

19 May 2020

Eyeopener

Market optimism is still present

The week started in positive mood
Zloty slightly stronger, dollar weaker
Domestic debt stable, FRA and IRS up a bit
Today German ZEW index for May and US real estate data

The new week started with strong performance of stock indexes (+1% in Asia, 3-4% in Europe and USA) amid market seeing higher probability of finding a vaccine against COVID-19 (as reported by US company Moderna). Prices of oil, silver, copper rose while the other metals and gold cheapened. The dollar lost somewhat which together with the better market mood helped the vast majority of the EM currencies to gain. Japan GDP contracted 3.4% in 1Q20 while the US May NAHB index beat market expectations, 37 vs 35 pts, but this was still the second lowest reading since the Global Financial Crisis. In late afternoon, it was announced that Germany and France agreed to create a recovery fund worth EUR500bn to support the EU economy once the COVID-19 pandemic is contained.

Core inflation excluding food and energy prices remained at 3.6% y/y in April, i.e. at the highest level in 18 years, contrary to our and market expectations for a slight decline. Out of three other inflation measures two remained close to multi-year highs (inflation ex most volatile prices and 15% trimmed mean), while inflation ex administered prices (e.g. electricity and utility services) fell to 2.5% from 3.8%. In our view the core inflation rigidity is due to problems with price collection during the lockdown period. We expect a downward trend to pop up after epidemic restrictions are lifted. This will bring core inflation down to 2% in 4Q20.

MPC member Grażyna Ancyparowicz has not excluded further rate cuts, but if anything, rather in 2H20. She thinks the contraction of GDP this year will be larger than 4% and that the recession (or possibly very low growth) will remain in place also in 2021. Eryk Łon thinks that interest rates should remain at the current reduced level at least for a year from now.

EURUSD opened on Monday near 1.082, remained stable during the day and increased towards the end of the day to 1.0855. This part of the move might still be a result of weak US data last week. In the late afternoon, EURUSD shoot even higher to 1.09 and closed at 1.089 after it was made public that Germany and France agreed on details regarding the new EU fund worth EUR500bn. On Tuesday EURUSD opens above 1.09 and might remain volatile today as the market awaits Fed governor Jerome Powell's speech who, together with Treasury Secretary Steven Mnuchin, will testify before the Senate Banking Committee today regarding the USD2.2trn coronavirus stimulus package.

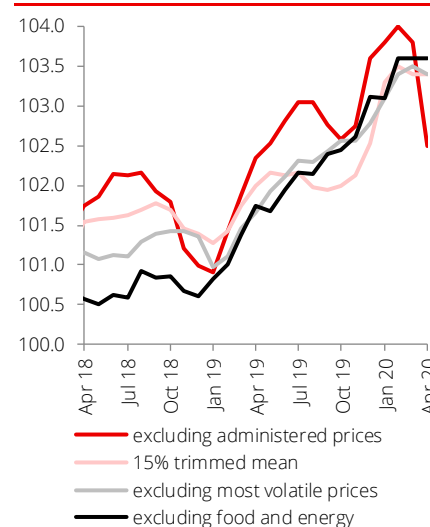
EURPLN fell to 4.56 vs 4.57 at Friday's close. The one-week realized volatility is at one of the lowest levels: at only c3% vs long-term realized volatility at 5.5%. USDPLN fell by PLN0.02 (0.6%) as the dollar lost on the global market. EURPLN is hovering at an elevated level without any meaningful down correction and in our view the first support is currently at 4.53 (50-day SMA) and this level could be tested. The next important level is at 4.50. However, we do not expect the exchange rate to dive that deep and we think the zloty could be rather depreciating gradually.

As regards the **other CEE currencies**, EURHUF fell 0.8% to 352.7, EURCZK 0.5% to 27.6 and the ruble basket by as much as 1.1% to 76.0 which could have been thanks to rising oil price for the third day in a row (Brent up c20% to USD35/bbl).

On the Polish **fixed income market** the FRA and IRS barely changed – after last week's declines some consolidation was due, especially taking under consideration the fact that the according to the April print core inflation remains stubbornly at the elevated level of 3.6% y/y, above our expectations of 3.4% y/y. Front end of the bond curve slightly increased, 2Y by 2bp to 0.52% while long end slightly decreased by 1bp to 1.32%. The 10Y ASW has not changed much. The US curve moved higher by 2-4bp (10Y closed yesterday at 0.68% but overnight the move was extended to 0.73%) while the German curve closed unchanged, however during the day there was some volatility on the curve – initially yields fell only to fully recover in the second part of the day, Bund closed at -0.51% while 10Y PL-DE spread at 183bp. Similarly to Treasuries, German yield increases have continued after Polish market close by further 4bp, to -0.47% on the open.

Today, ZEW index for May gets published in Germany, US April building permits and house starts data are released.

Core inflation, %/y



Source: GUS, NBP, 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	4.5525	CZKPLN	0.1665
USDPLN	4.1618	HUFPLN*	1.2905
EURUSD	1.0942	RUBPLN	0.0574
CHFPLN	4.2789	NOKPLN	0.4162
GBPPLN	5.0976	DKKPLN	0.6091
USDCNY	7.1049	SEKPLN	0.4303

*for 100HUF

Last session in the FX market 18.05.2020

	min	max	open	close	fixing
EURPLN	4.557	4.567	4.563	4.561	4.564
USDPLN	4.177	4.227	4.217	4.183	4.222
EURUSD	1.080	1.091	1.082	1.090	-

Interest rate market 18.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.52	2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.88	-3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.33	10	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	-0.36	-1
2L	0.46	4	0.27	3	-0.28	0
3L	0.49	3	0.28	3	-0.30	0
4L	0.55	4	0.35	7	-0.29	1
5L	0.60	4	0.40	6	-0.28	1
8L	0.73	-1	0.60	10	-0.19	3
10L	0.82	2	0.70	8	-0.13	2

WIBOR rates

Term	%	Change (bps)
O/N	0.34	-14
T/N	0.39	-10
SW	0.50	-1
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	0.45	2
3x6	0.33	1
6x9	0.29	3
9x12	0.30	3
3x9	0.38	2
6x12	0.34	2

Measures of fiscal risk

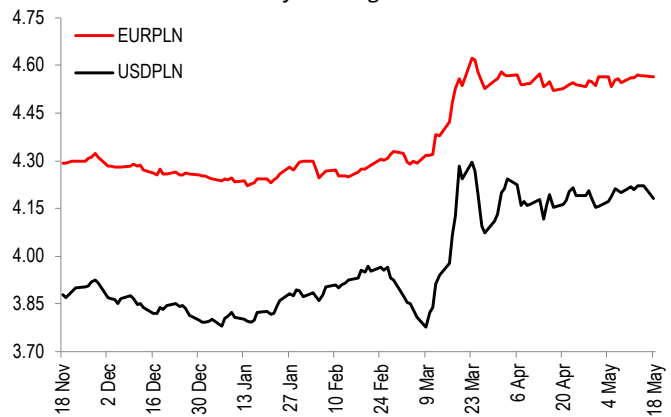
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	181	5
France	29	1	48	-3
Hungary	76	0	240	-14
Spain	109	-8	129	-7
Italy	162	-11	218	-20
Portugal	70	-10	137	-5
Ireland	35	0	63	-1
Germany	19	0	-	-

* 10Y treasury bonds over 10Y Bunds

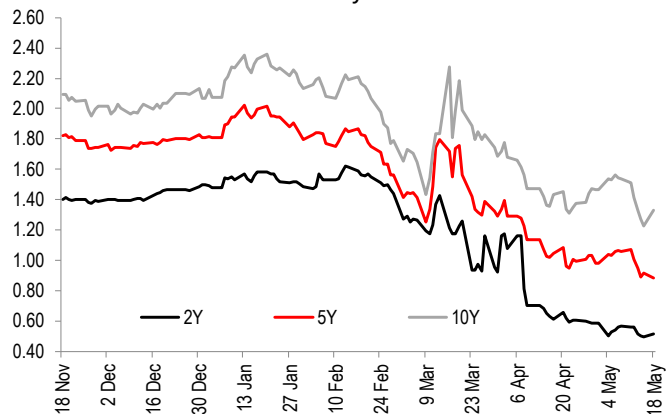
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

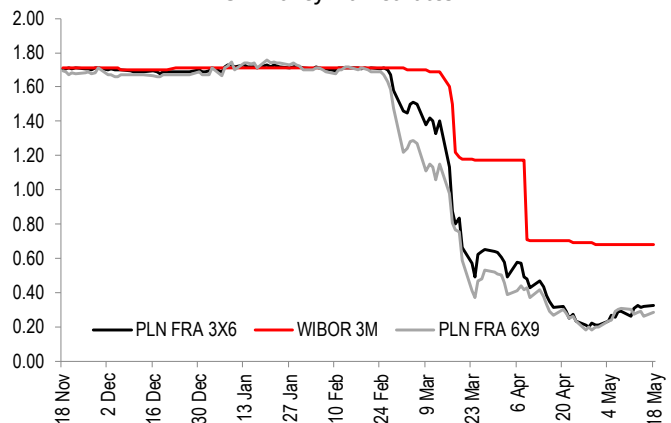
Zloty exchange rate



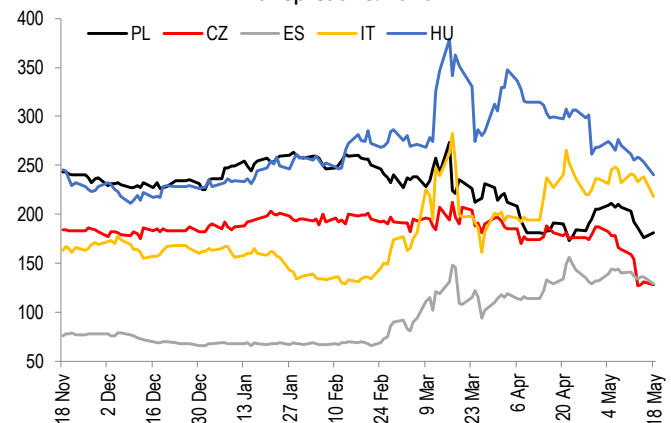
T-bonds yields



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	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

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.