

29 May 2020

Eyeopener

Today flash CPI and final GDP

MPC is afraid of low inflation and cuts rates
 Global mood still positive
 Zloty weakens post MPC decision, EURUSD above 1.10
 Abrupt strengthening of Polish bonds
 Today Q1 final GDP in Poland as well as many data from the US

Thursday session did not change much from the previous days of this week. Stock indexes continued to grow and the dollar lost somewhat. Yields on core markets remained near the Wednesday close. Investors still pay more attention to positive news (positive surprises in data, loose monetary policy, new EU support fund) rather than to risk factors (second wave of coronavirus spread, US-China tensions). However, the announcement that today Donald Trump will hold a press conference on China worsened the sentiment during the Asian session.

The **Monetary Policy Council** unexpectedly cut the main reference rate by 40bp to 0.1%, the lombard rate by 50bp to 0.5%, and kept the deposit rate at 0.0%. The move was justified mainly by the risk of inflation going below the NBP target in mid-term. We think that once the rates were trimmed almost to zero, the conventional part of monetary easing is over and the NBP will focus now mainly on asset purchases and providing liquidity to the market. More in [Economic Comment](#).

ESI business climate indicators for Poland in May showed a further decline in current activity in industry, construction, services and retail trade. Consumers' assessment of the current financial situation was still going down. As in case of GUS business climate indicators, a lot of sentiments index rebounded after a dramatic decline in April, but it is difficult to say about rising optimism, when the gauges are currently at the levels seen at the peak of the Global Financial Crisis. Inflation expectations index went down, but is at the highest level in 16 years (if we omit the previous reading).

The **Moody's rating agency** lowered the 2020 GDP growth forecast to -3.8% from -2.0%, while it expects a rebound by 4.0% in 2021.

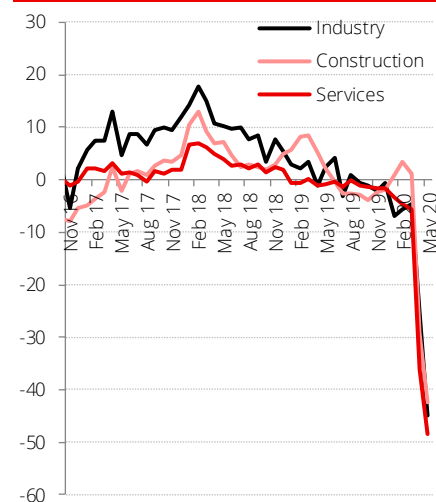
EURUSD climbed for the third day in a row and was at 1.105 at the end of the day, the highest level since end of March. For quite a long time the rate was not reactive to dynamic rises of European stock indices and it seems that the new economic programme of European Commission helped the rate break the upward limit of 1.08-1.10 range, which was valid since April. This is a signal that soon the euro could gain versus the dollar. On Friday morning the rate opened at 1.11 – by 1.8% higher than on Monday.

EURPLN rose yesterday for the first time after seven consecutive sessions of a decline and was close to 4.44 at the end of the Polish session. The unexpected NBP rate cut had the biggest negative impact on the zloty. USDPLN was hovering around 4.02. We think that cutting rates in Poland to the lowest level in the CEE region (vs 0.25% in Czechia and 0.90% in Hungary) may cause the zloty to underperform vs the koruna and forint in the nearest future. On Friday morning, EURPLN opens at 4.454 and USDPLN at 4.012.

The **other CEE currencies** the forint and ruble were losing since the beginning of the session but eventually the Hungarian currency managed to neutralize half and the Russian all of the earlier losses with EURHUF and USDRUB closing at c349 and 70.7. Meanwhile, the koruna was gaining for the whole day and EURCZK fell below 27.0 at the end of the day..

On the Polish **fixed income market** IRS and bond yields plummeted by c20-30bp in response to the surprising MPC decision. As a result, the IRS rates dropped to or even slightly below their all-time-low levels reached in April and the 10Y bond yield spread fell to 160bp, its lowest since 2H08. We think that such strong narrowing of the PL-DE spread might make Polish bonds strengthening trend to loose pace in the coming days.

ESI, indicators of trends in business activity.



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.4569	CZKPLN	0.1648
USDPLN	4.0179	HUFPLN*	1.2748
EURUSD	1.1091	RUBPLN	0.0569
CHFPLN	4.1684	NOKPLN	0.4112
GBPPLN	4.9554	DKKPLN	0.5978
USDCNY	7.1485	SEKPLN	0.4228

*for 100HUF

Last session in the FX market 5/28/2020

	min	max	open	close	fixing
EURPLN	4.412	4.451	4.426	4.447	4.426
USDPLN	4.002	4.038	4.020	4.018	4.024
EURUSD	1.099	1.107	1.101	1.107	-

Interest rate market 5/28/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.22	-30	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.70	-24	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.18	-19	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.34	-9	0.30	0	-0.37	-1
2L	0.35	-15	0.26	-1	-0.28	0
3L	0.39	-17	0.28	-1	-0.29	0
4L	0.46	-17	0.32	0	-0.28	0
5L	0.51	-19	0.38	0	-0.26	0
8L	0.67	-19	0.57	0	-0.17	1
10L	0.77	-16	0.68	1	-0.10	1

WIBOR rates

Term	%	Change (bps)
O/N	0.31	-2
T/N	0.44	8
SW	0.49	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	0.21	-30
3x6	0.22	-18
6x9	0.23	-11
9x12	0.21	-11
3x9	0.23	-20
6x12	0.22	-19

Measures of fiscal risk

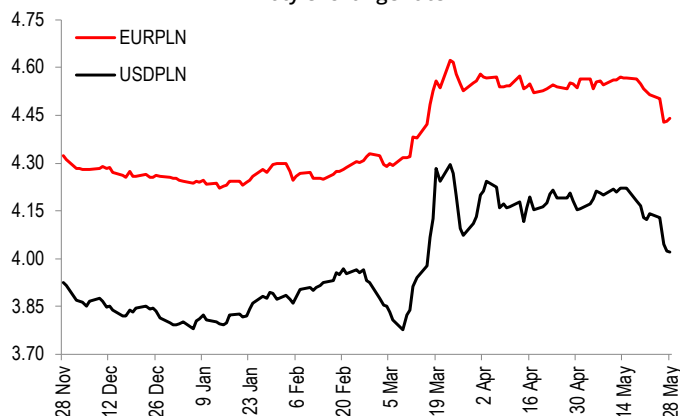
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	160	-19
France	22	-2	36	-4
Hungary	79	0	267	0
Spain	84	-5	101	-5
Italy	142	-3	186	-6
Portugal	53	-5	98	-8
Ireland	29	-2	54	-4
Germany	17	0	-	-

* 10Y treasury bonds over 10Y Bunds

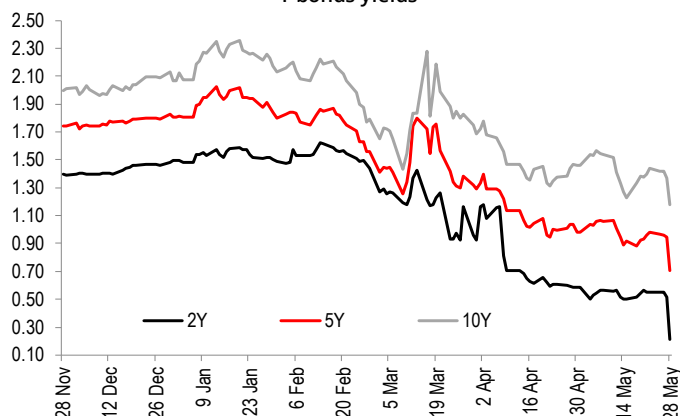
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

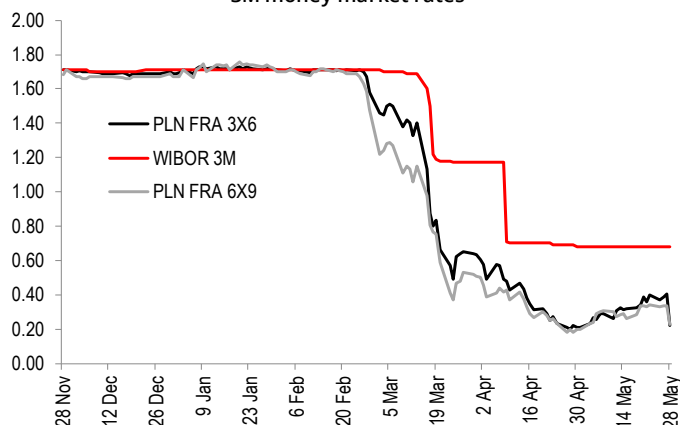
Zloty exchange rate



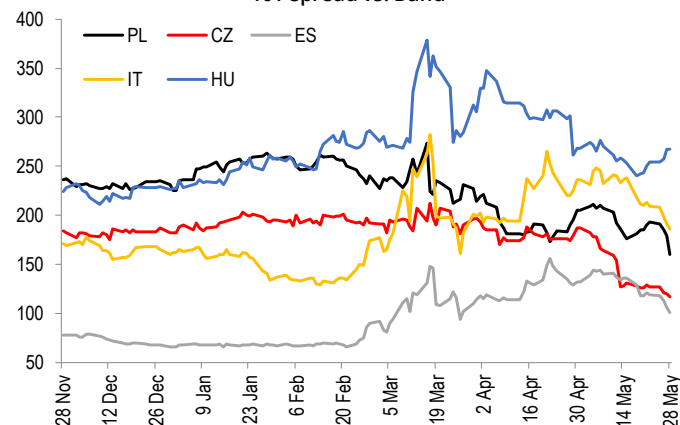
T-bonds yields



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	5.8	5.4
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.90	0.90
16:00	US	Consumer Conference Board	May	pts	87.0	-	86.6	86.9
16:00	US	New Home Sales	Apr	% m/m	-21.8	-	0.6	-13.7
WEDNESDAY (27 May)								
16:00	US	Richmond Fed manufacturing index	May	pts	-47.0	-	-27.0	-53.0
THURSDAY (28 May)								
	PL	MPC decision		%	0.50	0.50	0.40	0.50
11:00	EZ	ESI	May	pct.	72.5	-	67.5	67.0
14:00	DE	HICP	May	% m/m	0.2	-	0.0	0.4
14:30	US	Durable Goods Orders	Apr	% m/m	-18.0	-	-17.2	-15.3
14:30	US	GDP Annualized	1Q	% q/q	-4.8	-	-5.0	-4.8
14:30	US	Initial Jobless Claims	week	k	2400	-	2123	2438
16:00	US	Pending Home Sales	Apr	% m/m	-15.0	-	-21.8	-20.8
FRIDAY (29 May)								
08:00	DE	Retail Sales	Apr	% m/m	-12.0	-	-5.3	-4.0
09:00	HU	GDP	1Q	% y/y	2.2	-	2.2	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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