

13 May 2020

Eyeopener

Hardt: rates were cut too much

Some improvement in moods

MPC's Hardt gathered that rates were cut too much

Zloty not benefiting from weaker dollar

Polish bonds gaining, Bund losing

Today Polish bond switch auction, Czech and euro zone data

Market moods improved early on Tuesday after Monday's deterioration. The support came from information that China published the list of 79 imported US goods that may be excluded for one year from additional tariffs introduced during the trade war. The World Health Organization informed that some therapies lead to shortening period of Covid-19 recovery and reduce the severity of the disease, which helped stock indices to rise slightly, but did not put a pressure on dollar or core debt markets. The factor pushing up German and US bond yields could have been the comments of Fed's Bullard and Kaplan, who said that negative interest rates is a bad idea. It was a response to the fact that market recently started pricing-in rising probability of such a scenario and yesterday those expectations have corrected. US inflation was slightly lower than expected in April and did not affect markets. US Democratic Party proposed another aid package for the economy worth \$3tn. It assumes, among others, a renewal of \$1200 cash transfer to Americans.

In 1Q20 **average wage in the national economy** rose by 7.7% y/y, which is the highest pace recorded since 2Q08. We expect a sharp slowdown in the coming quarters due to the pandemic.

Yesterday in Poland **595 new cases of coronavirus** were found, which is the new daily record.

EBRD forecasts a decline of Polish GDP by 3.5% this year and a rebound by 4.0% in 2021.

MPC member **Łukasz Hardt** said that cutting rates by 100bp in Poland was excessive because the two key elements of a more easy monetary policy should consist of bond purchases and bill discount credit. Both programs should be gradually withdrawn after the pandemic is gone. According to the MPC member, the 2020 drop in GDP should not be larger than 5%, while the unemployment rate should not breach 7-8%. Latest comments from the hawkish MPC members (Hardt, Zubelewicz) show that within the MPC there hasn't been a consensus regarding how to respond to the pandemic, especially as long as rate cuts are concerned.

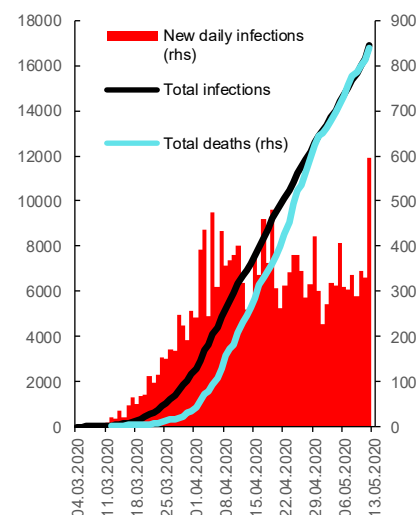
EURUSD rose yesterday the most in one day since the end of April. A rebound from 1.08 to almost 1.089 was caused by positive news from China and growing hopes for a quick victory against the virus. A clear distancing from the 1.08 level, which the fx pair tried to break several times since the start of April, may mean that in the coming days the euro will be gaining vs the dollar and EURUSD may approach 1.10 – the upper bound of the consolidation range in which it moves since the start of the previous month.

EURPLN was hovering around 4.555 and at the end of the day was close to 4.56. The zloty only temporarily benefited from the better market mood and weaker dollar. USDPLN fell to 4.19 from 4.22. Shall EURUSD continue to rise, the Polish currency could gain further vs the dollar but we do not expect the zloty to strengthen to below 4.50 per euro.

In case of the other **CEE currencies**, the koruna and ruble gained while the forint did not move much. USDRUB corrected the entire Monday's rise but EURCZK was far from neutralising even half of the previous day's upside move.

On the **domestic interest rate market** the asset swap spreads narrowed on the belly and long end. Both IRS and bond yields fell but the latter much more, including 10bp drop for the 10Y bond. Polish debt outperformed Bund and Treasuries that were under pressure of signals from the Fed. As a result, the 10Y PL-DE bond yield spread fell yesterday to c190bp, its lowest this month. Yesterday's changes on the Polish market were pretty noticeable but they were not driven by any particular news. We think the magnitude of the move was amplified by thin liquidity on the market.

SARS-CoV-2 statistics for Poland



Source: Health Ministry, Santander

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FX market

Today's opening

EURPLN	4,5578	CZKPLN	0,1665
USDPLN	4,2011	HUFPLN*	1,2971
EURUSD	1,0850	RUBPLN	0,0572
CHFPLN	4,3339	NOKPLN	0,4143
GBPPLN	5,1641	DKKPLN	0,6091
USDCNY	7,0895	SEKPLN	0,4299

*for 100HUF

Last session in the FX market 12.05.2020

	min	max	open	close	fixing
EURPLN	4,543	4,565	4,559	4,556	4,555
USDPLN	4,182	4,223	4,219	4,195	4,210
EURUSD	1,080	1,088	1,080	1,086	-

Interest rate market 12.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,56	0	5.03.2020	OK0722	1,225
PS1024 (5Y)	1,01	-6	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,42	-10	5.03.2020	DS1029	1,725

IRS on the interbank market**

IRS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,39	-1	0,33	2	-0,35	1
2L	0,47	-1	0,26	1	-0,29	1
3L	0,51	-2	0,25	-1	-0,32	-2
4L	0,56	-2	0,29	-1	-0,31	0
5L	0,62	-3	0,34	-2	-0,29	0
8L	0,79	-3	0,52	-3	-0,21	-2
10L	0,89	-3	0,62	-4	-0,13	-2

WIBOR rates

Term	%	Change (bps)
O/N	0,41	4
T/N	0,43	3
SW	0,51	0
2W	0,52	-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	4
3x6	0,31	5
6x9	0,27	-3
9x12	0,27	-5
3x9	0,33	1
6x12	0,33	0

Measures of fiscal risk

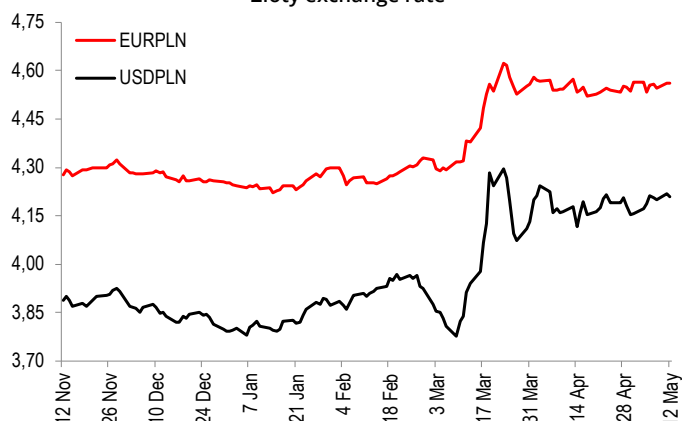
Measures of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	192	-11
France	28	0	48	-2
Hungary	76	0	256	-5
Spain	121	-1	137	-3
Italy	169	-1	240	-1
Portugal	85	0	143	-4
Ireland	34	0	67	-4
Germany	19	0	-	-

* 10Y treasury bonds over 10Y Bunds

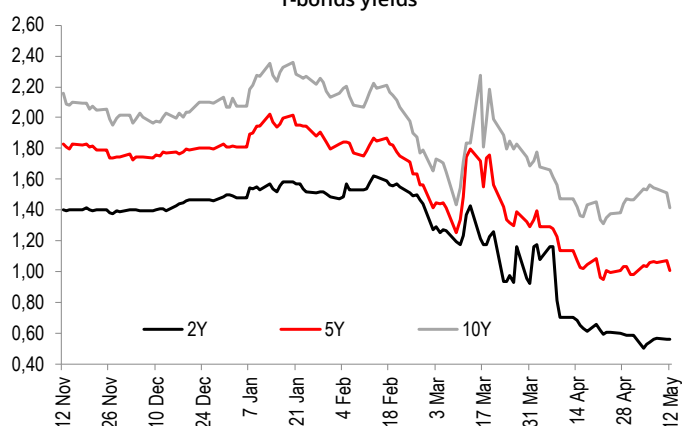
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

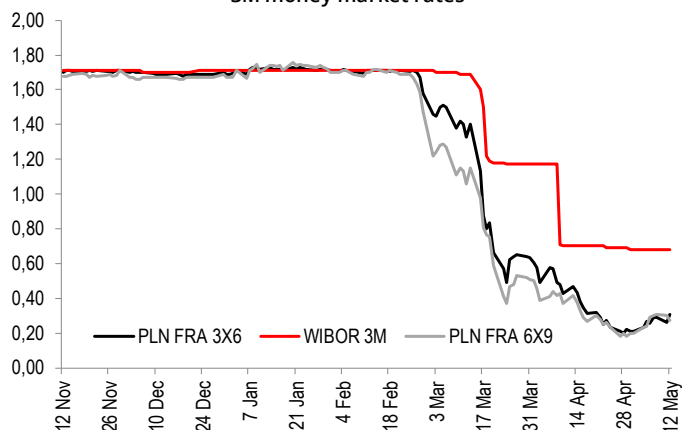
Zloty exchange rate



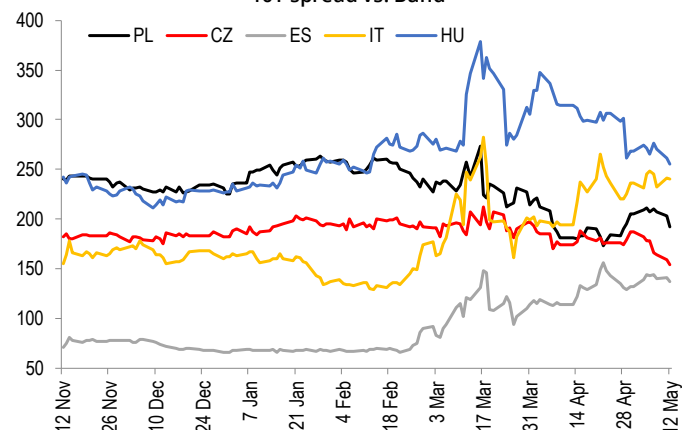
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	REALIZED	LAST VALUE*
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	-	0.3	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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