

20 May 2020

Eyeopener

A ray of hope in ZEW index

Equity markets without a clear direction, EM fx stronger
Zloty gained
Domestic bond yields up, together with IRS and FRA rates
Today Polish labour market data, euro zone inflation, FOMC minutes

On Tuesday the stock market sentiment was still positive in some spots, with Asian markets going up, but European going down and US remaining stable. FX market remained optimistic as thanks to weaker dollar (the dollar index temporarily at 99.25) almost all EM currencies gained (apart from the Brazilian real), some even by more than 1%, e.g. the Turkish lira or the Hungarian forint. Oil was partially the reason, as its price went up again with WTI up 2.6% to US\$32.7/bbl. Industrial metals, iron ore, gold prices (+0.7% to US\$1743/oz) and core market yields also went up. In Germany the ZEW expectations index for April surprised to the upside markedly (51.0pts vs 30.8 consensus at 28.2 previously). However, the current situation index deteriorated to -93.5pts vs -86.6 expected and -91.5 previously. In USA, building permits and house starts statistics did not affect the markets markedly, as investors were awaiting Powell's and Mnuchin's testimonies before the Senate commission. Powell said that the Fed is ready to use all available tools in order to support the economy and that the Congress should consider further actions as well.

According to the weekly cabinet agenda, today the **government** will work on the new version of the Anti-crisis Shield which will postulate a 3-month pause from accruing interest on loans (so far it was in the form of a guidance to banks). The project also includes a 2-year (temporary) protection for corporates from being purchased by companies from outside the EU.

According to Polish Press Agency, the **Ministry of Finance** wants to broaden the list of events that switch off the stabilising expenditure rule (SRW) to include an epidemic. This means that spending limits derived from the rule could be temporarily suspended and there would be 2-4 years transition period before the return to spending limits, depending on the condition of state finances and economic growth.

EURUSD rose yesterday even more than on Monday after Angela Merkel and Emmanuel Macron announced their agreement to establish the European support program worth €500bn and also thanks to high reading of ZEW-expectations index. The exchange rate rose to 1.098 from 1.09 (0.7%) but closed the session slightly below 1.094. 1M risk reversal rose to nearly zero (indicating lack of any directional move expectations) while the 1Y is still negative (pointing to market expecting rather stronger dollar).

EURPLN fell 0.3% to below 4.55 thanks to the positive mood on the global FX market. Overnight, the exchange rate did not change. The zloty gained more vs other G10 currencies – USDPLN fell 1.7% to 4.16 and CHFPLN 1.5% to 4.28 owing to the weaker dollar and franc (EURCHF rose 1.1% yesterday).

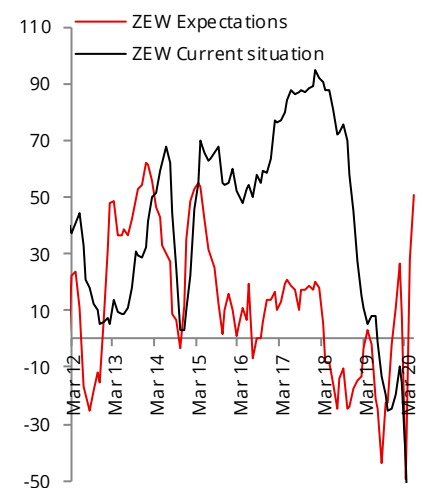
Other CEE currencies also gained. EURHUF fell below 350.0 but rebounded at the end of the day to 350.5 with the daily move at -0.9%. EURCZK followed a similar pattern and ended the day at 27.5 after falling by 0.5%. Despite higher oil prices, weaker dollar and positive FX market sentiments USDRUB went down only slightly – by 0.3% to 72.5, which could be a sign that this pair is oversold or a reaction to weaker-than-expected 1Q20 GDP figure (1.6% vs 1.8% y/y expected).

On the Polish **fixed income market** the FRA contracts traded higher by around 5bp, while both IRS and bond yield curves moved higher by 6-8bp. At the end of the day both curves tried to trade a bit lower, however the incoming bond supply this week was not supporting this move. Asset swaps narrowed in 2Y and 5Y tenors by 3bp, while 10Y remained unchanged at 53bp. Higher Polish yields partially resulted from higher yields on the core markets – e.g. the German curve moved higher by 5bp (10Y to -0.46% however 30Y still negative at -4bp), while the US curve by 2-5bp, but also bear steepened a bit (especially in 5x30, by 3bp). The 10Y PL-DE spread widened by 3bp to 186bp.

Ministry of Finance announced that on Thursday it will sell bonds totalling PLN 3-5bn of at least five series: OK0722, PS0425, WZ0525, WZ1129, DS1030. Earlier in the monthly communique the size of the auction was announced to be PLN 3-7bn.

Polish Development Fund (PFR) announced another issuance coming this Friday, neither total amount nor tenors are known as of writing. On the two auctions so far the PFR issued a total of PLN34.8bn worth of bonds.

German ZEW Indices



Source: Bloomberg, 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	4.5475	CZKPLN	0.1653
USDPLN	4.1570	HUFPLN*	1.2985
EURUSD	1.0943	RUBPLN	0.0574
CHFPLN	4.2892	NOKPLN	0.4166
GBPPLN	5.0823	DKKPLN	0.6090
USDCNY	7.1047	SEKPLN	0.4296

*for 100HUF

Last session in the FX market

19.05.2020

	min	max	open	close	fixing
EURPLN	4.544	4.564	4.562	4.548	closed at 09:02:04
USDPLN	4.147	4.185	4.181	4.158	closed at 09:02:04
EURUSD	1.091	1.098	1.091	1.094	-

Interest rate market

19.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.55	3	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.93	4	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.39	5	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.41	0.30	-0.35
2L	0.49	0.25	-0.28
3L	0.53	0.27	-0.29
4L	0.60	0.30	-0.29
5L	0.65	0.37	-0.27
8L	0.78	0.56	-0.19
10L	0.88	0.66	-0.12

WIBOR rates

Term	%	Change (bps)
O/N	0.31	-3
T/N	0.36	-3
SW	0.50	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	0.46	1
3x6	0.34	2
6x9	0.33	5
9x12	0.34	4
3x9	0.36	-2
6x12	0.37	3

Measures of fiscal risk

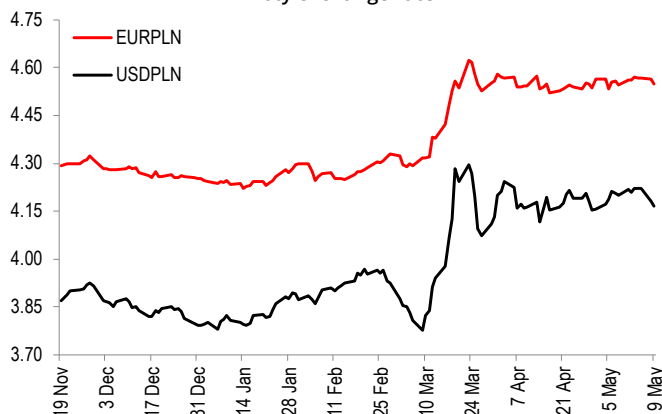
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	185
France	28	45
Hungary	76	242
Spain	100	118
Italy	155	211
Portugal	68	124
Ireland	33	59
Germany	19	-

* 10Y treasury bonds over 10Y Bunds

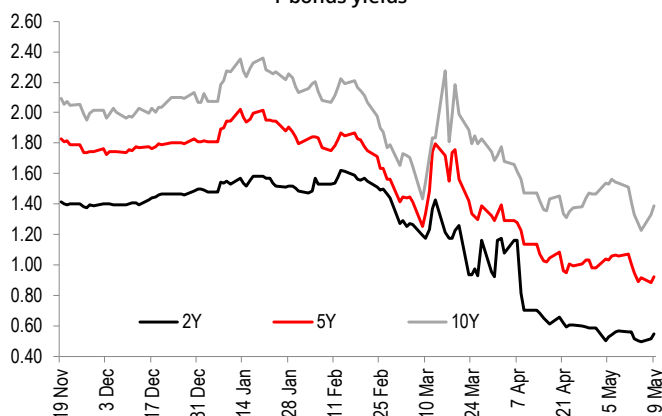
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

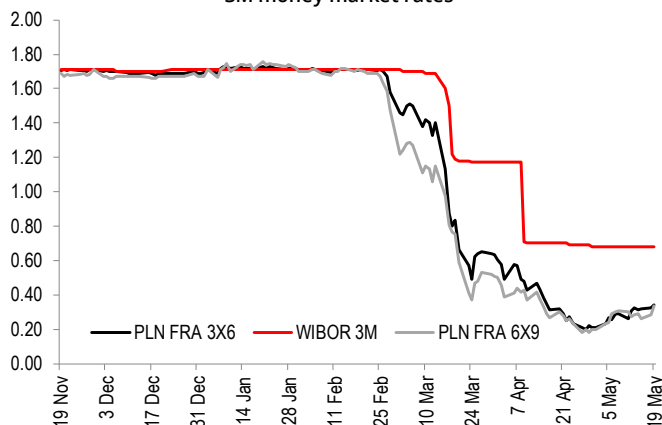
Zloty exchange rate



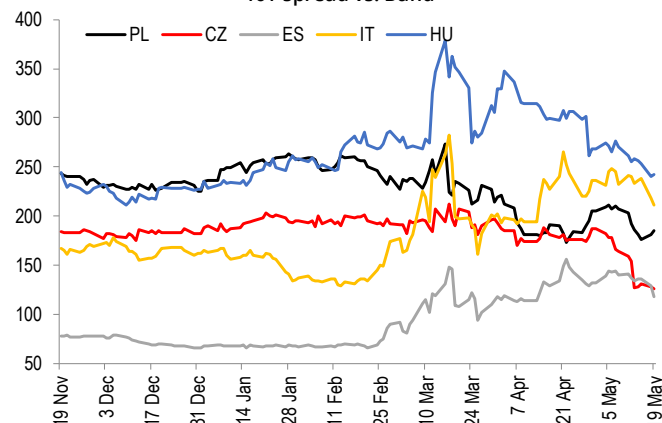
T-bonds yields



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	-	51.0	28.2
14:30	US	Building permits	Apr	k	1000	-	1074	1356
14:30	US	House starts	Apr	k	900	-	891	1276
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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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>.