

18 May 2020

Eyeopener

Relatively small GDP decline in 1Q

GBP under pressure on Brexit news
 Polish GDP dropped less than we assumed in 1Q
 Zloty outperformed other CEE fx, dollar weaker
 Domestic debt strengthened a bit more
 Today Polish core CPI

At the end of the week the dollar and the British pound weakened, core market bonds strengthened and the euro appreciated. UK currency was negatively affected by information about small progress in talks and large discrepancies in views between UK and EU as regards the bilateral relations after Brexit, which is scheduled at the end of this year. The dollar weakened, which was partly caused by US data about larger than predicted retail sales drop in April. Flash GDP readings for euro zone economies were close to expectations and did not affect the trading substantially. The US House of Representatives approved another aid package worth \$3trn, but it has no support of the Senate. In an interview released yesterday, Fed chairman Jay Powell said that the US economy may not recover before 2021 and more fiscal support may be needed, he did however mention that Fed can still increase stimulus by expanding its programs or launching new ones.

Polish PM Mateusz Morawiecki announced a **rise in unemployment benefits** by roughly 40% to PLN1200, and, on top of that, another benefit for those who lost their job, worth PLN1300 monthly, paid out for 3 months. Given our assumptions regarding the rise in the unemployment rate it means an extra fiscal expenditure of c.PLN5.5bn. New benefits might prove important in the support of the private consumption, however simultaneously might reduce the effectiveness of the already implemented programs which aim at protecting jobs (by discouraging companies from layoffs).

According to flash estimate, **GDP growth** slowed to 1.9% y/y in 1Q20, from 3.2% y/y in 4Q (consensus around 1.7%, our estimate at 0.9%). The seasonally adjusted growth was -0.5% q/q. With 2Q20 possibly at around -12% q/q in our view it seems clear that Poland will enter a recession. April **CPI inflation** was confirmed at 3.4% y/y. The detailed reading showed there were in general no significant downward price pressures yet in the economy, core inflation likely down by only 0.2pp to 3.4% y/y. In our view, the stability in price developments is mainly due to measurement problems, which are likely to be receding soon. We expect CPI inflation to go down in the months to come to 1.5% in December. More in [Economic Comment](#).

EURUSD long remained stable above 1.08 and only on Friday close moved towards 1.084 which might have been a result of worse than expected US data. In the broader context, exactly as we expected, the Friday session has not materially impacted the currency pair – it still remains near 1.08 and its behaviour relative to the level might set the direction for the nearest weeks.

EURPLN having dropped on Thursday night to 4.553, on Friday rebounded to above 4.56. USDPLN temporarily traded lower near 4.21 however this morning opens at 4.216 – near Friday's open. The publication of Polish macroeconomic data have not materially impacted the currency. Compared to other main EM currencies, zloty was 3rd best performing currency on Friday, worse only than Mexican peso and Brazilian real.

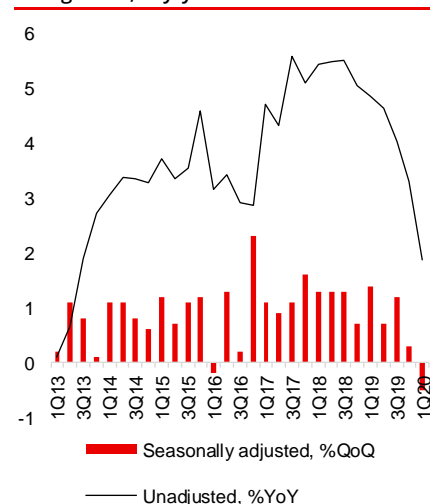
As to **other CEE currencies**, forint lost vs euro, EURCZK closed higher than on Thursday despite a temporary fall to below 27.5, while rouble slightly lost ground vs the dollar.

On the domestic **interest rate market** Friday saw a stabilisation of IRS rates and only slight (as compared to changes earlier in the week) drop of bond yields (the most in the long end: by 5bp). It was enough to narrow the 10Y PL-DE yield spread to 177bp.

This week, flash PMIs for the euro zone seem to be the most awaited releases. In April, indexes pointed to a significant drop in economic activity and the market is waiting at least for the pace of contraction to slow. On Tuesday, Fed's Powell will give a speech. He recently excluded the option of negative interest rates in the USA leading to some market mood deterioration and this week he is rather unlikely to change the tone. In Poland, we will see numerous data – industrial and construction output, retail sales, core CPI (today) PPI and from the labour market. The numbers related to the COVID-19 pandemic shall remain an important factor. The recent data suggest falling number of new cases in some Polish regions and a rise elsewhere.

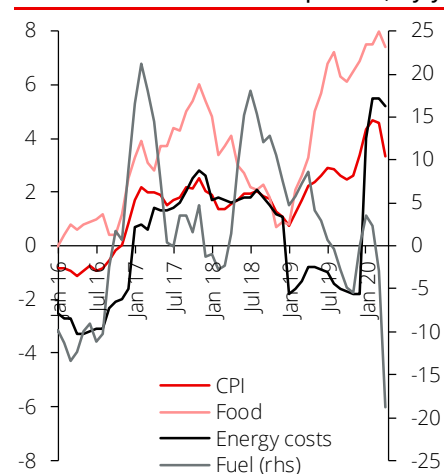
EURPLN has finally moved towards our 4.60 target we have been pointing to for the last few weeks already. We remain negative on the zloty and still expect the Polish currency to depreciate in the short-term. Polish bonds gained noticeably in the passing week but this was amid rather low trading volumes. In our view, the PL-DE bond yield spread fell too much in the recent weeks and thus we would expect yields to rise in the coming days.

GDP growth, % y/y



Source: GUS, Santander

CPI inflation and selected components, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5632	CZKPLN	0.1665
USDPLN	4.2169	HUFPLN*	1.2752
EURUSD	1.0825	RUBPLN	0.0577
CHFPLN	4.3397	NOKPLN	0.4123
GBPPLN	5.1018	DKKPLN	0.6091
USDCNY	7.1122	SEKPLN	0.4279

*for 100HUF

Last session in the FX market 17.05.2020

	min	max	open	close	fixing
EURPLN	4.551	4.571	4.556	4.570	4.555
USDPLN	4.204	4.232	4.216	4.225	4.214
EURUSD	1.079	1.085	1.080	1.081	-

Interest rate market 17.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.50	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.92	3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.23	-4	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.38	-1	0.30	-1	-0.35	0
2L	0.43	-1	0.25	-1	-0.28	1
3L	0.47	1	0.25	0	-0.30	2
4L	0.52	1	0.29	0	-0.30	2
5L	0.56	0	0.34	1	-0.29	2
8L	0.73	3	0.51	1	-0.22	1
10L	0.80	-1	0.62	3	-0.15	1

WIBOR rates

Term	%	Change (bps)
O/N	0.48	13
T/N	0.49	0
SW	0.51	0
2W	0.52	0
1M	0.64	0
3M	0.68	0
6M	0.69	0
1Y	0.74	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.43	0
3x6	0.32	1
6x9	0.26	-3
9x12	0.27	-3
3x9	0.36	2
6x12	0.32	0

Measures of fiscal risk

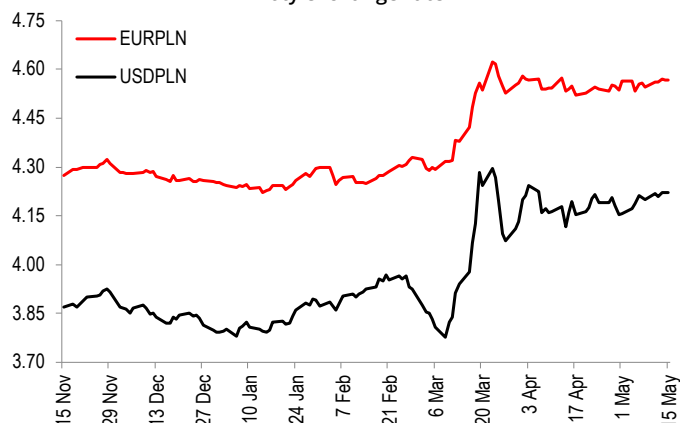
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	176	-5
France	29	0	51	1
Hungary	77	0	254	-2
Spain	116	0	136	0
Italy	173	5	238	2
Portugal	80	0	142	1
Ireland	35	0	64	0
Germany	19	0	-	-

* 10Y treasury bonds over 10Y Bunds

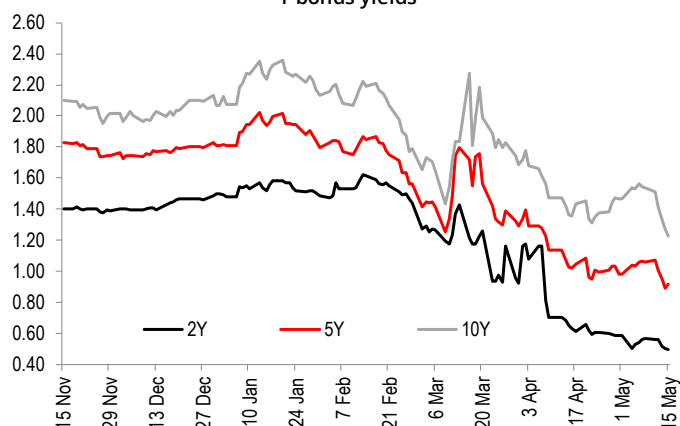
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

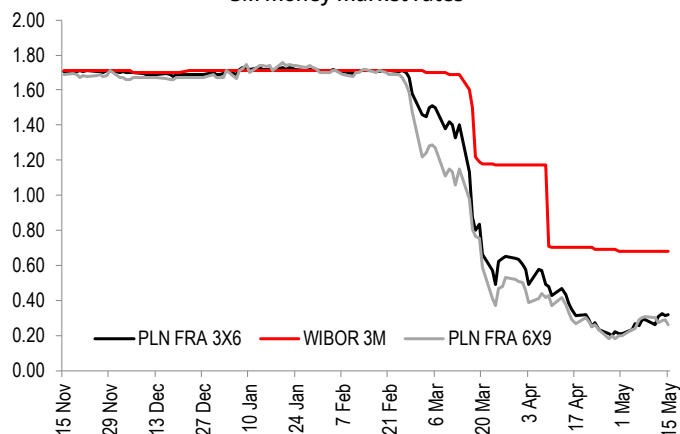
Zloty exchange rate



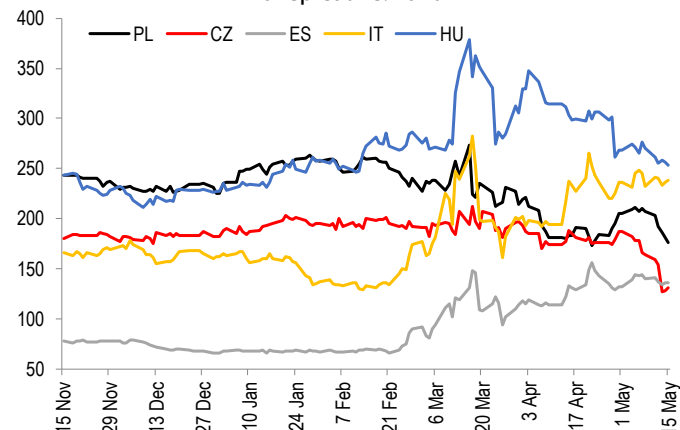
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZED	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (15 May)								
08:00	DE	Flash GDP	1Q	% y/y	-2.0	-	-2.2	2.0
09:00	CZ	Flash GDP	1Q	% y/y	-1.95	-	2.2	4.5
09:00	HU	Flash GDP	1Q	% y/y	2.2	-	-2.3	0.4
10:00	PL	CPI	Apr	% y/y	-	3.4	3.4	3.4
10:00	PL	Flash GDP	1Q	% y/y	1.8	0.9	1.9	3.2
11:00	EZ	Flash GDP	1Q	% y/y	-3.3	-	-3.2	-3.3
14:30	US	Retail Sales Advance	Apr	% m/m	-11.0	-	16.4	-8.3
15:15	US	Industrial Production	Apr	% m/m	-11.4	-	-11.2	-4.5
16:00	US	Flash Michigan index	May	pts	67.5	-	73.7	71.8
MONDAY (18 May)								
14:00	PL	Core inflation	Apr	% y/y	3.5	3.4**		3.6
TUESDAY (19 May)								
11:00	DE	ZEW index	May	pts	31.0	-		28.2
14:30	US	Building permits	Apr	k	1000	-		1350
14:30	US	House starts	Apr	k	950	-		1216
WEDNESDAY (20 May)								
10:00	PL	Wages in corporate sector	May	% y/y	5.1	4.4		6.3
10:00	PL	Employment in corporate sector	May	% y/y	-0.8	-0.6		0.3
11:00	EZ	CPI	Apr	% y/y	0.4	-		0.7
20:00	US	FOMC minutes						
THURSDAY (21 May)								
10:00	PL	Industrial output	Apr	% y/y	-12.0	-12.9		-2.3
10:00	PL	PPI	Apr	% y/y	-1.4	-1.2		-0.5
11:00	PL	Bond auction						
14:00	PL	MPC minutes						
14:30	US	Philly Fed index	May	pts	-40.0	-		-56.5
14:30	US	Initial jobless claims	week	k	-			2981
16:00	US	Home sales	Apr	m	4.38	-		5.27
FRIDAY (22 May)								
9:30	DE	Flash PMI – manufacturing	May	pts	39.0	-		34.5
9:30	DE	Flash PMI – services	May	pts	24.0	-		16.2
10:00	EZ	Flash PMI – manufacturing	May	pts	38.0	-		33.4
10:00	EZ	Flash PMI – services	May	pts	23.8	-		12.0
10:00	PL	Construction and assembly output	Apr	% y/y	-2.0	-6.1		3.7
10:00	PL	Real retail sales	Apr	% y/y	-20.1	-20.5		-9.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

** estimate after CPI inflation data

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