

Eyeopener

Today Hungarian central bank decision

German Ifo confirms PMI rebound
 Significant increase of money supply and budget deficit
 EURPLN near 4.50, data from Germany support euro
 POLGBs stronger at the start of the week
 Today Hungarian central bank decision and important data in the US

On Monday the sentiment in global financial market remained positive and the absence of investors from the USA and UK was barely visible. Equity indices in Europe soared and euro depreciation versus dollar stopped thanks to slightly better than expected German Ifo index for May. The index rebounded from 74.2 to 79.5, conforming the message sent last week by the flash PMIs. Investors seem to be assigning quite low attention thus far to the rising tension between USA and China, the risk of new wave of Covid-19 pandemic, or the lack of progress in EU-UK Brexit talks – S&P500 futures broke through the symbolic level of 3000.

M3 money supply rose in April by 14% y/y vs 11.8% previously, once again beating the market consensus and our forecast (at 12.3% and 12.4% respectively). This is the highest M3 pace since mid-2009, The accelerated money creation was caused by government fiscal expansion and purchases by the banking sector of bonds issued the Polish Development Fund (PFR). The **central budget** recorded a PLN18.9bn deficit in April year-to-date. In April alone the balance deteriorated by PN9.5bn due to a collapse of tax revenues and epidemic-related expenditures. We expect the deficit to balloon further in the months to come, with a probable increase of general government deficit to over 10% of GDP this year. In **1Q20 financial results of companies** employing 50+ persons worsened, but their investment outlays rose at a similar pace as in 4Q19. We expect the earnings of companies and their investment activity to fall in the coming quarters. Read more in our [Economic comment](#).

Polish Development Fund (PFR) informed that it has already distributed support funds worth PLN36bn (PLN26bn to SMEs, PLN10bn to microfirms), to 182k enterprises employing 1.8mn people. PFR has issued bonds worth PLN50bn so far. Yesterday, European Commission approved the credit scheme for large enterprises worth EUR2.2bn – this is part of the Financial Shield support package and was waiting for EC approval.

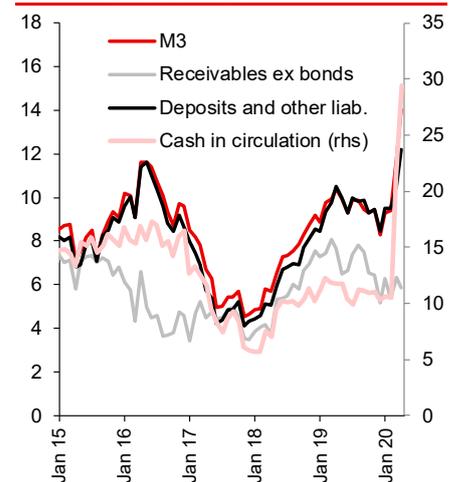
EURUSD ended the yesterday session at c.1.09, so close to the opening level. The euro was losing against the dollar from the start of the day, but a positive German Ifo reading prevented EURUSD from further decline. The exchange rate remains in the 1.08-1.10 range. Today we will get important US data, including May consumer sentiment measure.

Yesterday **EURPLN** slid for the fifth time in a row and tested 4.50. USDPLN declined to 4.12 from 4.15. The zloty was benefitting from halt in EURUSD's downward march and rising stock markets in Europe. EURLN could try to break the lower bound of the range valid since April, but we are not expecting these attempts to succeed. On Tuesday morning EURPLN is opening at 4.494, USDPLN at 4.115, CHFPLN at 4.239 and GBPPLN at 5.028.

The **other CEE currencies**, In the case of other CEE currencies, the koruna performed similar to the zloty (EURCZK down to 27.22 from 27.32), while the forint and the ruble were under pressure – EURHUF rebounded to 351 from 349.4 and USDRUB to 71.8 from 71. Today in Hungary the central bank will decide on rates – majority of the market expect rates to be unchanged, the main one at 0.9%. In Russia, wages and unemployment data are out today.

On the Polish **fixed income market** IRS and bond yields fell by 2-3bp after a meaningful rise seen in the previous week. Stabilization of Bund and Treasuries helped Polish bonds. The 10Y asset swap spread corrected roughly half of the upside move recorded in March while the IRS curve looks relatively steep in 2-10Y segment (50bp, the highest since May/June 2019). With the 2Y IRS at c0.50% (that is at the current NBP rate level and c20bp below the 3M WIBOR) it seems that the 10Y rate is too high and the 2Y too low given our scenario of no changes of the central bank rates this and next year.

M3 money supply, % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.4907	CZKPLN	0.1649
USDPLN	4.1127	HUFPLN*	1.2704
EURUSD	1.0921	RUBPLN	0.0577
CHFPLN	4.2342	NOKPLN	0.4112
GBPPLN	5.0314	DKKPLN	0.6022
USDCNY	7.1369	SEKPLN	0.4261

*for 100HUF

Last session in the FX market 5/25/2020

	min	max	open	close	fixing
EURPLN	4.498	4.517	4.513	4.503	4.511
USDPLN	4.123	4.154	4.143	4.133	4.143
EURUSD	1.087	1.091	1.089	1.090	-

Interest rate market 5/25/2020

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)	0.97	-1	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.42	-2	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.38	-6	0.30	0	-0.36	1
2L	0.49	-4	0.25	0	-0.28	1
3L	0.59	0	0.27	-1	-0.30	1
4L	0.65	-2	0.31	0	-0.30	0
5L	0.73	-1	0.37	0	-0.28	1
8L	0.88	-1	0.55	0	-0.20	0
10L	0.98	-1	0.65	0	-0.14	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.37	-2
T/N	0.40	-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	0.51	1
3x6	0.37	-3
6x9	0.33	-1
9x12	0.34	-1
3x9	0.45	3
6x12	0.41	-3

Measures of fiscal risk

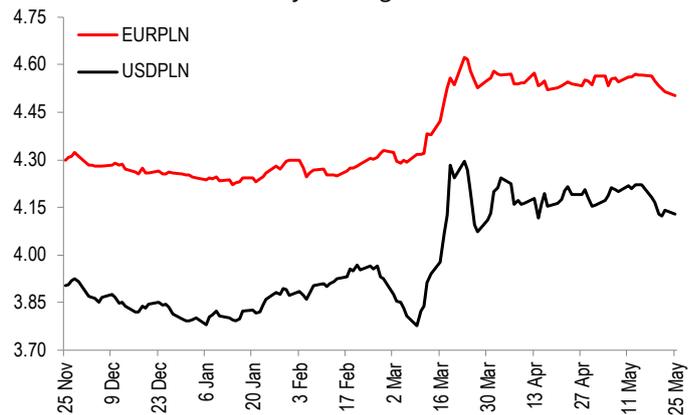
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	0	191	-2
France	25	0	45	0
Hungary	78	0	254	0
Spain	99	0	118	-1
Italy	157	0	208	-2
Portugal	68	0	121	-2
Ireland	31	0	60	-2
Germany	17	0	-	-

* 10Y treasury bonds over 10Y Bunds

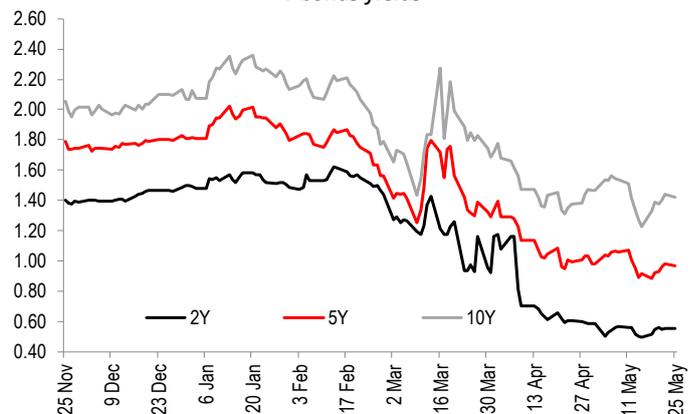
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

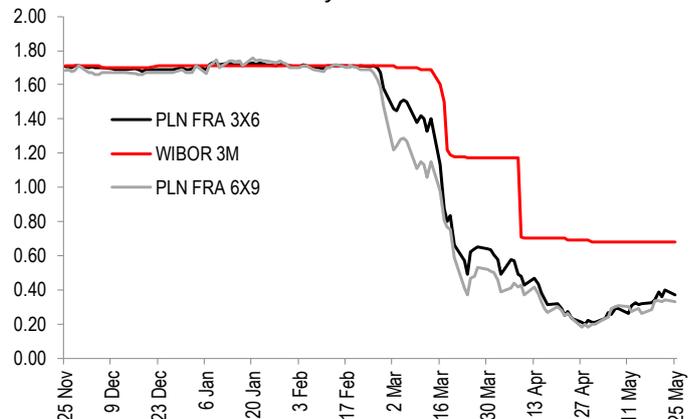
Zloty exchange rate



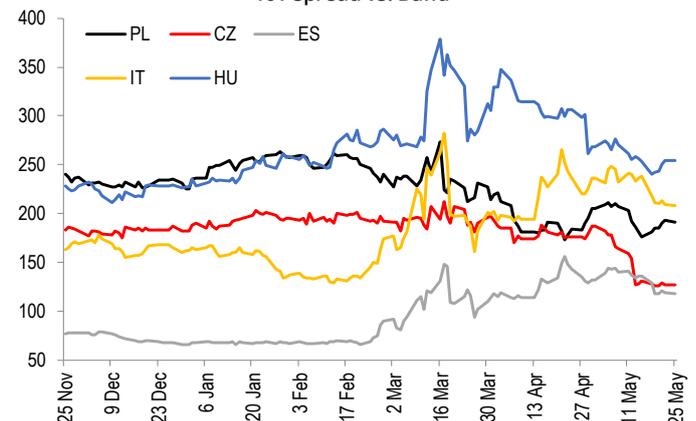
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

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	-	79.5	74.2
14:00	PL	Money Supply M3	Apr	% y/y	12.3	12.4	14.0	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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