

14 May 2020

Eyeopener

Powell cooled the market optimism

Fed head cautious in assessing chances for economic recovery
Further lockdown easing in Poland starting on Monday
Zloty and forint the weakest in the CEE region
Polish bonds getting stronger
Today Polish balance of payments and US labour market data

Yesterday again the global markets were little changed, but the sentiment was worsening gradually by the hour. The rise of pessimism occurred in particular during Jerome Powell's speech. Fed chairman said that at the last meeting all FOMC members were against the idea of negative rates. He stressed that the pace of getting out of recession may be slow, and the consequences of the restrictions introduced to beat coronavirus may be long-lasting. In his view stronger fiscal stimulus should be considered, if it was to bring closer the economic rebound. In markets' view there was little optimism in the speech, which put pressure on stock indexes and caused a strengthening of bonds on core markets. CEE fx performed weaker than other EM currencies.

EU industrial output dropped in March by 11.8% y/y. The largest drop was seen in consumer durables and, looking by country, in Italy and Slovakia. We expect that April industrial production in Poland may show a similar result.

Voting information from the 17 March MPC meeting was released. Rates were lowered by 50bp back then with a 6:3 majority. Hardt, Zubelewicz and Kropiwnicki were against that first cut, while another hawk, Gatnar, was absent. Three weeks later rates were cut by other 50bp. The latest remarks by MPC members suggest that the support for further easing is now much lower. This could change if the pace of recovery would be slower than expected. For now, we expect that NBP rates remain unchanged until the end of the year. **MPC member Eryk Łon** said yesterday that rates should remain low until there is certainty that the economy is back on the path of quick growth.

The next step to normal functioning of the economy will be taken on Monday. Yesterday PM Mateusz Morawiecki announced **the third phase of loosening of Covid restrictions**. From 18 May on restaurants, beauty centres and hairdressers will be allowed to open under some conditions. The limit of passengers on public transport will go up, sport facilities and open air cinemas will be opened, moviemaking activities will restart as well as teaching in post-secondary education. From 25 May the first three grades of primary schools will reopen for stationary education.

EURUSD yesterday marginally crossed the Tuesday maximum, getting even closer to 1.09, but at the end of the day it was close to 1.085. This afternoon there will be weekly data from US labour market. The market expects that other three million people lost their jobs.

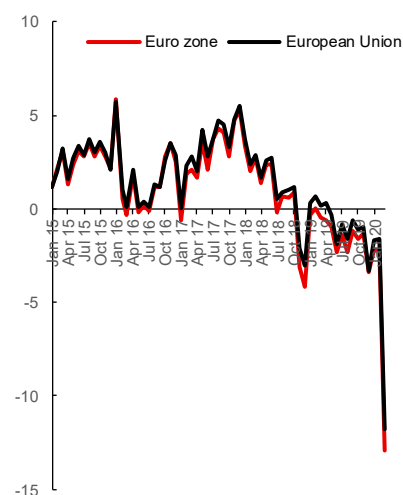
EURPLN rose for the third day in a row and was close to 4.57 at the end of the day while USDPLN was hovering around 4.20. In case of the other **CEE currencies**, the koruna and ruble were stable within Tuesday's trading ranges while the forint lost noticeably vs the euro. EURHUF rebounded to 354 from 351 in the biggest daily rise since last decade of April.

On the domestic **interest rate market** the asset swap spreads narrowed again, this time along the curve. Bond yields fell 5-10bp, by most on the long end while the IRS rates remained stable or rose slightly. As a result, the 10Y asset swap spread fell below 50bp to its lowest since mid-March. Polish debt was supported by a significant drop of Bund and Treasuries yield that in case of the 10Y bonds more than recovered Tuesday's losses. Yesterday, the NBP repurchased bonds worth PLN9.4bn but only PLN100mn was the government bond (DS1023). The rest were bonds issued by the state-owned BGK bank and Polish Development Fund (PFR) that raised cash to fund the economy-support programmes. This was sixth repurchase auction after which the size of the Polish QE programme rose to above PLN72bn (including nearly PLN22bn of bonds issued by BGK and PFR guaranteed by the state).

Today at 14:00CET, the NBP will released data about March balance of payments. We think the data will show the beginning of a slump in exports and imports, more pronounced in case of the latter, which will translate to a further improvement of trade balance (that said, our C/A balance forecast is below market consensus).

We are pleased to inform that we ranked 2nd in Focus Economics 2019 ranking of forecasts for Polish economy.

Industrial output in the European Union, % y/y



Source: Eurostat, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: 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	4,5646	CZKPLN	0,1665
USDPLN	4,2261	HUFPLN*	1,2762
EURUSD	1,0804	RUBPLN	0,0572
CHFPLN	4,3419	NOKPLN	0,4149
GBPPLN	5,1525	DKKPLN	0,6091
USDCNY	7,0953	SEKPLN	0,4299

*for 100HUF

Last session in the FX market 13.05.2020

	min	max	open	close	fixing
EURPLN	4,556	4,572	4,562	4,566	4,566
USDPLN	4,189	4,220	4,205	4,214	4,211
EURUSD	1,083	1,090	1,085	1,084	-

Interest rate market 13.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,51	-5	5.03.2020	OK0722	1,225
PS1024 (5Y)	0,95	-6	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,33	-8	5.03.2020	DS1029	1,725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,40	2	0,32	-2	-0,35	0
2L	0,46	0	0,26	0	-0,30	-1
3L	0,50	-1	0,26	1	-0,32	1
4L	0,56	-1	0,27	-2	-0,32	-1
5L	0,61	-1	0,34	0	-0,30	-1
8L	0,77	-2	0,50	-2	-0,22	-1
10L	0,88	-1	0,61	-1	-0,15	-2

WIBOR rates

Term	%	Change (bps)
O/N	0,35	-6
T/N	0,39	-4
SW	0,51	0
2W	0,52	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	0,42	-1
3x6	0,33	2
6x9	0,29	1
9x12	0,30	4
3x9	0,36	3
6x12	0,36	3

Measures of fiscal risk

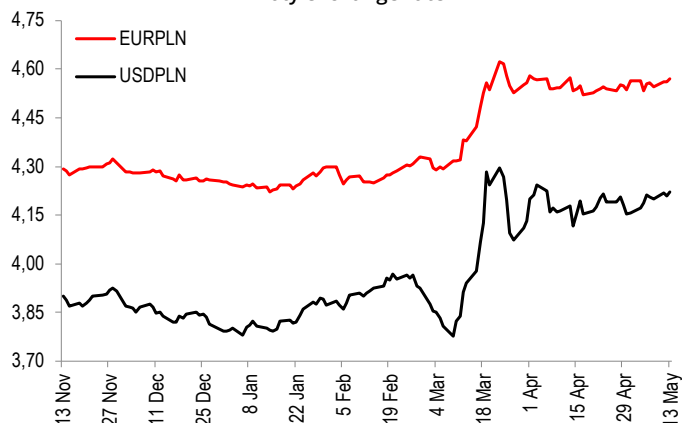
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	186	-6
France	28	0	48	0
Hungary	77	0	259	3
Spain	118	-2	134	-4
Italy	166	-2	233	-7
Portugal	80	-5	138	-5
Ireland	34	0	63	-3
Germany	19	0	-	-

* 10Y treasury bonds over 10Y Bunds

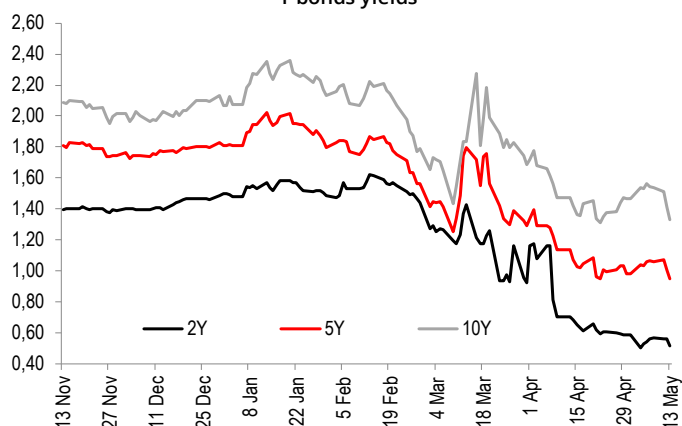
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

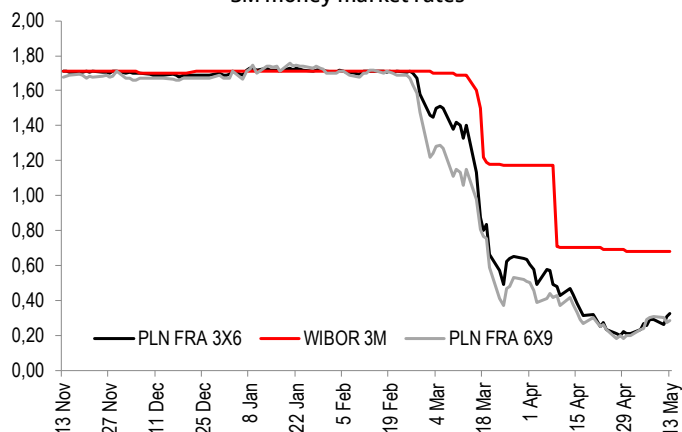
Zloty exchange rate



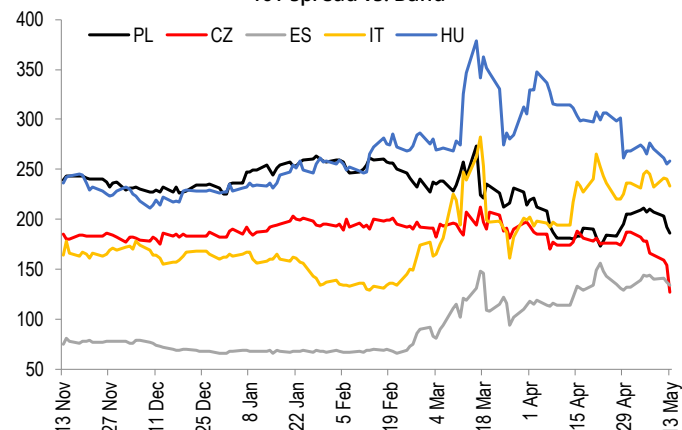
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZED	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (8 May)							
14:30	US	Nonfarm payrolls	Apr	k	-21 250	-	-20 500
14:30	US	Unemployment rate	Apr	%	16.0	-	14.7
MONDAY (11 May)							
No important data releases							
TUESDAY (12 May)							
14:30	US	CPI	Apr	% y/y	0.4	-	0.3
WEDNESDAY (13 May)							
	PL	NBP bond purchase auction					
09:00	CZ	CPI	Apr	% y/y	3.1	-	3.2
11:00	EZ	Industrial Production SA	Mar	% m/m	-12.0	-	-11.3
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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.