

Weekly Economic Update

Idle time

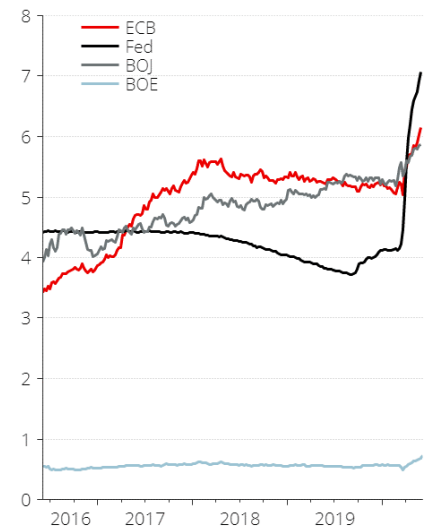
What's hot in the next two weeks

- It looks like it is going to be an idle week in Poland – literally, with lockdown restrictions down, nice weather expected, and Corpus Christi holiday giving an opportunity for the long overdue trip outside our homes, but also due to almost no events in the calendar that could affect investors' views. Fed will meet this Wednesday and some inflation figures will be out (USA, Czechia, Hungary). No new publications or key events are due in Poland. The presidential campaign is gaining momentum ahead of the 28 June election, so polls may be the only thing to watch.
- We do not expect any changes in FOMC policy (rates and other parameters), leaving the tone of the statement plus the updated set of forecasts as the factors that could influence the market mood. If there is plenty of pessimism about US economic outlook in these two, the event might become a catalyst for a correction after the recent strong performance of stock exchanges.
- The week starting on 15 June will bring a bit more information from Poland – e.g. on April foreign trade, May inflation, output and labour market. Abroad we will see US production and retail sales, among others. Still, these are also unlikely in our view to change the market trends.
- Polish MPC is scheduled to meet on 16 June (again, reduced to a one-day meeting, most likely with press conference called off yet again). After the last surprise rate cut to almost zero, we assume that, as far as conventional monetary policy tools are concerned, there is a long period of stabilisation ahead.

Market implications

- EURPLN rebounded from 4.40 in line from what we forecasted a week ago. In the second half of the week the zloty surprised with the pace of weakening given the still positive global mood and the stability of other CEE currencies. Such relatively poor zloty behaviour, high dynamics of the move, more expensive FX options as well as the fact that 4.45 level got reached that fast make us believe that within the next two weeks EURPLN will not move back towards 4.40 but rather will keep rising towards 4.50 and perhaps even break higher.
- Polish yields followed core markets higher amid optimism about EU economic recovery (supportive news on more rescue packages, ECB QE extension). After the recent move we might observe a pause in the coming days. On the short end of the curve the significant abundance of liquidity in the banking system might keep bond yields lower.

Central banks' balance sheets, total assets (USD trillions)



Source: Refinitiv Datastream

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Last week in economy

Polish manufacturing PMI rose in May, but the report is not encouraging. April MPC minutes and latest members' comments suggest no policy action in the nearest future and no hurry to restore pre-crisis interest rate level.

In May **Polish manufacturing PMI** rose to 40.6 pts from the record low 31.9 recorded in April. In all sub-categories the report signals the second or the third worst reading ever. Output, orders were still considered very weak. Even with many factories closed due to lockdown, the backlogs of work continued to fall quickly, showing how poor is the inflow of new business. As in the previous readings, the headline reading was pushed higher by longer suppliers' delivery times, which is a methodological flaw of the index. In line with alternative business sentiment measures, in May the production expectations of firms improved vs April. The May PMI suggests the economy is trying to set the low of this crisis but there are no hints in the report that would suggest a quick recovery.

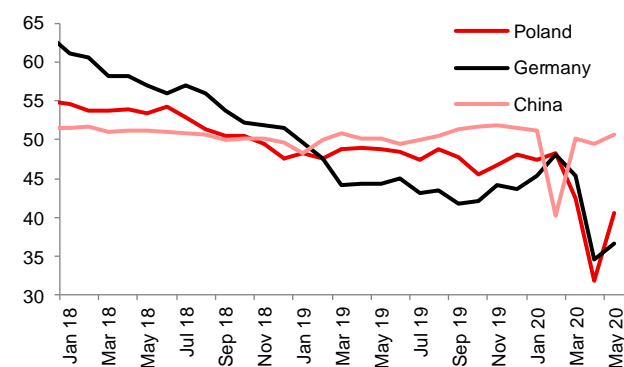
GUS estimated that in the first two months of the pandemic (i.e. between the end of February and the end of April) **223k foreigners left Poland**, or 10.1% of their estimated number from the end of February (2214k, including 1391k Ukrainians). The largest outflow was recorded among Ukrainians (160k, 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 as they may have been the first to be laid off and will not show up as unemployed.

PM Mateusz Morawiecki said the new **public investment fund** worth PLN30bn, part of the anti-crisis shield, 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 it does, it 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).

Having read the **April MPC meeting minutes** we feel that the motivation to go on with monetary policy easing (at this meeting another 50bp cut was delivered and the QE program was extended to also cover State-guaranteed debt) came from heavy downside revisions of GDP forecasts observed globally and actions taken by other central banks that were carried out "quickly and on a large scale". According to April minutes the scope of the delivered rate cuts was, among others, to positively influence economic sentiment after the end of the pandemic – which suggests that the MPC will not be in a hurry to restore the pre-crisis rate levels once the pandemic is over.

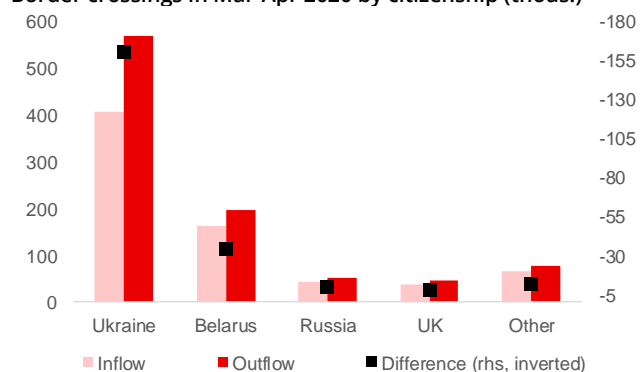
MPC's **Grażyna Ancyparowicz** said that for the time being she does not expect any further rate cuts, but they cannot be excluded altogether if a negative scenario develops and the central bank will not have any other tools to support the economy. **Rafał Sura** said that if needed, the adjustment in monetary policy may be done no earlier than after one quarter. In his view, currently there is no need to introduce negative interest rates, the actions made by the central bank are adequate and the MPC should wait and see how the economy reacts. **Cezary Kochalski** said that at the moment there are no reasons to discuss about negative interest rates. In his opinion, there is a risk of lower inflation, however not a risk of deflation.

Manufacturing PMIs



Source: Bloomberg, Santander

Border crossings in Mar-Apr 2020 by citizenship (thous.)



Source: GUS, Santander

MPC voting

Date	8 Jan	8 Jan	5 Feb	4 Mar	17 Mar
Change (bps)	15	-25	-25	-25	-50
Decision	NO	NO	NO	NO	YES
Ancyparowicz					X
Hardt	X				
Kochalski					X
Kropiwnicki					
Łon		X	X	X	X
Gatnar	X				absent
Glapiński (chair.)					X
Sura			absent		X
Zubelewicz	X				
Żyżyński					X

Source: NBP, Santander

FX and FI market

Last week on the market

FX slowly reopening global economies, positively surprising May manufacturing PMI series, announcement of the European Commission EUR 750bn fund, expansion of EBC's PEPP program to EUR 1350bn as well as increased Germany's fiscal spending caused European stocks to rally 10%, strengthened emerging market currencies and helped EURUSD gain 2.4% (in 8 consecutive sessions). EURPLN initially declined however after reaching minimum at 4.375 quickly rebounded and finished the week at 4.45, a significant negative outlier within the CEE region. USDPLN dropped to 3.90 from 4.40, CHFPLN to 4.07 from 4.17, while GBPPLN remained unchanged at 4.94. Other CEE currencies gained on the week: EURHUF lower by 0.7% to 344.5, EURCZK by 1.3% to 26.6, USDRUB by 2.1% to 68.6.

FI Yields significantly rebounded after previous week's unexpected NBP rate cut. IRS gained 6bp in 2Y (to 0.34%), 19bp in 10Y (to 0.95%), while bond yields increased 6bp in 2Y (to 0.23%) and 24bp in 10Y (to 1.42%). Increases at the long end of the Polish bond curve as well as IRS one can be explained by core markets behavior – Bund yield up 15bp (to -0.30%), 10Y UST up 20bp (to 0.85%). However the increases of the shorter term bond yields were interesting in the context of sizeable over liquidity of the banking sector. On Thursday BGK issued another PLN 8.5bn of bonds (PLN 3.6bn of 7Y and PLN 4.9 of 10Y) and on Friday MinFin PLN 5.0bn worth switch auction took place DS1020, WZ0121, PS0421, OK0521 vs OK0722, PS0425, WZ0525, WZ1129, DS1030, WS0447.

In the upcoming 2 weeks important data from Poland will turn up only in the week starting from 15 June, when both the headline and core CPIs will be published, as well as April BoP data, employment, wages, industrial production and PPI. On Wednesday – 16 June – MPC decides about rates, we expect them to remain on hold. Elsewhere, there is US May CPI being published on Wednesday as well as FOMC meeting where no changes to rates are expected and new economic forecasts might be published. In the following week there is May CPI in Eurozone and Germany while in the US retail sales and industrial production.

Market implications

FX High pace of the EURPLN drop in the first half of the week was slightly surprising but otherwise easily explainable by excess positioning. However high pace of EURPLN rebound in the second half of the week also surprised but this time is much harder to rationalize – other CEE currencies remained stable. Such relatively poor zloty behaviour, high dynamics of the move, more expensive FX options as well as the fact that 4.45 level got reached that fast make us believe that within the next 2 weeks EURPLN will not move back towards 4.40 but rather will keep rising towards 4.50 and perhaps even break higher.

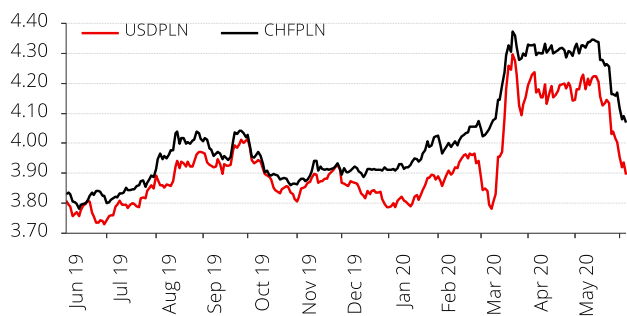
FI EC new fund, beefed up ECB's PEPP program, German fiscal stimulus – all constitute really significant outlays towards the fight of the coronavirus-induced crisis and are a strong argument in favour of higher core yields still. Within the next 2 weeks we expect them to increase, however because the positive global mood has been with us for more than a week now, we also expect a pause and consolidation at some point. Polish yields will follow core markets especially in the week of 8-12 June, when the Polish data calendar is relatively empty. On top of higher core yields, the 10Y PL-DE spread might widen from the current historically low level of 175bp and as a result 10Y bond yields might further increase. On the short end of the curve the significant abundance of liquidity in the banking system might keep bond yields lower however IRS may keep increasing as investors become more optimistic regarding the economy.

EURPLN



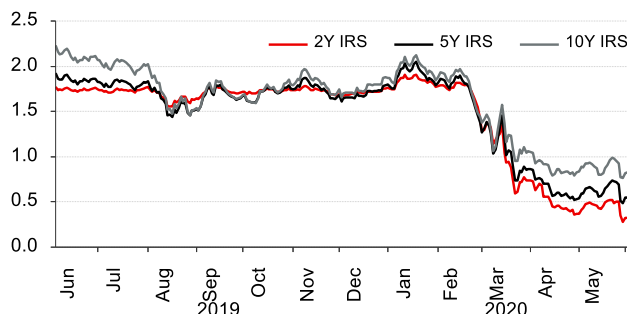
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



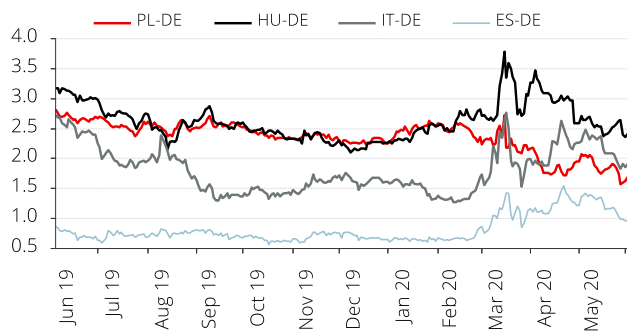
Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

10Y yield spreads vs Bund



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (8 June)							
08:00	DE	Industrial Production SA	Apr	% m/m	-16.0	-9.2	
09:00	CZ	Industrial Production	Apr	% y/y	-25.0	-10.8	
TUESDAY (9 June)							
08:00	DE	Exports SA	Apr	% m/m	-18.0	-11.7	
09:00	HU	CPI	May	% y/y	2.1	2.4	
11:00	EZ	GDP SA	1Q	% y/y	-3.2	-3.2	
WEDNESDAY (10 June)							
09:00	CZ	CPI	May	% y/y	2.6	3.2	
14:30	US	CPI	May	% m/m	0.0	-0.8	
20:00	US	FOMC decision	Jun.20		0.25	0.25	
THURSDAY (11 June)							
14:30	US	Initial Jobless Claims	Jun.20	k	1833	1877	
FRIDAY (12 June)							
11:00	EZ	Industrial Production SA	Apr	% m/m	-20.0	-11.3	
16:00	US	Michigan index	Jun	pts	76.0	72.3	
MONDAY (15 June)							
10:00	PL	CPI	May	% y/y	-	2.9	2.9
14:00	PL	Current Account Balance	Apr	€mn	766	2061	2438
14:00	PL	Trade Balance	Apr	€mn	-391	-338	-69
14:00	PL	Exports	Apr	€mn	14206	13460	18763
14:00	PL	Imports	Apr	€mn	14597	13798	18832
TUESDAY (16 June)							
	PL	MPC decision		%	0.1	0.1	0.1
08:00	DE	HICP	May	% m/m	-		0.0
11:00	DE	ZEW Survey Current Situation	Jun	pts	-		-93.5
14:00	PL	CPI Core	May	% y/y	-	3.8	3.6
14:30	US	Retail Sales Advance	May	% m/m	6.0		-16.4
15:15	US	Industrial Production	May	% m/m	-2.0		-11.25
WEDNESDAY (17 June)							
11:00	EZ	HICP	May	% y/y	-		0.1
14:30	US	Housing Starts	May	% m/m	14.5		-30.2
THURSDAY (18 June)							
10:00	PL	Employment in corporate sector	May	% y/y	-2.8	-2.7	-2.1
10:00	PL	Average Gross Wages	May	% y/y	1.4	0.3	1.9
14:30	US	Index Philly Fed	Jun				-43.1
10:00	PL	Sold Industrial Output	May	% y/y	-18.0	-16.7	-24.6
10:00	PL	PPI	May	% y/y	-1.5	-1.4	-1.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg
**estimate after CPI inflation data

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