies lost 0.4-0.5% while the latter as much as 1% which partially might have resulted from the lowest real rates in the region after CNB cut rates by 75bp last week to 0.25%. EURCZK shoot up yesterday to 27.6 – the highest from late April 2020.

On the Polish **fixed income market** IRS and bond yields went down by 1-3bp, and only 2Y bond benchmark yield slightly increased. 10Y PL-DE spread has been narrowing since the beginning of May and yesterday also slightly edged narrower to 204bp.

Average precipitation in mm



Source: GUS, ekologia.pl, Santander

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FX market

Today's opening

EURPLN	4,5586	CZKPLN	0,1665
USDPLN	4,2162	HUFPLN*	1,3025
EURUSD	1,0815	RUBPLN	0,0572
CHFPLN	4,3339	NOKPLN	0,4083
GBPPLN	5,1980	DKKPLN	0,6091
USDCNY	7,0907	SEKPLN	0,4266

*for 100HUF

Last session in the FX market 11.05.2020

	min	max	open	close	fixing
EURPLN	4,539	4,565	4,548	4,560	4,557
USDPLN	4,186	4,224	4,193	4,216	4,213
EURUSD	1,080	1,085	1,085	1,082	-

Interest rate market 11.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,56	-1	5.03.2020	OK0722	1,225
PS1024 (5Y)	1,07	1	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,51	-2	5.03.2020	DS1029	1,725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,39	0	0,31	1	-0,36	1
2L	0,48	-2	0,25	1	-0,30	1
3L	0,53	-2	0,26	1	-0,31	2
4L	0,59	-2	0,30	1	-0,31	1
5L	0,65	-2	0,36	2	-0,29	0
8L	0,82	-2	0,55	1	-0,19	0
10L	0,92	-2	0,66	3	-0,11	0

WIBOR rates

Term	%	Change (bps)
O/N	0,37	-9
T/N	0,40	-8
SW	0,51	0
2W	0,53	0
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	0,39	-2
3x6	0,26	-3
6x9	0,30	-1
9x12	0,32	-3
3x9	0,32	-3
6x12	0,33	-2

Measures of fiscal risk

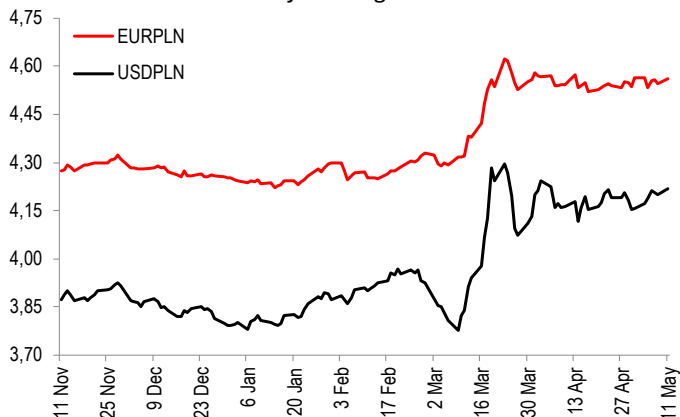
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	203	-3
France	28	0	51	1
Hungary	77	0	261	-9
Spain	126	0	141	1
Italy	175	0	241	9
Portugal	90	0	147	1
Ireland	34	0	70	2
Germany	20	0	-	-

* 10Y treasury bonds over 10Y Bunds

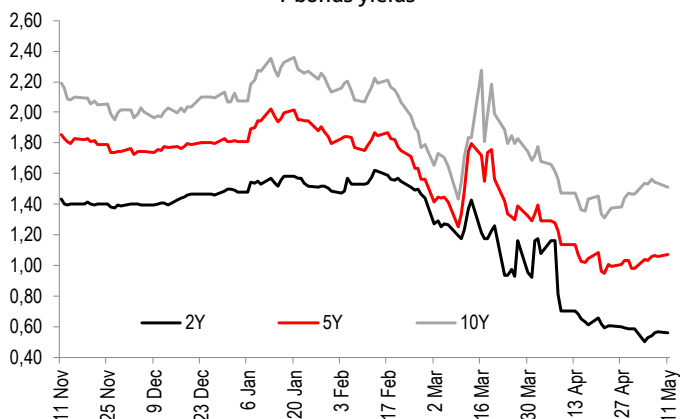
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

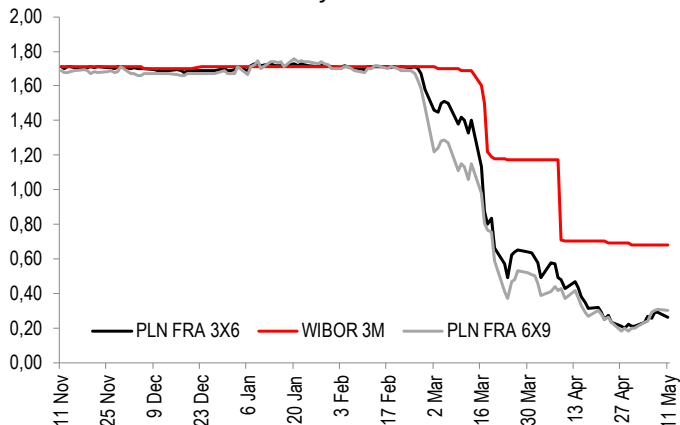
Zloty exchange rate



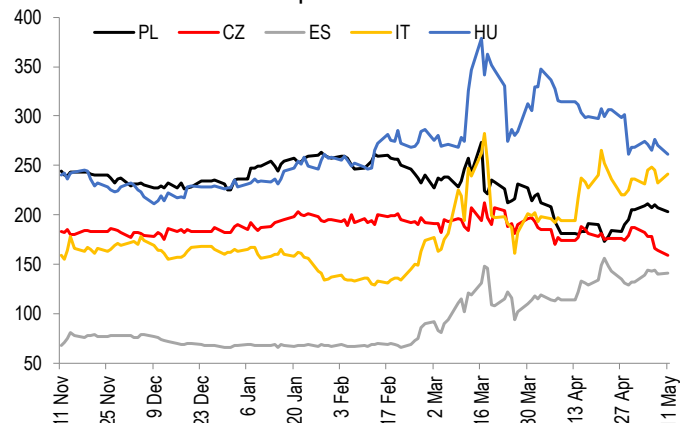
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZED	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (8 May)								
14:30	US	Nonfarm payrolls	Apr	k	-21 250	-	-20 500	-870
14:30	US	Unemployment rate	Apr	%	16.0	-	14.7	4.4
MONDAY (11 May)								
No important data releases								
TUESDAY (12 May)								
14:30	US	CPI	Apr	% y/y	0.4	-		1.5
WEDNESDAY (13 May)								
	PL	NBP bond purchase auction						
09:00	CZ	CPI	Apr	% y/y	3.1	-		3.4
11:00	EZ	Industrial Production SA	Mar	% m/m	-12.0	-		-0.1
THURSDAY (14 May)								
08:00	DE	HICP	Apr	% m/m	0.4	-		0.4
14:00	PL	Current Account Balance	Mar	€mn	821	432		659
14:00	PL	Trade Balance	Mar	€mn	700	642		525
14:00	PL	Exports	Mar	€mn	18 665	18 915		19 463
14:00	PL	Imports	Mar	€mn	18 470	18 273		18 938
14:30	US	Initial Jobless Claims	week	k	3000	-		3169
FRIDAY (15 May)								
08:00	DE	Flash GDP	1Q	% y/y	-2.0	-		0.4
09:00	CZ	Flash GDP	1Q	% y/y	-1.95	-		2.0
09:00	HU	Flash GDP	1Q	% y/y	2.2	-		4.5
10:00	PL	CPI	Apr	% y/y	-	3.4		3.4
10:00	PL	Flash GDP	1Q	% y/y	1.8	0.9		3.2
11:00	EZ	Flash GDP	1Q	% y/y	-3.3	-		-3.3
14:30	US	Retail Sales Advance	Apr	% m/m	-11.0	-		-8.4
15:15	US	Industrial Production	Apr	% m/m	-11.4	-		-5.4
16:00	US	Flash Michigan index	May	pts	67.5	-		71.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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