

21 May 2020

# Eyeopener

## Large drop of labour market indicators

Risk appetite still seen on markets  
Wages and employment dropped much more than expected  
Zloty strengthened some more  
Domestic yields stable  
Today Polish industrial output

On Wednesday equity markets were again in an upward trend, this time rather modest in Europe with 1% rise, but USA and South America saw even 2%. The sanguine moods were galvanised by hopes for reopening the economies. The dollar was weakening. US and German yields remained stable. EM currencies appreciated for the second day in a row – the rand, the Mexican peso and the ruble gained the most, by about 1.5%. Implied volatilities also became cheaper. Oil prices resumed the upward trend, went up by 4% and broke the Monday peaks. The Fed minutes pointed to pandemic-related mid-term risks for businesses. Some FOMC members were worried about further waves of the disease, some called for a more precise forward guidance at the upcoming meeting. There were also voices in favour of showing the desired government bond yield level.

In April Polish **employment** in the corporate sector fell by 2.1% y/y and 2.4% m/m, while **wage** growth slowed down to 1.9% y/y from 6.3% y/y in March – both were deeply below expectations (-0.6% y/y and 4.4% y/y, respectively). The momentum of changes is unprecedented in Poland's modern economic history. Clearly, the SARS-CoV-2 epidemic was taking its toll on the labour market much faster than we had anticipated. As some restrictions were eased in May, we are expecting the negative tendencies to milder markedly. Meanwhile, consumer confidence improved somewhat in May. More in [Economic Comment](#).

Polish **government** agreed additional features to the anti-crisis shield, including, among other instruments, 3-month long credit instalment holidays for those who have lost job during lockdown, subsidies for up to 12 months for corporate loans interest payments.

**MPC member Jerzy Kropiwnicki** acknowledged that in April he supported a 50bp rate cut for the psychological reasons (he was against a cut in March). Despite that, he thinks that the time has come for a slow come back of rates to the levels from before the pandemic, in steps every 2-3 months, but not yet at the May meeting. In his opinion the government should stimulate the demand while NBP should take care of inflation. He thinks there are not many supporters of the negative rates in the MPC and he himself is strongly against. He admitted that the MPC decision to delay May meeting was in order to buy some time and observe the results of the earlier "strong interventions" in the economy. We think majority of MPC will be voting for keeping rates unchanged this year, while in the case of unexpected weakness in the economy and another wave of the coronavirus, more cuts cannot be excluded.

**EURUSD** opened at 1.095 but after a morning drop to 1.092 the next hours saw the exchange rate climbing to psychological 1.10 level. As long as positive mood prevails on the equity market, expectations for further rise of EURUSD may persist but breaking 1.10 – important technical resistance – may not be easy as seen overnight when the dollar gained.

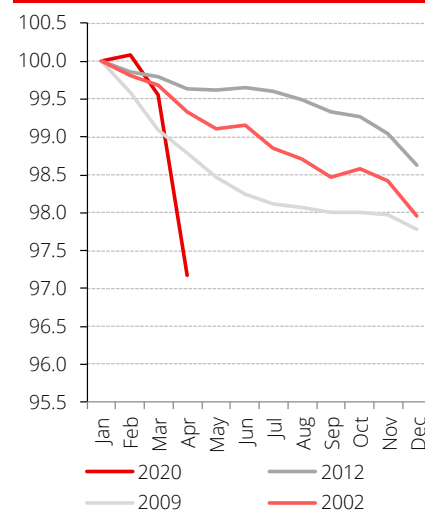
**EURPLN** fell to 4.533 from 4.547 benefiting from positive global market mood and ignoring weaker data from Poland. The exchange rate broke slightly the 50-day SMA and if the good global market mood holds 4.50 would be the next target. Down move scenario is supported by oversold risk reversals: 1M fell by 0.4pp to 1% in two days. USDPLN fell to 4.128 while CHFPLN ended the session at 4.28, close to Monday's close, despite decent intraday volatility.

In case of the **other CEE currencies**, EURHUF fell below 350 intraday but at the end of the day was back close to this level. This could be an important level the market may want to test again. If broken, the next target could be 345. EURCZK stopped at a 50-day SMA after it fell by c0.7%. April's PPI was negative in y/y terms (-0.8%) but 0.3pp above expectations. The ruble gained 2%.

On the domestic **interest rate market**, the yield curve remained almost unchanged due to the relative stability of core markets and 10Y yield declined by 1bp. Both FRA and IRS rates were climbing – by 1-3bp in the former cases and by 2bp on the shorter end and 4bp on the longer in the latter, so 2x10 IRS spread widened to 40bp. 10Y asset swap spread narrowed by 5bp to 48bp. 10Y PL-DE spread remained unchanged at 186bp.

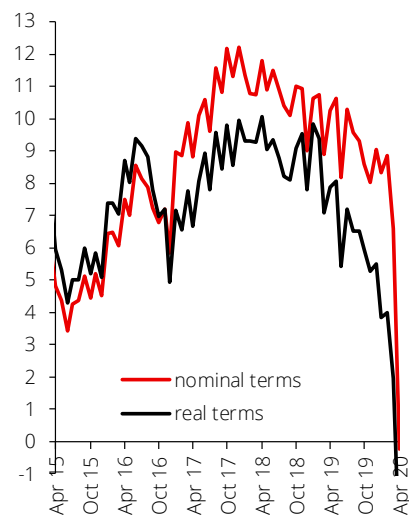
**Today** Poland's industrial output, PPI and bond auction, the MPC minutes release rescheduled for June.

### Employment, January=100, comparison with earlier slowdown periods



Source: GUS, Santander

### Wage bill growth, %/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.5304	CZKPLN	0.1662
USDPLN	4.1297	HUFPLN*	1.2953
EURUSD	1.0973	RUBPLN	0.0583
CHFPLN	4.2766	NOKPLN	0.4151
GBPPLN	5.0389	DKKPLN	0.6076
USDCNY	7.1014	SEKPLN	0.4295

\*for 100HUF

### Last session in the FX market 20.05.2020

	min	max	open	close	fixing
EURPLN	4.529	4.555	4.542	4.536	4.554
USDPLN	4.118	4.164	4.152	4.131	4.162
EURUSD	1.093	1.100	1.094	1.098	-

## Interest rate market 20.05.2020

T-bonds on the interbank market**					
Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.56	2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.93	0	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.38	-1	5.03.2020	DS1029	1.725

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.44	3	0.29	-1	-0.36	-1
2L	0.52	2	0.25	-1	-0.28	0
3L	0.56	3	0.26	0	-0.29	0
4L	0.62	2	0.30	1	-0.29	0
5L	0.67	2	0.37	0	-0.27	0
8L	0.82	3	0.55	-1	-0.19	0
10L	0.91	4	0.66	-1	-0.12	0

## WIBOR rates

Term	%	Change (bps)
O/N	0.41	10
T/N	0.43	7
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	0.49	2
3x6	0.39	4
6x9	0.34	0
9x12	0.34	0
3x9	0.41	5
6x12	0.40	3

## Measures of fiscal risk

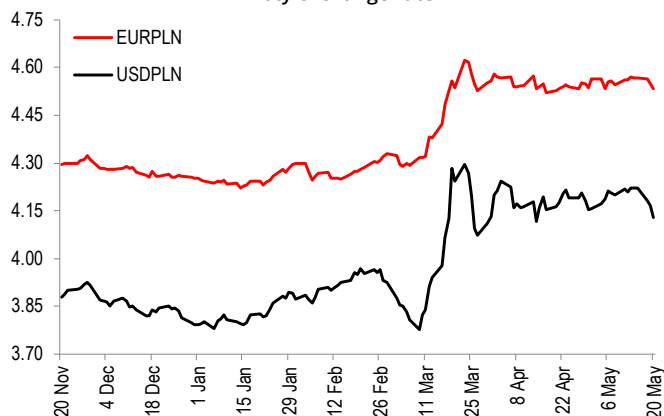
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	1	185	0
France	25	-3	43	-2
Hungary	77	1	244	2
Spain	98	-2	118	0
Italy	156	1	210	-1
Portugal	68	0	124	-1
Ireland	31	-1	59	0
Germany	17	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

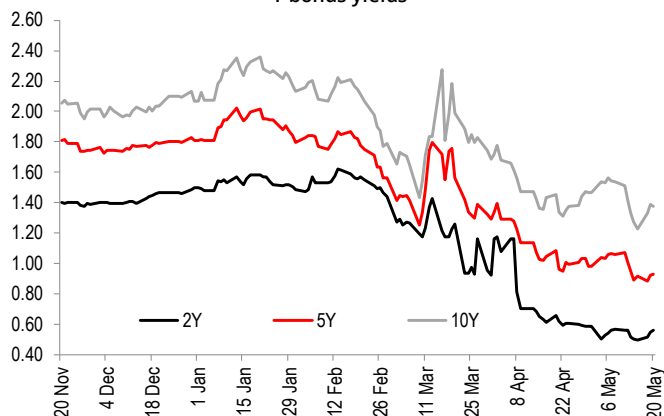
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

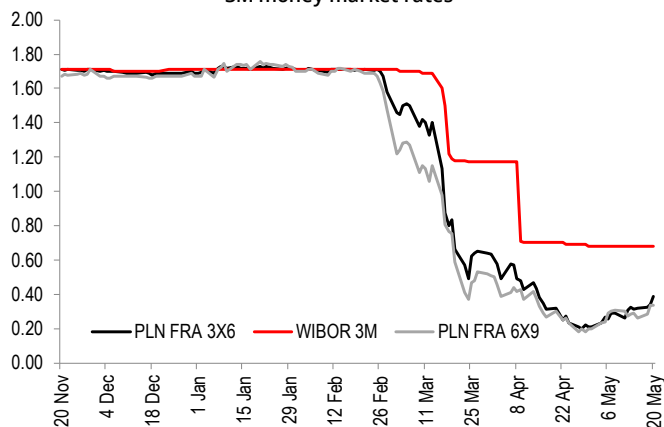
## Zloty exchange rate



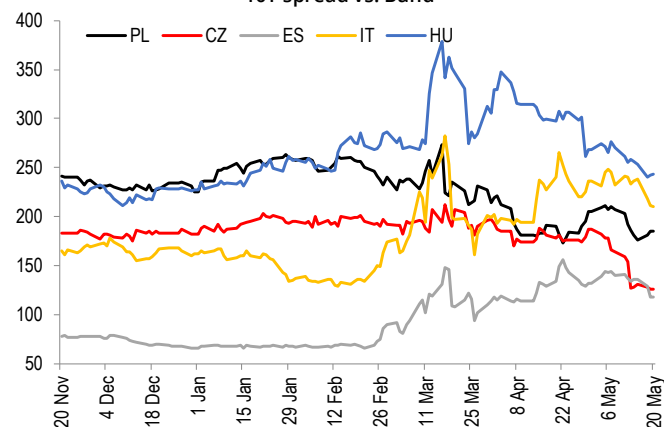
## T-bonds yields



## 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	1.9	6.3
10:00	PL	Employment in corporate sector	May	% y/y	-0.8	-0.6	-0.5	0.3
11:00	EZ	CPI	Apr	% y/y	0.4	-	0.3	0.4
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						
14:30	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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