

25 May 2020

Eyeopener

Positive mood at the start of the week

Gradual improvement of market sentiment
 EURPLN close to 4.50 despite the stronger dollar
 POLGB yields and IRS higher towards end of the week
 Today M3 money supply in Poland and important data from Germany

The Friday session started in a negative mood due to the Thursday news on rising US-China tension linked to new Chinese regulations regarding Hong Kong (HK stock exchange down 5%). On Friday there were no new important data releases, so the market at first focused on HK protests similar to the ones in 2H19. After a poor opening, in the following hours major stock indexes were recovering from the loss and at the end of the day the sentiment was back to normal.

April **retail sales** in constant prices fell by 22.9% y/y, more or less in line with our forecast and market consensus. Durable goods suffered more than non-durables. Sales are likely to improve in May, but remain in the negative territory. The erosion of households' incomes is likely to put negative pressure on consumer consumption in the months to come. Construction output surprised positively in April, showing only a marginal y/y decline of 0.9% vs +3.7% previously, thanks to robust civil engineering performance, while the housing market clearly stepped on the brakes in April. Sectoral business climate indicators rebounded in May on improved expectations, but current assessment indexes deteriorated further. Most of **sectoral business climate indicators** rebounded in May by about a fifth of the unprecedented April drop. Current assessment components of these indicators dropped further in all sectors, the most in hotels and restaurants. However the expectations components all improved significantly, with hotels and restaurants showing the largest rise, followed by industry - which may be due to the gradual easing of lockdown restrictions and the distribution of anti-crisis shield support. Most sectors continue to report that their purchases from suppliers and expected client orders are down by 20-40%. More in the Friday Economic Comment.

On Friday, **EURUSD** continued the downward move initiated on Thursday after a failed attempt to break 1.10, the upward limit of consolidation. The dollar was supported by rising demand for safe assets. In two days the pair returned to 1.09 from 1.10 and now it can continue towards 1.08, the lower bound of the range valid since early April. Today the exchange rate started the session at 1.0877.

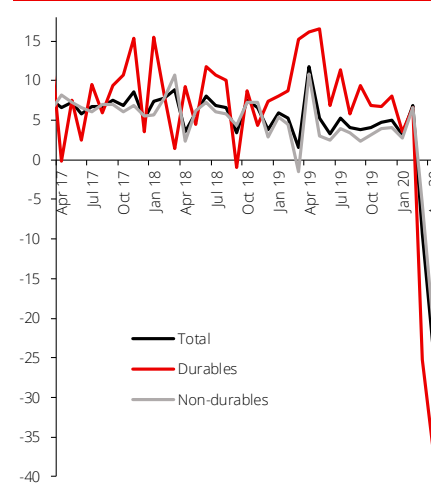
EURPLN rebounded after three days of declines and was slightly above the lower border of 4.50-4.60 range. USDPLN jumped to 4.15 from 4.11. The EURPLN's support at 4.50 was not broken so far and we think that the EURUSD chart development can decide. If the greenback continues to gain (and this is possible given the failed attempt of EURUSD to break 1.10), then the zloty could give away some of its gains versus the euro.

The **other CEE currencies**, were also weakening on Friday, but more than the zloty. EURCZK rebounded by 0.8% to c.27.3, EURHUF by 0.70% (to 350) and USDRUB by 1% to 71.5. The ruble lost more than the other CEE currencies because of the dollar appreciation, decline of oil price and remarks of the Russian central bank president that in June a 100bp rate cut may be on the table.

On the Polish **fixed income market** IRS and bond yields continued to rise amid weakening of the core bonds accompanied by a gradual improvement of the global market mood. Both Polish curves shifted up but by no more than 3bp. Still, this was more than in case of Bund and so the 10Y PL-DE bond yield spread rose c193bp while on the previous Friday it was at c175bp. On Friday, the Polish Development Fund (PFR) issued bonds for PLN15.2bn.

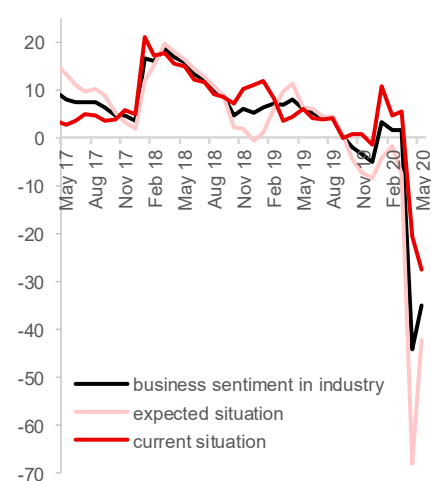
This week we will see numerous data from the USA and on Friday Polish stat office will publish detailed 1Q20 GDP data. On Wednesday, the MPC will decide about the interest rates and we expect monetary policy parameters to stay unchanged this time. In the short term, we do not expect EURPLN to leave the 4.50-4.60 range. This week we expect further rise of bond yields even despite the NBP bond repurchase auction planned on Thursday. We think the Polish bond yield could end the week above 1.50% and the spread vs Bund could widen to above 200bp.

Real retail sales, % y/y



Source: GUS, Santander

Business sentiment indicators for industry



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5116	CZKPLN	0.1648
USDPLN	4.1479	HUFPLN*	1.2896
EURUSD	1.0875	RUBPLN	0.0581
CHFPLN	4.2611	NOKPLN	0.4132
GBPPLN	5.0491	DKKPLN	0.6046
USDCNY	7.1404	SEKPLN	0.4281

*for 100HUF

Last session in the FX market 5/22/2020

	min	max	open	close	fixing
EURPLN	4.511	4.527	4.515	4.517	4.523
USDPLN	4.130	4.153	4.130	4.147	4.150
EURUSD	1.088	1.093	1.093	1.089	-

Interest rate market 5/22/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.55	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.98	2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.44	4	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.44	0.30	-0.36
2L	0.53	0.25	-0.29
3L	0.59	0.27	-0.31
4L	0.67	0.31	-0.30
5L	0.74	0.37	-0.29
8L	0.89	0.55	-0.20
10L	0.99	0.65	-0.13

WIBOR rates

Term	%	Change (bps)
O/N	0.39	7
T/N	0.43	-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	0.50	1
3x6	0.40	4
6x9	0.34	1
9x12	0.35	-2
3x9	0.42	-1
6x12	0.43	3

Measures of fiscal risk

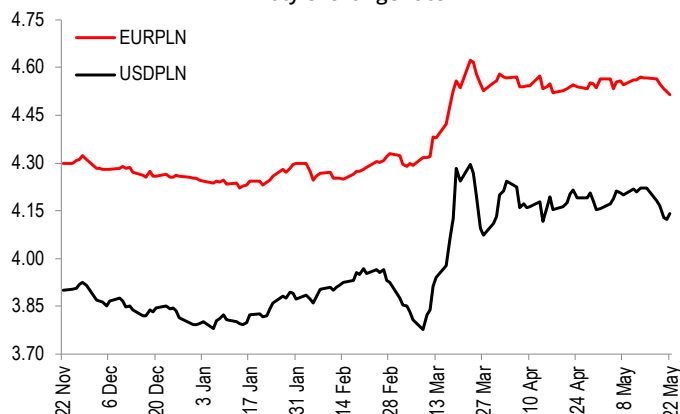
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	57	193
France	25	45
Hungary	78	254
Spain	99	119
Italy	157	209
Portugal	68	123
Ireland	31	62
Germany	17	-

* 10Y treasury bonds over 10Y Bunds

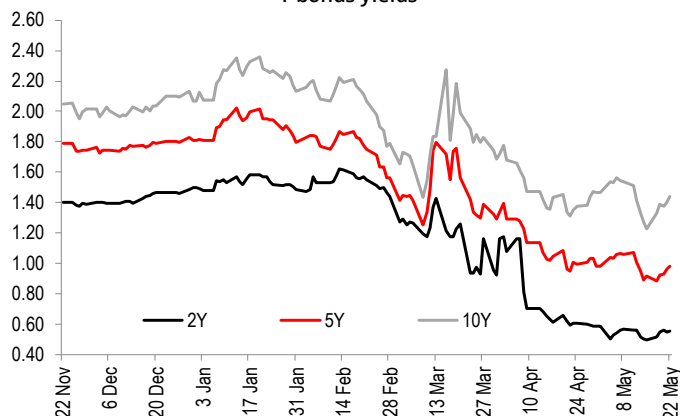
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

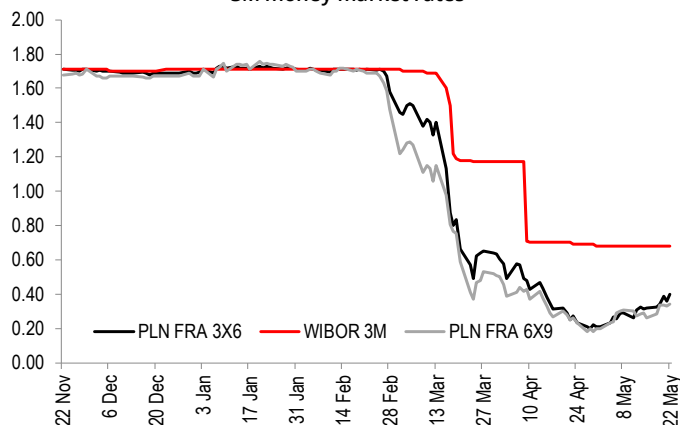
Zloty exchange rate



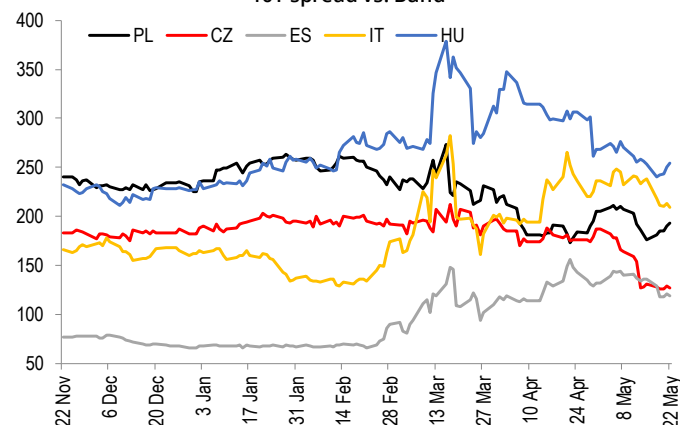
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		REALIZED	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (22 May)								
10:00	PL	Construction and assembly output	Apr	% y/y	-2.0	-6.1	-0.9	3.7
10:00	PL	Real retail sales	Apr	% y/y	-20.1	-20.5	-22.9	-8.9
MONDAY (25 May)								
08:00	DE	GDP	1Q	% y/y	-2.3	-	-2.3	-2.3
10:00	DE	IFO Business Climate	May	pts	78.3	-		74.3
14:00	PL	Money Supply M3	Apr	% y/y	12.3	12.4		11.8
TUESDAY (26 May)								
10:00	PL	Unemployment Rate	Apr	%	5.7	5.8		5.4
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
16:00	US	Consumer Conference Board	May	pts	87.0	-		86.9
16:00	US	New Home Sales	Apr	% m/m	-21.8	-		-15.4
WEDNESDAY (27 May)								
08:00	DE	Retail Sales	Apr	% m/m	-10.0	-		-4.0
THURSDAY (28 May)								
	PL	MPC decision		%	0.50	0.50		0.50
11:00	EZ	ESI	May	pct.	72.5	-		67.0
14:00	DE	HICP	May	% m/m	0.2	-		0.4
14:30	US	Durable Goods Orders	Apr	% m/m	-18.0	-		-15.3
14:30	US	GDP Annualized	1Q	% q/q	-4.8	-		-4.8
14:30	US	Initial Jobless Claims	week	k	2400	-		2438
16:00	US	Pending Home Sales	Apr	% m/m	-15.0	-		-20.8
FRIDAY (29 May)								
09:00	HU	GDP	1Q	% y/y	-	-		2.2
10:00	PL	Flash CPI	May	% y/y	-	2.8		3.4
10:00	PL	GDP	1Q	% y/y	-	1.9		1.9
10:00	PL	Private consumption	1Q	% y/y	-	2.2		3.3
10:00	PL	Investments	1Q	% y/y	-	5.8		6.1
11:00	EZ	Flash HICP	May	% y/y	0.35	-		0.4
14:30	US	Personal Spending	Apr	% m/m	-12.5	-		-7.5
14:30	US	Personal Income	Apr	% m/m	-7.0	-		-2.0
14:30	US	PCE Deflator SA	Apr	% m/m	-0.7	-		-0.3
16:00	US	Michigan index	May	pts	73.7	-		73.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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