

1 June 2020

Eyeopener

Today manufacturing PMIs

Friday's correction of optimism
 EURPLN slightly up, EURUSD breaks 1.11
 Polish bonds stabilize
 Today May manufacturing indexes in USA, euro zone and Poland

On Friday the sentiment on equity market was slightly worse than in the previous days – stock indices fell by 0.5-1.0% amid worries ahead of Donald Trump's press conference, at which he could have tightened his rhetoric against China. The worries have not materialised though. Dollar index lost c.0.3%, mainly due to strengthening euro. On Friday, but also in the entire May, most of the emerging markets currencies, except for the so-called high-yielders (currencies of countries with high interest rates) were appreciating against dollar. On Friday, energy commodities were getting cheaper, while metals (both precious and industrial) were gaining (gold to USD1735/oz). Retail sales in Germany was better than predicted but the Michigan index of US consumer confidence disappointed, falling to 72.3. Data about US consumer spending (-13.6% y/y) was lower than expected and lowest for many years. On Friday the Fed governor Jerome Powell said that negative interest rates are not good for the US economy according to the central bank.

Polish 1Q GDP growth was 2.0% y/y vs 1.9% flash estimate and 3.2% in 4Q19. The slowdown was caused by a sharp deceleration of investments and private consumption. This does not bode well for next readings. We fear that the 2Q GDP print, the most affected by the pandemic, could be at about -12% y/y, with downside risks due to the weakness of April data, and the full-year result could be around -4%. According to flash reading **CPI inflation** went down to 2.9% y/y in May from 3.4% y/y in April. CPI was dragged lower by food and fuel prices. We estimate that core inflation climbed to 3.7-3.8% y/y from 3.6% y/y in April. We expect further declines of inflation in the months to come given weaker total demand. Find more in our Friday's [Economic comment](#).

EURUSD rose for another day on expectations regarding the new European Commission fund, with a maximum at 1.115 and a close at 1.112. Since the release of the EC fund news, the pair has increased by 1.3%, while since the correction higher started in mid-May – already 3.5%. FX options market imply a higher probability of an up-move than a down-move in tenors to and including 2 month. We expect that after the initial rise, EURUSD will stabilize at the beginning of the week as market awaits the ECB.

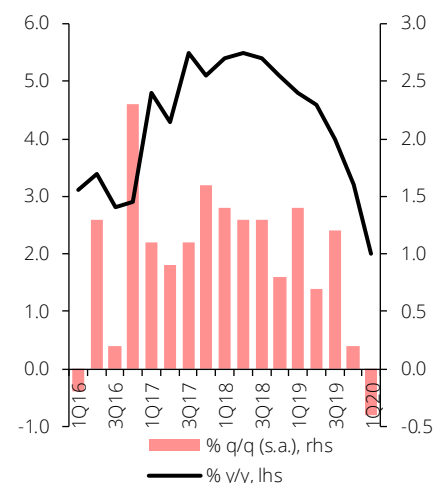
EURPLN since mid-May to Thursday's unexpected NBP rate cut, has decreased by 3.5%, while soon after the decision bounced higher 1.0% to 4.46. At the end of Friday EURPLN traded near 4.44, just 0.6% higher. USDPLN closed just below 4.00, CHPLN at 4.156 while GBPPLN at 4.947.

As for other regional currencies, EURHUF dropped by 0.6% and closed at 347.4. EURCZK down by 0.2% to 26.94. While USDRUB increased by 0.6% to 70.62 which was partially a result of cheapening oil.

On the domestic interest rate market, IRS rates stabilised and market was trading both sides. At the end of the day better offers started to appear: 2Y closed at 0.28%, 5Y at 0.49% and 10Y at 0.76%. Bond yields stabilised with the exception of 2Y where a fall could still be observed (to 0.18%). The strengthening of short tenors of government bonds may be supported not only by heavy over-liquidity in the banking sector but also the upcoming switch auction this Friday. Thanks to the stable Bund, the 10Y PL-DE spread stayed around 163bp. Such a low level of the spread historically meant a growing risk of a rise of Polish yields. As a result the bond curve may be steepening.

The first week of June in Poland will be almost empty as far as data releases and economic events are concerned. May manufacturing PMI will be out this morning. We assume some improvement (to 35pts), as suggested by, among others, the flash readings for other European countries and GUS business confidence indicators. Abroad, we will see more data: apart from final PMIs for manufacturing and services, the US May nonfarm payrolls will be published. The ECB meeting on Thursday may bring a decision to enlarge and extend in time the PEPP asset purchase program (related to the pandemic).

Polish GDP growth



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4,4233	CZKPLN	0,1633
USDPLN	3,9696	HUFPLN*	1,2814
EURUSD	1,1142	RUBPLN	0,0569
CHFPLN	4,1314	NOKPLN	0,4112
GBPPLN	4,9170	DKKPLN	0,5959
USDCNY	7,1168	SEKPLN	0,4237

*for 100HUF

Last session in the FX market 29.05.2020

	min	max	open	close	fixing
EURPLN	4,438	4,460	4,453	4,448	4,450
USDPLN	3,986	4,022	4,011	4,005	4,003
EURUSD	1,109	1,114	1,110	1,111	-

Interest rate market 29.05.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0,18	-3	5.03.2020	OK0722	1,225
PS1024 (5Y)	0,70	-1	5.03.2020	PS1024	1,431
DS1029 (10Y)	1,19	1	5.03.2020	DS1029	1,725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,23	-12	0,29	-1	-0,38	-1
2L	0,28	-8	0,25	-1	-0,29	-1
3L	0,34	-6	0,26	-1	-0,31	-2
4L	0,42	-4	0,30	-2	-0,30	-2
5L	0,49	-2	0,36	-3	-0,28	-2
8L	0,66	-1	0,54	-3	-0,19	-2
10L	0,76	-1	0,64	-4	-0,12	-2

WIBOR rates

Term	%	Change (bps)
O/N	0,24	-7
T/N	0,25	-19
SW	0,20	-29
2W	0,20	-32
1M	0,24	-40
3M	0,28	-40
6M	0,29	-40
1Y	0,33	-41

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0,25	4
3x6	0,20	-2
6x9	0,21	-2
9x12	0,22	1
3x9	0,23	0
6x12	0,24	1

Measures of fiscal risk

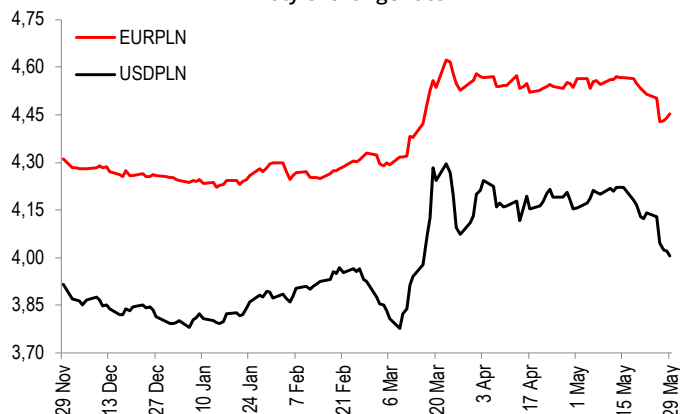
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	1	163	4
France	22	0	37	1
Hungary	79	0	243	-24
Spain	82	-1	102	1
Italy	148	6	194	8
Portugal	53	0	97	-1
Ireland	28	-1	54	1
Germany	16	-1	-	-

* 10Y treasury bonds over 10Y Bunds

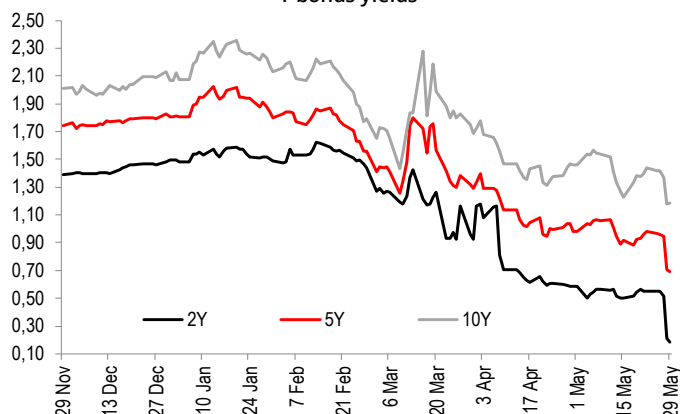
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

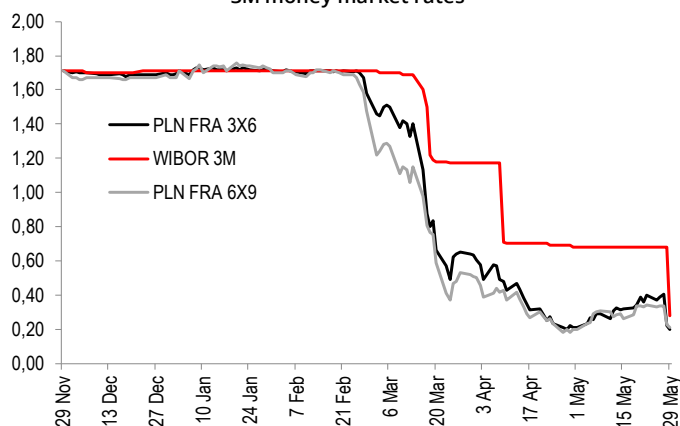
Zloty exchange rate



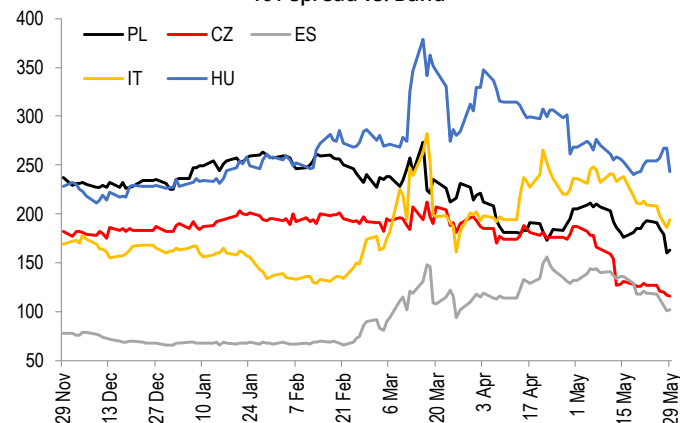
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (29 May)								
08:00	DE	Retail Sales	Apr	% m/m	-12.0	-5.3	-5.6	
09:00	HU	GDP	1Q	% y/y	2.2	2.2	2.2	
10:00	PL	CPI	May	% y/y	3.0	2.95	3.4	
10:00	PL	GDP	1Q	% y/y	-	2.0	1.9	
11:00	EZ	Flash HICP	May	% y/y	0.1	0.1	0.4	
14:30	US	Personal Spending	Apr	% m/m	-12.8	-13.2	-7.5	
14:30	US	Personal Income	Apr	% m/m	-6.0	10.5	-2.0	
14:30	US	PCE Deflator SA	Apr	% m/m	-0.6	-0.5	-0.2	
16:00	US	Michigan index	May	pts	74.0	72.3	73.7	
MONDAY (1 June)								
09:00	PL	Poland Manufacturing PMI	May	pts	34.0	35.0	-	31.9
09:55	DE	Germany Manufacturing PMI	May	pts	36.8	-	36.8	
10:00	EZ	Eurozone Manufacturing PMI	May	pts	39.5	-	39.5	
16:00	US	ISM manufacturing	May	pts	43.5	-	41.5	
TUESDAY (2 June)								
09:00	CZ	GDP SA	1Q	% y/y	-2.2	-	-2.2	
WEDNESDAY (3 June)								
03:45	CN	Caixin China PMI Services	May	pts	47.25	-	44.4	
11:00	EZ	Unemployment Rate	Apr	%	8.2	-	7.4	
14:15	US	ADP report	May	k	-9 500	-	-20 236	
16:00	US	Durable Goods Orders	Apr	% m/m	-19.0	-	-17.2	
16:00	US	ISM services	May	pts	44.0	-	41.8	
16:00	US	Factory Orders	Apr	% m/m	-15.0	-	-10.4	
THURSDAY (4 June)								
09:55	DE	Markit Germany Services PMI	May	pts	31.4	-	31.4	
10:00	EZ	Eurozone Services PMI	May	pts	28.7	-	28.7	
11:00	EZ	Retail Sales	Apr	% m/m	-18.0	-	-11.2	
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	
14:30	US	Initial Jobless Claims	week	k	2 100	-	2 123	
FRIDAY (5 June)								
08:00	DE	Factory Orders	Apr	% m/m	-20.0	-	-15.6	
09:00	HU	Industrial Production SA	Apr	% y/y	-24.3	-	-9.99	
14:30	US	Change in Nonfarm Payrolls	May	k	-8 000	-	-20 537	
14:30	US	Unemployment Rate	May	%	19.5	-	14.7	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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