

16 June 2020

# Eyeopener

## Can MPC not surprise this time?

Worse mood on equities, Fed announces corporate bond purchases  
Zloty stronger after C/A data, EURUSD higher  
Bonds somewhat weaker in Poland, stronger on core markets  
Today MPC decision and Polish core inflation

After the weekend equity markets returned to losses and main European indices closed c.1.5% below Friday's close. The VIX "fear index" rose above 40% - the level last observed in April. Bond yields in core markets stayed low, despite positive signals from the USA, where the manufacturing Empire index rose from -48.5 pts to -0.2, well above expected -28.6. Emerging markets currencies were mostly depreciating, led by the Brazilian real (-2.6%), but CEE currencies remained stable - the zloty and the koruna even gained slightly. In the evening the Fed launched the support programme for SME worth \$600bn and announced 'broad and diversified' purchases of corporate bonds which supported stock market and weakened dollar.

In May Polish **CPI** fell to 2.9% y/y from 3.4%, in line with the flash release. The slowdown was caused mainly by falling fuel prices and slower growth of food prices, while core inflation (to be released today) rose to 3.7% y/y from 3.6%, according to our estimate. The effect of the epidemic is becoming more visible in the data: in some categories it is causing price cuts (footwear, tourism), in some - their rise (medical services, hairdressing). We expect CPI inflation to keep falling this year, to c.1.5% in December, with core inflation also going down but slower and unlikely below 2% this year. More in yesterday's [Economic comment](#).

Poland's **current account** showed +€1.1bn in April, a bit more than the market expected (€0.8bn). Exports and imports fell dramatically, both in goods and services. We are expecting the trade turnover to be improving gradually from June on, but given worse economic climate worldwide it is unlikely to return to pre-covid momentum anytime soon. More in yesterday's [Economic comment](#).

**EURUSD**, after it rose to 1.1425 on Thursday and fell to 1.122 on Friday, tried to rebound on Monday despite poor global market mood and rose 0.6% to 1.128. The evening information about the Fed's corporate bond purchases pushed the exchange rate further up to 1.132. Since last week, the option market shows higher probability for the EURUSD down move in all tenors and thus it does not confirm the Monday's rise.

**EURPLN** reached as high as 4.48 in late last week and on Friday it closed at 4.45. Since Monday morning, the exchange rate was trying to rise again (it touched 4.46) but in the second part of the day, after the better-than-expected Polish C/A data was released, it corrected to 4.43 and fell by a yet another PLN0.01 during the night. The option market witnessed a higher interest of options with strikes above the spot. We expect EURPLN to stay within 4.40-4.50 range and move gradually towards its upper end.

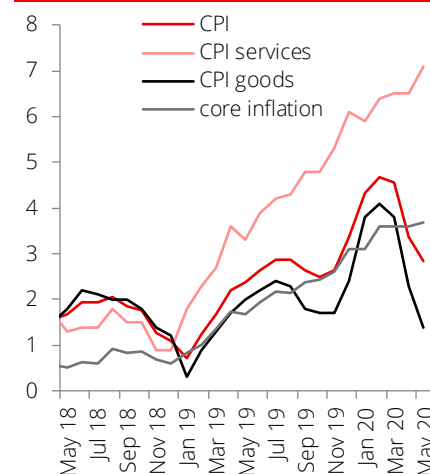
Other regional **CEE currencies** behaved in a diversified manner - EURHUF has not changed on the day at 347.0. EURCZK fell 0.4% to 26.65, after - a similar occurrence as in Poland - better than expected current account data. USDRUB increased 0.9% to 70.2 which was not typical given the price of Brent oil has not changed at all. The move perhaps is related to upcoming Thursday's CBR rate decision (currently at 5.50%, consensus expects cuts to 4.75%).

On the Polish **fixed income market** bond yields slightly increased for example 10Y by 3bp to 1.37% however simultaneously IRS declined, 5Y closed at 0.54%, 10Y at 0.85%. One day before MPC decision WIBOR 3M stood at 0.27% and the FRA market is not pricing in any MPC moves either on today's meeting nor at any other meeting by the end of 2020. Core market yields were stable to slightly lower: Bund at -0.45%, 10Y UST at 0.67%. The 10Y ASW currently stands at 52bp while 10Y spread vs Bund widened 5bp to 182bp.

**MinFin** informed that its end-May fx holdings were €3.64bn vs €3.11bn as of end-April. **Retail government bonds** sales in May were PLN0.89bn vs PLN4.5bn in April. **NBP** sold PLN159.9bn of its 7d bills at Friday auction - the most this year, which is a symptom of highly overliquid banking sector. On Wednesday 17 June the state-owned **BGK** bank is to offer new bonds at its fifth issue. This time the bank will sell 10Y papers FPC0630 with PLN1bn minimum supply. Anti-Covid support bonds sold so far by the BGK amount to PLN38.5bn (FPC0427 worth PLN33.6bn and FPC0630 worth PLN4.9bn), the maximum amount of total issuance was set at PLN100bn.

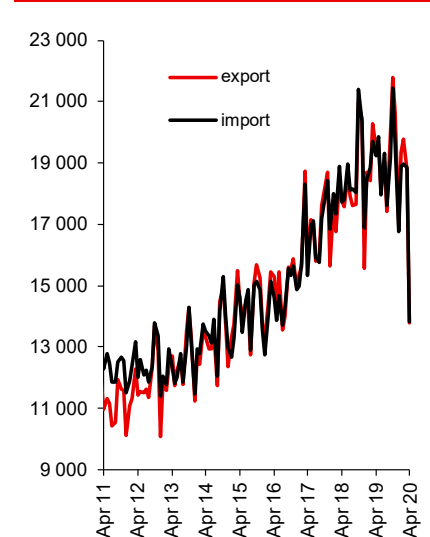
**Today** the MPC will hold its meeting. The recent comments of the Council's members, the last uneven 40bp refi rate cut in late May and the fact that deposit rate was left at 0% suggest that today interest rates should stay unchanged. There will be no press conference after the decision again. We think that this year and in 2021 rates will be kept in place.

Main inflation measures, % y/y



Source: GUS, Santander

Foreign trade turnover, €mn



Source: NBP, Santander

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## FX market

### Today's opening

EURPLN	4.4138	CZKPLN	0.1674
USDPLN	3.8974	HUFPLN*	1.2645
EURUSD	1.1330	RUBPLN	0.0561
CHFPLN	4.1006	NOKPLN	0.4089
GBPPLN	4.9313	DKKPLN	0.5968
USDCNY	7.0744	SEKPLN	0.4209

\*for 100HUF

### Last session in the FX market 15.06.2020

	min	max	open	close	fixing
EURPLN	4.427	4.461	4.444	4.433	4.440
USDPLN	3.924	3.973	3.947	3.934	3.941
EURUSD	1.123	1.129	1.126	1.127	-

### Interest rate market 15.06.2020

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.24	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.85	4	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.35	0	5.03.2020	DS1029	1.725

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	-1	0.29	-1	-0.41	0
2L	0.30	-2	0.26	-1	-0.32	0
3L	0.37	-2	0.28	1	-0.33	0
4L	0.46	-3	0.32	1	-0.32	0
5L	0.54	-4	0.39	1	-0.30	0
8L	0.73	-6	0.60	1	-0.20	0
10L	0.84	-6	0.70	1	-0.12	0

#### WIBOR rates

Term	%	Change (bps)
O/N	0.15	0
T/N	0.14	-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	-1
3x6	0.21	-1
6x9	0.21	-2
9x12	0.24	-2
3x9	0.23	-1
6x12	0.26	-2

#### Measures of fiscal risk

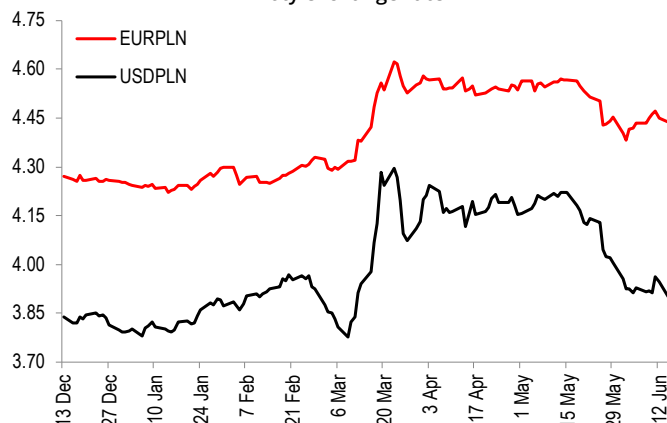
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	179	0
France	14	-1	40	-1
Hungary	78	0	271	-1
Spain	82	6	101	-4
Italy	129	7	185	-2
Portugal	48	0	100	-3
Ireland	24	1	45	-2
Germany	13	1	-	-

\* 10Y treasury bonds over 10Y Bunds

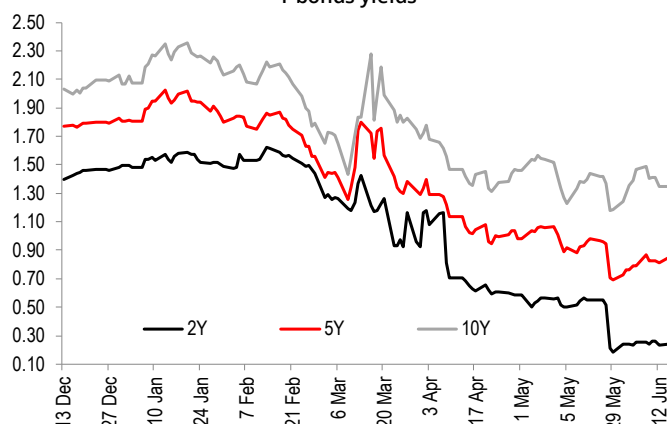
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

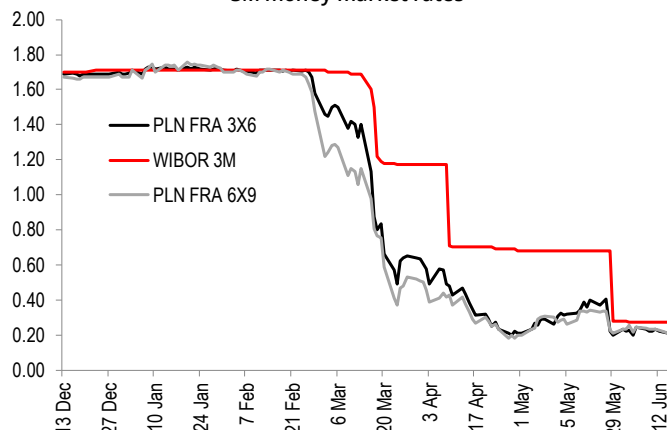
## Zloty exchange rate



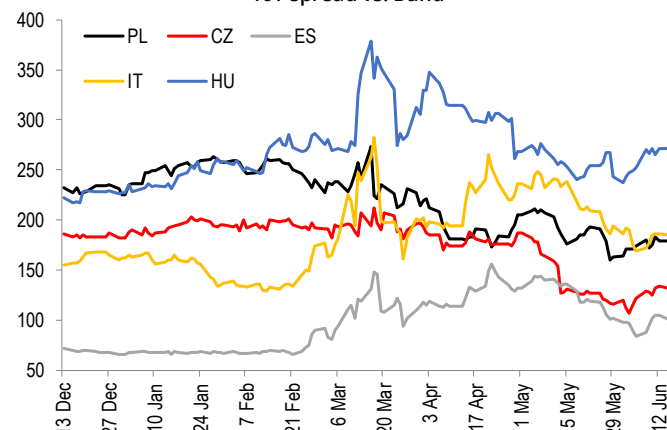
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	OSTATNIA WARTOŚĆ*	
				MARKET	SANTANDER			
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	2.9
14:00	PL	Current account	Apr	€m	1334	2061	1163	2438
14:00	PL	Trade balance	Apr	€m	-391	-338	-33	-69
14:00	PL	Exports	Apr	€m	14206	13460	13771	18763
14:00	PL	Imports	Apr	€m	14597	13798	13812	18832
TUESDAY (16 June)								
	PL	MPC decision		%	0.10	0.10		0.10
08:00	DE	HICP	May	% m/m	-0.1	-	0.0	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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