

17 June 2020

# Eyeopener

## MPC weakens the zloty

Positive mood returned to markets, strong rise of equities

Zloty weaker after NBP comment, EURUSD down on new pandemic outbreak in China

Bonds weaker after the MPC meeting

Today euro zone inflation and US real estate data

On Tuesday, positive mood returned to markets, fuelling stock market gains from Asia (Nikkei +5%), through Europe (+3%) to the USA (S&P +1.3%). After positive US data (better-than-expected May retail sales and June NAHB index) the dollar was appreciating. This development, however, did not undermine EM currencies, as Latam currencies were also appreciating, but CEE region was depreciating. The zloty was underperforming (-0.7%) after the NBP commented on the FX market situation, spurring market worries about possible intervention. Core yields were a bit higher than day before amid elevated volatility. The gold and the oil prices were flat. The Fed head Jerome Powell said in his testimony before the Senate that despite some signs of a recovery, output and employment remain way below pre-pandemic level and uncertainty about timing and strength of the rebound is high.

**The NBP kept interest rates unchanged**, in line with expectations. The official statement included an important addition stating that "the pace of economic recovery could be mitigated by the lack of visible zloty exchange rate adjustment". It looks like in the Council's opinion the FX channel does not work effectively as a macroeconomic policy instrument in this recession phase - zloty should have been weaker, which would support Polish exporters. Let us remind words of MPC's Rafał Sura, who said at the beginning of June that the NBP would analyse reasons behind mild PLN weakening and this could affect its future actions (EURPLN neared 4.40 at that time). Rafał Sura usually shares views of NBP President Adam Glapiński and the new sentence in the official statement suggests that the issue brought the Council's attention. Again, there was no post-meeting press conference, so it is hard to interpret if this means something in practice. We still believe interest rates are about to stay on hold for a long time, at least until the end of 2021. The next meeting is scheduled for 8 July, with new NBP staff economic forecasts. EURPLN went higher by 0.03 after the statement until the end of the day and then overnight added 0.01-0.02.

In May, the Polish **core CPI**, that is after excluding food and energy prices, increased to 3.8% y/y from 3.6% y/y – and it is the highest reading in over 18 years. The reasons for the increase are higher services price dynamics (7.1% y/y) with a slightly lower growth of non-food goods prices (1.0% y/y). We expect, that as the economy "unfreezes" from the epidemic-related lockdown the impact of diminished consumption demand on the core CPI will become more noticeable bringing it down to c2% y/y by the end of the year.

The **energy regulator** (URE) has confirmed a new tariff plan for PGNiG Obrót Detaliczny (PGNiG Retail Trade). From the 1 July on, the decline in the gas prices will be equal 5-7% depending on the tariff group. We expect this to take 0.1pp off the July y/y CPI reading.

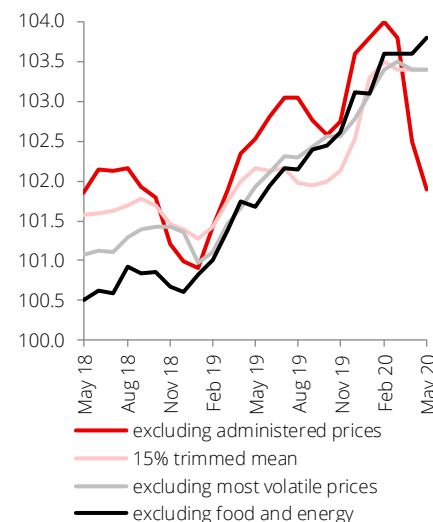
**EURUSD** having opened on Tuesday at 1.132 rose in the first half of the day to 1.135 also after better than expected German ZEW expectations. However due to better than expected US retail sales data and the news about Beijing reintroducing school closures due to a new outbreak of Covid, EURUSD abruptly dropped at the end of the day towards 1.125, by 0.6%.

**EURPLN** rose sharply on the remarks in the MPC statement regarding the zloty, which were not seen in the previous press releases. EURPLN rose to 4.45 from 4.41 (+0.8%) and was the worst performing EM currency yesterday despite further rise of the equity prices. Overnight, the exchange rate continued the upside move and neared 4.47. It is hard to guess whether the zloty remark in the statement was just a one-off or shows a change in the NBP's reaction function. We sustain our view that EURPLN could stay within 4.40-4.50 range with gradual rise towards the upper end. The other CEE currencies benefited from the positive global market mood. EURHUF fell 0.5% to 345.5, EURCZK by 0.2% to 26.6 but in the final part of the day some correction was recorded. The ruble basket fell 0.5% with USDRUB holding flat at 69.7 amid stronger dollar.

On the domestic **interest rate market** the front-end FRAs had not priced any NBP rate cuts and did not show any reaction to the outcome of the MPC meeting. On the long end, demand for bonds disappeared after the decision and some selling interest was seen. The 10Y bond yield closed at 1.38%. Also on the IRS market some upside pressure was seen and the 10Y rates ended the day at 0.86%. The PL-DE 10Y bond yield spread remained unchanged at c180bp.

**Today** we will see final May euro zone inflation, US real estate market data. In Poland, the stat office will release January-April trade data.

Core inflation measures, same period of prev. year = 100



Source: NBP, Santander

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## FX market

### Today's opening

EURPLN	4.4588	CZKPLN	0.1675
USDPLN	3.9521	HUFPLN*	1.2904
EURUSD	1.1281	RUBPLN	0.0569
CHFPLN	4.1601	NOKPLN	0.4140
GBPPLN	4.9687	DKKPLN	0.5978
USDCNY	7.0880	SEKPLN	0.4224

\*for 100HUF

### Last session in the FX market 16.06.2020

	min	max	open	close	fixing
EURPLN	4.408	4.451	4.410	4.442	4.428
USDPLN	3.888	3.963	3.890	3.946	3.906
EURUSD	1.123	1.135	1.133	1.126	-

## Interest rate market 16.06.2020

### 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)	0.80	-5	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.39	4	5.03.2020	DS1029	1.725

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

Rate on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.24	0	0.30	1	-0.41	-1
2L	0.31	1	0.27	1	-0.32	0
3L	0.38	1	0.27	0	-0.33	0
4L	0.46	1	0.32	0	-0.32	0
5L	0.55	1	0.39	0	-0.29	1
8L	0.76	2	0.62	2	-0.20	0
10L	0.86	2	0.73	3	-0.12	0

## WIBOR rates

Term	%	Change (bps)
O/N	0.14	-1
T/N	0.14	0
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	0.23	2
6x9	0.23	2
9x12	0.25	1
3x9	0.25	2
6x12	0.28	2

## Measures of fiscal risk

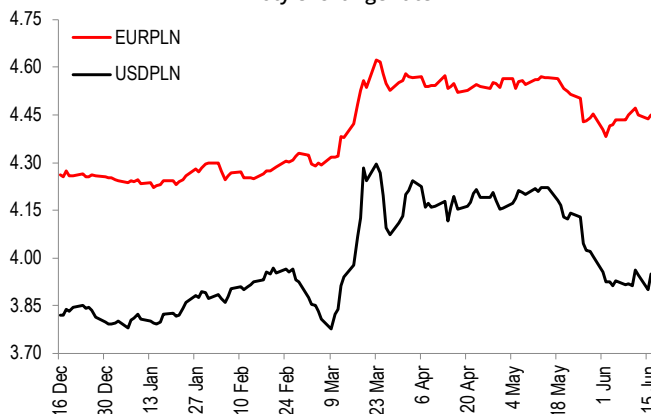
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	181	2
France	14	-1	38	-2
Hungary	77	0	274	3
Spain	76	-5	96	-5
Italy	126	-3	178	-6
Portugal	46	-2	97	-3
Ireland	23	-1	42	-3
Germany	13	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

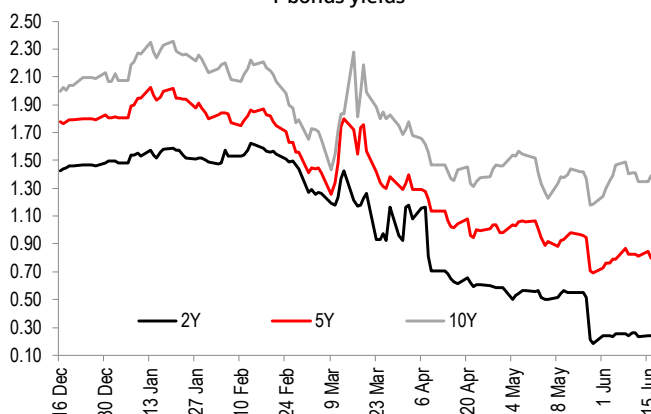
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

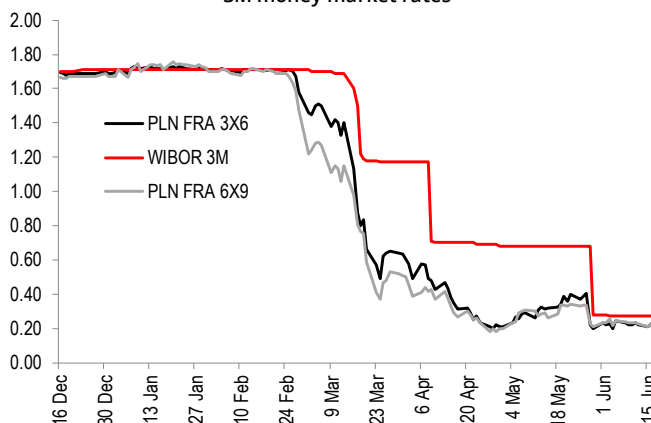
## Zloty exchange rate



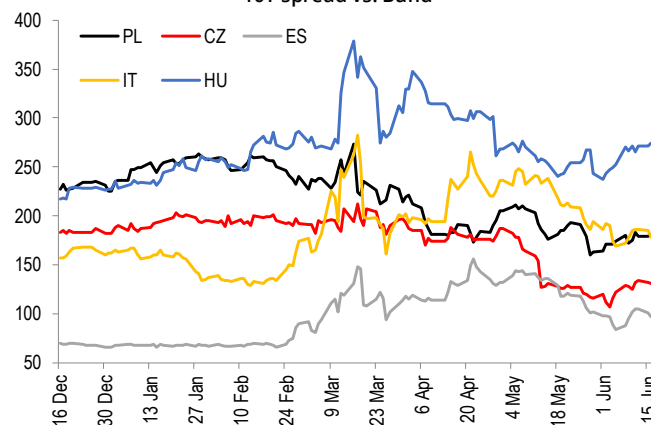
## T-bonds yields



## 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	0.10
08:00	DE	HICP	May	% m/m	-0.1	-	0.0	0.0
11:00	DE	ZEW	Jun	pts	-82.0	-	-83.1	-93.5
14:00	PL	Core inflation	May	% y/y	-	3.8	3.8	3.6
14:30	US	Retail sales	May	% m/m	8.4	-	17.7	-14.7
15:15	US	Industrial output	May	% m/m	3.0	-	1.4	-12.5
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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