

5 June 2020

Eyeopener

ECB expands PEPP programme

ECB enlarges bond purchase program more than expected
Zloty weaker, its CEE peers stable
Polish bonds under pressure of core market
Today US nonfarm payrolls data

On Thursday the stocks recorded the first pause in the upward march, but even markets witnessing a correction did not suffer losses bigger than 0.5%. In the EM world, the CEE region was gaining but for the zloty, while currencies of oil-producing countries were taking hits, despite stable oil prices (Brent at \$39.5/bbl). Gold prices remained at €1700/oz.

On Thursday the **ECB** did not change interest rates, but – in line with market expectations – extended and prolonged the Pandemic Emergency Purchase Programme (PEPP). The expansion by €600bn was larger than expected (€500bn). The programme was prolonged until mid-2021 (with possible reinvestment of maturing bonds until end of 2022). Economic forecasts were revised: in 2020 GDP is expected to shrink by 8.7% and in 2021 to rebound by 5.2%. Inflation is to accelerate only slightly and amount to 1.3% on average until 2022 (the ECB inflation target is at 2.0%). Central bankers did not consider purchasing bonds below the investment grade. Together with the German lifeline programme worth €130bn the yesterday's decision is an important support for the euro zone. In reaction to the decision the euro gained and peripheral yield spreads narrowed.

Prime Minister Mateusz Morawiecki presented details about the new public investment fund worth PLN30bn, being part of the anti-crisis shield. The fund will be financed from the European funds (and the Recovery and Resilience facility). It supports our expectations that spending from this fund will not appear this year (the facility starts in 2021) or if they do, they will not be greater than investment spending that was planned to be implemented anyway before the pandemic. The financing by European funds implies the neutral impact on the public finances (we assume that low co-financing ratio will be possible).

GUS estimated that in the first two months of the pandemic (i.e. between the end of February and the end of April) **223k foreigners left Poland**, or 10.1% of their estimated number from the end of February (2214k, including 1391k Ukrainians). The largest outflow was recorded among Ukrainians (160k, 11.5%), Belarusians (34k, 32.2%) and Russians (9.5k, 25.7%). The number of foreigners registered in ZUS (social security) dropped by 47.9k, or 7.1% (including 43.8k, or 8.9% of Ukrainians) between the end of February and the end of April. We may assume that many of them left when losing a job, which should result in lower pressure on Polish unemployment statistics from the pandemic-related shock.

EURUSD gained for 8th session in a row and yesterday's was the biggest daily rise in this upward series. The euro has been gaining since mid-May and in total the currency gained 4.4%. On Thursday, after opening at 1.124 but still before the ECB decision the pair initially fell to 1.12. However, later in the day it rebounded and moved higher to 1.135. As a result the dollar index fell to 97.0. Today in the afternoon US labor market data is being published.

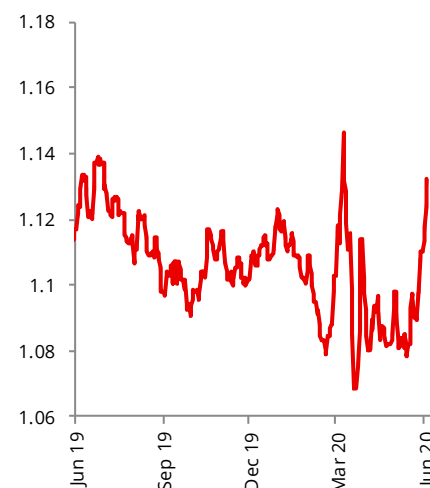
EURPLN did not follow the optimism caused by the ECB decision and for the second day in a row it was rising. Having opened at 4.41 it even went above 4.45 for a while, but closed at 4.43. Technically, the fx rate has not reached the 200d moving average (4.36) and the 4.40 level which is the bottom of the current range seems to have held. 4.43 is the 100d MA and we think the exchange rate will consolidate here in the coming days awaiting important data.

As for the other CEE currencies, EURHUF remained stable around 345 for a second day in a row. April retail sales in Hungary was still strongly negative at around -10% y/y but 4pp above market expectations. The stable currency despite the better-than-expected data might suggest EURHUF will move higher in the short term. EURCZK also finished the day unchanged at 26.6 after a brief uptick to 26.8 during the day. USDRUB increased by 1.1% to 69.3.

On the Polish fixed income market, the FRA rates have not change significantly i.e. 6x9 still at 0.22%. The IRS have increased though: 2Y by 1bp to 0.33%, 5Y by 3bp to 0.60% while 10Y by 4bp to 0.90%, as have bond yields, but to a lesser extent e.g. 10Y by 2bp to 1.38%. As a result 10Y ASW narrowed (to 48bp). Higher yields in Poland resulted from higher core markets yields where Bund closed at -0.32% and 10Y UST at 0.81%.

BGK issued bonds and the cash raised will fund the anti-COVID-19 facility. The total amount sold PLN 8.5bn was split into 7Y bonds FPC0427 in PLN 3.64bn (maximum issuance of the series set at PLN 50.0bn, coupon 1.875%) and 10Y bonds FPC0630 in PLN 4.87bn (maximum issuance also at PLN 50.0bn, coupon 2.125%). Total issuance of BGK amounts to PLN 38.5bn so far.

EURUSD exchange rate



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.4257	CZKPLN	0.1658
USDPLN	3.8922	HUFPLN*	1.2824
EURUSD	1.1375	RUBPLN	0.0565
CHFPLN	4.1293	NOKPLN	0.4196
GBPPLN	4.9251	DKKPLN	0.5952
USDCNY	7.0865	SEKPLN	0.4258

*for 100HUF

Last session in the FX market

6/4/2020

	min	max	open	close	fixing
EURPLN	4.407	4.455	4.409	4.434	4.435
USDPLN	3.887	3.978	3.931	3.918	3.957
EURUSD	1.119	1.136	1.121	1.132	-

Interest rate market

6/4/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.23	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.79	3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.39	3	5.03.2020	DS1029	1.725

IRS on the interbank market**

RIS on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	0	0.30	0	-0.40	0
2L	0.33	0	0.28	0	-0.29	0
3L	0.41	2	0.30	2	-0.29	0
4L	0.51	3	0.36	2	-0.27	0
5L	0.61	4	0.44	5	-0.24	0
8L	0.81	5	0.68	6	-0.12	2
10L	0.91	6	0.81	8	-0.03	3

WIBOR rates

Term	%	Change (bps)
O/N	0.17	0
T/N	0.18	1
SW	0.19	0
2W	0.20	0
1M	0.24	0
3M	0.27	0
6M	0.29	0
1Y	0.30	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.25	-1
3x6	0.20	-3
6x9	0.22	-4
9x12	0.23	-1
3x9	0.29	3
6x12	0.26	-3

Measures of fiscal risk

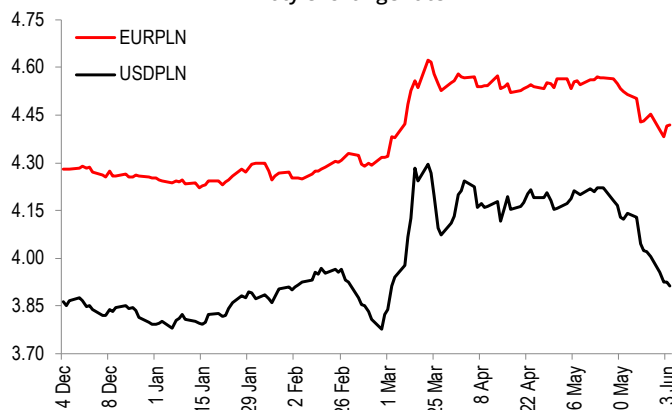
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	171	1
France	20	0	31	-5
Hungary	79	0	249	2
Spain	82	0	89	-8
Italy	141	0	174	-16
Portugal	53	0	86	-8
Ireland	28	0	47	-3
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

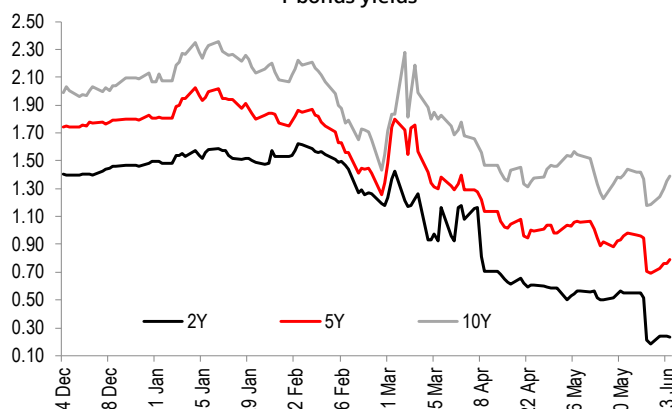
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

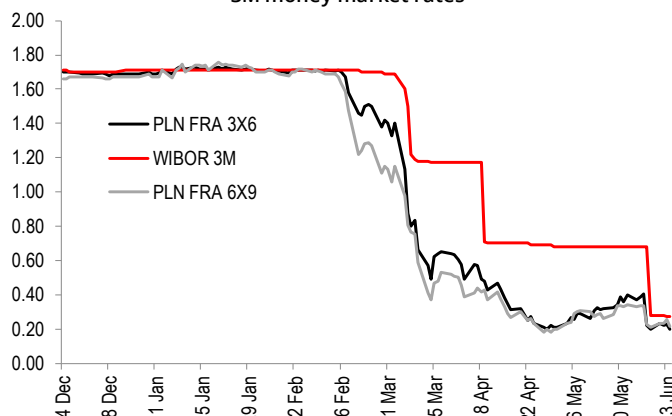
Zloty exchange rate



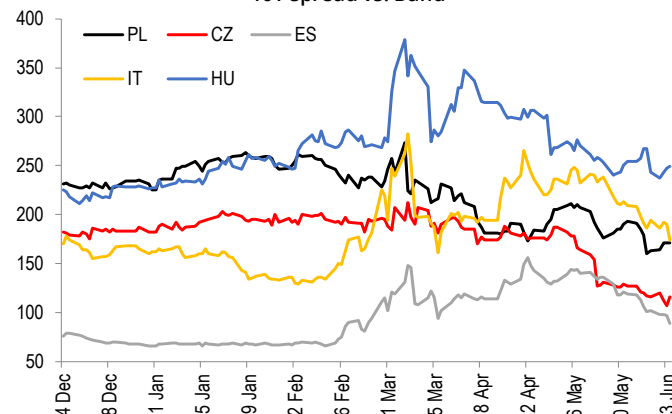
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		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	2.9	3.4
10:00	PL	GDP	1Q	% y/y	-	2.0	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	40.6	31.9
09:55	DE	Germany Manufacturing PMI	May	pts	36.8	-	36.6	36.8
10:00	EZ	Eurozone Manufacturing PMI	May	pts	39.5	-	39.4	39.5
16:00	US	ISM manufacturing	May	pts	43.5	-	43.1	41.5
TUESDAY (2 June)								
09:00	CZ	GDP SA	1Q	% y/y	-2.2	-	-2.0	-2.2
WEDNESDAY (3 June)								
03:45	CN	Caixin China PMI Services	May	pts	47.5	-	55.5	44.4
09:55	DE	Markit Germany Services PMI	May	pts	31.4	-	32.6	31.4
10:00	EZ	Eurozone Services PMI	May	pts	28.7	-	30.5	28.7
11:00	EZ	Unemployment Rate	Apr	%	8.2	-	7.3	7.1
14:15	US	ADP report	May	k	-9 000	-	-2760	-19 557
16:00	US	Durable Goods Orders	Apr	% m/m	-17.2	-	-17.7	-17.2
16:00	US	ISM services	May	pts	44.0	-	45.4	41.8
16:00	US	Factory Orders	Apr	% m/m	-13.4	-	-13.0	-11.0
THURSDAY (4 June)								
11:00	EZ	Retail Sales	Apr	% m/m	-15.0	-	-11.7	-11.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Initial Jobless Claims	week	k	1 833	-	1 877	2 126
FRIDAY (5 June)								
08:00	DE	Factory Orders	Apr	% m/m	-20.0	-	-25.8	-15.0
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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