

22 May 2020

Eyeopener

Collapse of industrial output

Profit taking on stock markets, sentiment soured overnight
Zloty gained despite the massive drop of output
Domestic bonds stable, IRS rates up
Today Polish retail sales and construction output

On Thursday we saw profit taking on the stock market, main indexes fell but by no more than c1% and prices of commodities continued to rise in European trading hours. The dollar index eased in the first part of the day but later on the dollar regained strength. After closing flat on daily basis, the US currency gained during the night. The EM currencies, including the zloty, appreciated. VIX index started to rise in the afternoon after holding stable above 28 in the first part of the session. Central banks of Turkey and RSA cut rates by 50bp to 8.25% and 3.75%, respectively. The market mood deteriorated noticeably overnight amid information that during the meeting of Communist Party of China GDP forecasts were not presented for the first time in 30 years and announced changes to national security legislation in Hong Kong (posing risk of protests like the ones that broke out in 2H19).

On Thursday preliminary PMIs for May were published in Japan, Australia, UK, US, euro zone, Germany and France – improvements vs the previous month were visible, and in some cases the numbers even beat expectations. The absolute levels are very low however. In the USA, May Philly Fed indicator was below expectations, deep in the negative territory.

Industrial output tumbled by 24.6% y/y in April, way more than we and the market had feared (-12.9% and -12.4%, respectively). This is the strongest blow the Polish industry has taken after 1990, bringing the output back to levels seen 7 years ago. The industry suffered due to full-scale Covid-19 lockdowns, staff absences and reduced demand. We hope that April marked this year's trough and we are going to see a gradual recovery in the months to come. The reading poses downward risk for our forecast of 2Q20 GDP growth (-11.7% y/y), but the data came after better-than-expected 1Q20 reading so our entire year estimate at about -4% holds. The PPI inflation fell to -1.3% y/y in April from -0.3% y/y, mostly due to lower prices in oil refining. Read more in our [Economic comment](#).

EURUSD behaved like on Wednesday: shortly after the start of the session at 1.098 it fell to 1.095 but then rebounded temporarily above 1.10. Later the deterioration of moods pulled the pair back down.

EURPLN again remained indifferent to worse-than-expected macroeconomic data. The zloty even gained in line with global trend of weaker dollar and stronger EM currencies. EURPLN was briefly above 4.54 before yesterday session and in the morning it was going down to break 4.52 at the end of the day. Correction can last and 4.50 is the next important level. However, we are not expecting a deeper correction and forecast a further PLN weakening.

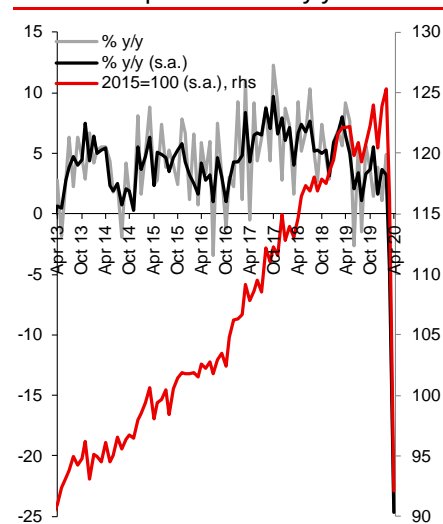
In case of the **other CEE currencies**, EURHUF fell to 348 from 350 (-0.6%), EURCZK to 27.15 from 27.30 (-0.9%). USDRUB dropped to 70.75 (-0.8%) and is now near its 100-day moving average running at 69.9 that may work as a support level from which the exchange rate may resume the rise. Russian April industrial output fell 6.6% y/y, much less than expected.

On the Polish **fixed income market** the FRA rates have not changed much, similarly to short term IRS. However the belly (5Y) and long end (10Y) IRS increased by 5bp and 6bp respectively. The bond curve was more stable. Due to lower core yields (the German curve roughly 3bp lower, while the US one 1-6bp depending on a tenor), the 10Y PL-DE spread widened to 190bp.

Ministry of Finance sold five series of bonds OK0722, PS0422, WZ0525, WZ1129 and DS1030 for a total of PLN5.0bn. Demand stood at PLN7.3bn and bid/cover ratio for separate bonds varied from 1.51 to 2.19. Also the state-owned bank **BGK** was selling bonds yesterday – a total of PLN8.95bn of the 7Y FPC0427. This was the third BGK auction to build a pandemic fund, while the total issued stands at PLN30.0bn. The maximum allowed issuance by BGK is PLN 100bn of which for this particular paper – PLN50bn. Also today Polish Development Fund (**PFR**) will issue bonds – yesterday PFR announced that the amount will be “a ten odd billion zloty” but less than PLN18.5bn (which is the amount issued at the previous, second, auction on 8 May – PFR0325 with 1.625% coupon). Within the total PLN100bn issuance program, PFR so far has issued bonds worth PLN34.8bn

Today in Poland April construction output data are due where we expect a deeper fall than the market, and also retail sales which in real terms might have fallen even 20% y/y. We will also see first business confidence indicators in Poland for May.

Industrial output: level and % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5210	CZKPLN	0.1660
USDPLN	4.1392	HUFPLN*	1.2965
EURUSD	1.0923	RUBPLN	0.0579
CHFPLN	4.2639	NOKPLN	0.4115
GBPPLN	5.0504	DKKPLN	0.6063
USDCNY	7.1226	SEKPLN	0.4281

*for 100HUF

Last session in the FX market 21.05.2020

	min	max	open	close	fixing
EURPLN	4.516	4.541	4.533	4.518	4.537
USDPLN	4.107	4.142	4.136	4.125	4.135
EURUSD	1.094	1.101	1.096	1.095	-

Interest rate market 21.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.55	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.96	3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.40	2	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.44	0	0.30	0	-0.37	0
2L	0.52	1	0.25	0	-0.29	-1
3L	0.58	2	0.27	1	-0.31	-2
4L	0.66	4	0.31	0	-0.30	-1
5L	0.71	4	0.37	0	-0.28	-1
8L	0.86	4	0.56	0	-0.20	-1
10L	0.96	5	0.66	0	-0.13	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.32	-9
T/N	0.45	2
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	1
3x6	0.36	-3
6x9	0.33	0
9x12	0.37	3
3x9	0.43	2
6x12	0.40	1

Measures of fiscal risk

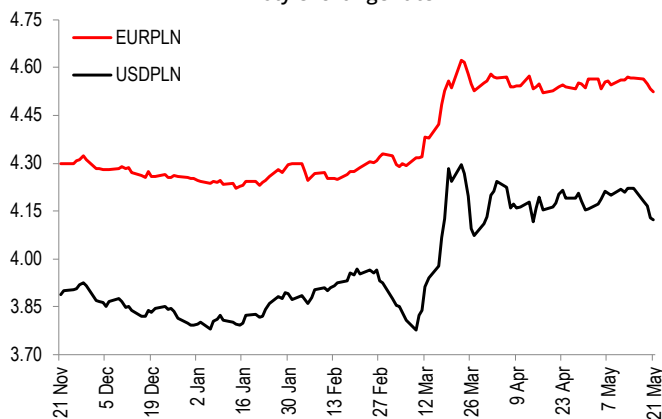
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	-1	190	5
France	25	0	45	2
Hungary	77	0	250	6
Spain	99	1	121	3
Italy	158	2	213	3
Portugal	68	0	126	3
Ireland	31	0	59	1
Germany	17	0	-	-

* 10Y treasury bonds over 10Y Bunds

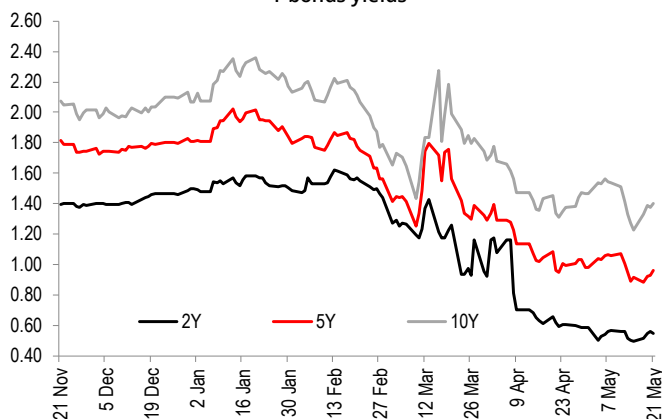
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

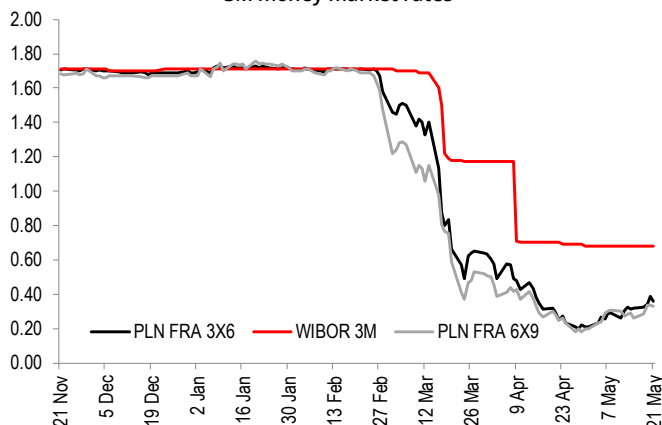
Zloty exchange rate



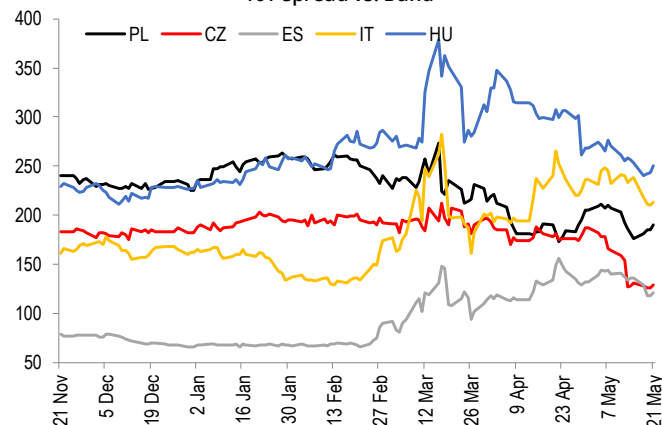
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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	-24.6	-2.3
10:00	PL	PPI	Apr	% y/y	-1.4	-1.2	-1.3	-0.5
11:00	PL	Bond auction						
9:30	DE	Flash PMI – manufacturing	May	pts	39.0	-	36.8	34.5
9:30	DE	Flash PMI – services	May	pts	24.0	-	31.4	16.2
10:00	EZ	Flash PMI – manufacturing	May	pts	38.0	-	39.5	33.4
10:00	EZ	Flash PMI – services	May	pts	23.8	-	28.7	12.0
14:30	US	Philly Fed index	May	pts	-40.0	-	-43.1	-56.5
14:30	US	Initial jobless claims	week	k	-		2438	2687
16:00	US	Home sales	Apr	m	4.38	-		5.27
FRIDAY (22 May)								
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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