15 June 2020

Eyeopener

Worries returned to the markets

Fed does not believe in a quick recovery
Zloty weaker, EURUSD started to decline after FOMC
Core markets and domestic bonds stronger
Today Polish C/A and CPI data

Wednesday's session was similar to the Tuesday one: in the first part of the session the global sentiment was not very good, stock indices fell which helped weaken the EM currencies and supported core market bonds. Following the Fed meeting on Wednesday stock indices fell on Thursday (S&P by around -6%) and stabilized on Friday with still negative market sentiment however. The Fed's meeting was also a turning point for the EURUSD, supported further core market and Polish yields declines. The statistics of Covid-19 cases are also influencin markets in a negative way – the new cases in China, the fact that exit from the lockdown has been halted in some US states etc. Eurozone industrial production dropped 28.0% y/y vs expectations at -28.8% y/y, while US consumer sentiment index surprised markets to the upside, especially the expectations part.

FOMC has not changed interest rates and the dot plot showed that FOMC members prefer the rates to remain unchanged at least to the end of 2022 (the previous projections assumed one hike in 2021 and another hike in 2022) or as long as the economy needs to be back on the path towards full employment and stable prices. Asset purchases within the QE programme will be continued at the current pace or faster,and remains open-ended. The communique still included phrases touching on medium term significant risk for the economic outlook due to the pandemic. Jerome Powell made sure that in case the need arises the Fed will act proactively and aggressively, said FOMC is not thinking about rising interest rates at all and that discussions are ongoing about yield curve control. In his view the May positive labour market report was probably a technical error. The new 2020 Fed GP growth forecast was set at -6.5% vs market consensus at -3.8%.

OECD presented its revised economic forecasts. The institution is more pessimistic than others and it created two scenarios with equal probabilities – one assuming that the pandemic is being extinguished and another assuming a second wave of infections at the year-end. Forecasts for the global economic growth were cut by as much as 9 percentage points as compared to March forecasts. OECD is expecting the world's GDP to contract by 6% in the optimistic scenario and by 7.6% in the pessimistic. For Poland the Organisation is expecting the GDP to shrink by 7.4% in 2020 and rise by 4.8% in 2021 in one-wave scenario and to shrink by 9.5% in 2020 and rise by 2.4% in 2021 in the two-wave scenario. Deficit forecasts are at 9.4% of GDP in 2020 and 7.1% of GDP in 2021 and 11.3%/10.3%, respectively.

Demand for labour measured by the number of vacancies shrank by 46.3% y/y in 1Q20 as compared to -7% in the previous quarters. In quarterly terms, the number of vacancies fell by 39%, while usually the first quarter sees a major rise (with an exemption in 2009). The number of new workplaces was lower by 35% y/y (as compared to -8.1% y/y), while the number of destroyed workplaces increased by 35.1% y/y to 120k and was the highest since 4Q2011 (surveyed companies liquidated as much as 30 workplaces in 1Q20 due to the epidemics). Accommodation and restaurants and well as in administrative services more jobs were cut than created. The data showed that 1Q20 saw a major reduction in labour demand, visible both in lower count of offers and destruction of workplaces.

EURUSD rose above 1.14 on Wednesday and reached its fresh peak of the upside wave observed since mid-May awaiting the FOMC meeting. After the Committee meeting, the exchange rate started to fall and reached 1.13 on Thursday evening and 1.125 on Friday.

EURPLN climbed to nearly 4.47 on Wednesday amid further drop of the European stock indexes and touched 4.48 on Thursday only to return to pre-FOMC level on Friday (4.45). The dollar appreciation did not allow USDPLN to correct the Thursdays' rise to 3.96. The remaining CEE currencies also lost. EURCZK is already above 26.8, EURHUF neared 348, while USDRUB rise paused just below 70.0.

On the domestic **interest rate market** the Wednesday's session was calm while the euro zone peripheries saw bonds weakening (10Y Spain bond yield 4bp up, Italian +6bp). On the core bond market, Bunds and Treasuries were gaining awaiting the outcome of the FOMC meeting and fell further 10bp after this event.

This week, we will see Poland current account balance data and CPI details (today) while at the end of the week the stat office will release May data about wages, employment and output. Abroad, the US retail sales will be published, among others. On Wednesday, the MPC will hold a yet another one-day meeting after which, again, there will most likely be no press conference held.

OECD forecasts of economic growth

	Pandemic ends		2nd wave	
	2020	2021	2020	2021
World	**-6.0**	**5.2**	**-7.6**	**2.8**
USA	-7.3	4.1	-8.5	1.9
Euro zone	-9.1	6.5	-11.5	3.5
China	-2.6	6.8	-3.7	4.5
Brazil	-7.4	4.2	-9.1	2.4
India	-3.7	7.9	-7.3	8.1
Germany	-6.6	5.8	-8.8	1.7
Poland	-7.4	4.8	-9.5	2.4

Source: OECD, Santander

Fed forecasts

	2020	2021	2020
GDP growth	-6.5	5.0	3.5
Unemployment rate	9.3	6.5	5.5
PCE core deflator	1.0	1.5	1.7

Sourcce: FOMC, Santander

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FX market

Today's opening

EURPLN	4.4498	CZKPLN	0.1674
USDPLN	3.9625	HUFPLN*	1.2908
EURUSD	1.1232	RUBPLN	0.0562
CHFPLN	4.1503	NOKPLN	0.4111
GBPPLN	4.9381	DKKPLN	0.5968
USDCNY	7.0971	SEKPLN	0.4245

*for 100HUF

Last session in the FX market 14.06.2020

	min	max	open	close	fixing
EURPLN	4.438	4.470	4.465	4.441	4.451
USDPLN	3.920	3.965	3.952	3.948	3.930
EURUSD	1.123	1.134	1.130	1.125	-

Interest rate market 14.06.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.23	-3	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.81	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.35	-7	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.24	-1	0.30	-1	-0.41	-1
2L	0.32	-2	0.27	0	-0.32	-1
3L	0.39	-4	0.27	0	-0.33	-2
4L	0.49	-6	0.31	2	-0.32	-1
5L	0.58	-6	0.38	2	-0.30	-1
8L	0.80	-7	0.58	3	-0.20	-4
10L	0.90	-7	0.69	4	-0.12	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.15	1
T/N	0.15	1
SW	0.18	0
2W	0.20	0
1M	0.24	0
3M	0.27	0
6M	0.29	0
1Y	0.30	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.26	0
3x6	0.22	-1
6x9	0.23	-1
9x12	0.26	0
3x9	0.24	-1
6x12	0.28	-2

Measures of fiscal risk

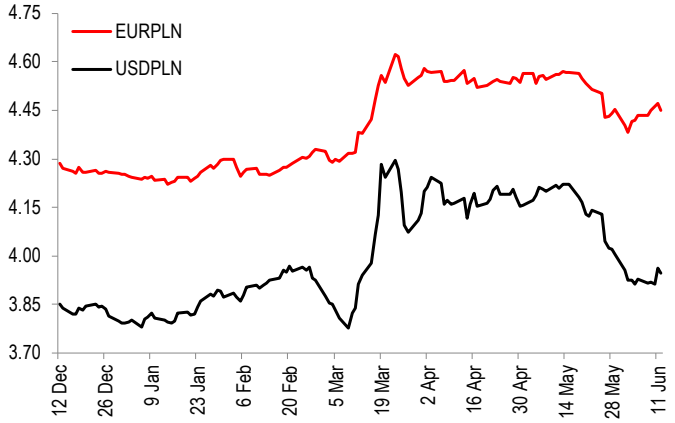
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	179	-4
France	15	0	41	0
Hungary	78	0	272	6
Spain	76	1	105	0
Italy	121	0	186	0
Portugal	48	0	102	0
Ireland	23	-1	47	0
Germany	13	1	-	-

* 10Y treasury bonds over 10Y Bunds

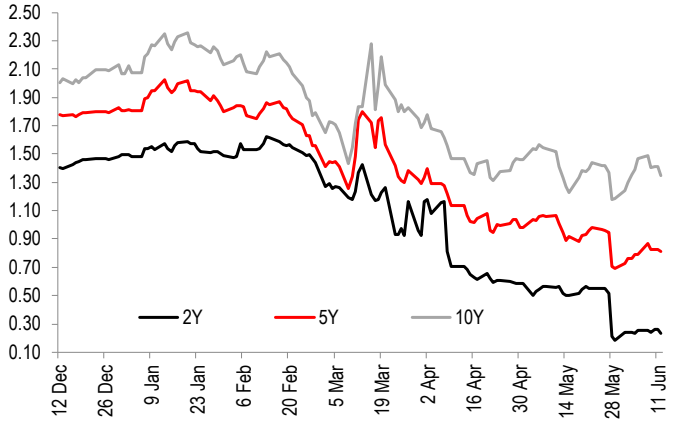
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

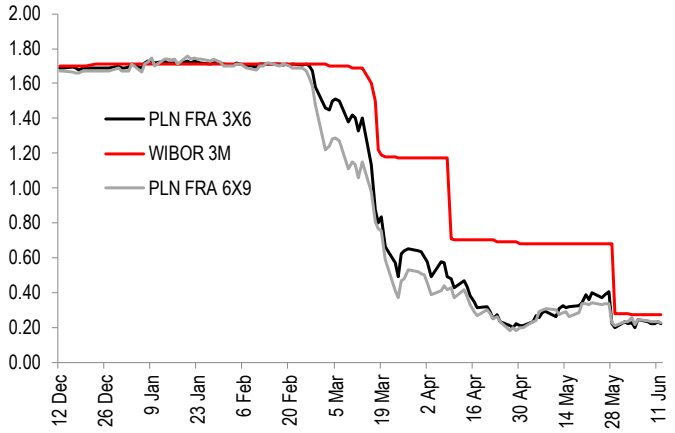
Zloty exchange rate



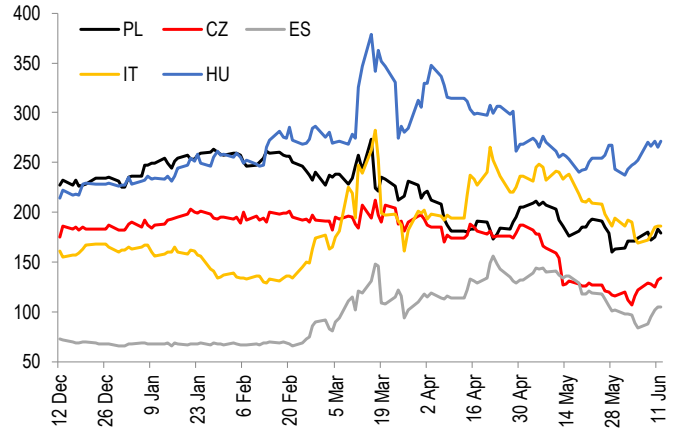
T-bonds yields



3M money market rates



10Y spread vs. Bund



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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	REALIZACJA	OSTATNIA WARTOŚĆ*
			WEDNESDAY (10 June)					
09:00	CZ	CPI	May	% y/y	2.6	-	2.9	3.2
14:30	US	CPI	May	% m/m	0.0	-	-0.1	-0.8
20:00	US	FOMC decision		%	0.25	-	0.25	0.25
			THURSDAY (11 June)					
14:30	US	Initial jobless claims	week	k	1 833	-	1540	1 877
			FRIDAY (12 June)					
11:00	EZ	Industrial output	Apr	% m/m	-20.0	-	-17.1	-11.9
16:00	US	Michigan index	Jun	pts	76.0	-	78.9	72.3
			MONDAY (15 June)					
10:00	**PL**	**CPI**	**May**	**% y/y**	**-**	**2.9**		**2.9**
14:00	**PL**	**Current account**	**Apr**	**€m**	**766**	**2061**		**2438**
14:00	**PL**	**Trade balance**	**Apr**	**€m**	**-391**	**-338**		**-69**
14:00	**PL**	**Exports**	**Apr**	**€m**	**14206**	**13460**		**18763**
14:00	**PL**	**Imports**	**Apr**	**€m**	**14597**	**13798**		**18832**
			TUESDAY (16 June)					
	PL	**MPC decision**		**%**	**0.10**	**0.10**		**0.10**
08:00	DE	HICP	May	% m/m	-0.1	-		0.0
11:00	DE	ZEW	Jun	pts	-88.0	-		-93.5
14:00	**PL**	**Core inflation**	**May**	**% y/y**	**-**	**3.8**		**3.6**
14:30	US	Retail sales	May	% m/m	7.0	-		-16.4
15:15	US	Industrial output	May	% m/m	2.4	-		-11.3
			WEDNESDAY (17 June)					
11:00	EZ	HICP	May	% y/y	1.1	-		0.1
14:30	US	House starts	May	% m/m	14.5	-		-30.2
			THURSDAY (18 June)					
10:00	**PL**	**Employment**	**May**	**% y/y**	**-2.8**	**-2.7**		**-2.1**
10:00	**PL**	**Wages**	**May**	**% y/y**	**1.4**	**0.3**		**1.9**
14:30	US	Philly Fed index	Jun	pts	-25.0	-		-43.1
			FRIDAY (19 June)					
10:00	**PL**	**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. Bloomberg, Parkiet
** in the case of a revision the data is updated*

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