

18 June 2020

Eyeopener

Zloty became jittery

Rise of equities loses steam

High intraday zloty volatility, EURUSD down to 1.123

Domestic bonds weaker, IRS up, wider spread to Bunds

Today in Poland wages and employment data, US Philly Fed index

On Wednesday stock markets continued rising, but at a lower pace. European equities rose on average by <1%, S&P closed c.0.3% higher. Emerging markets currencies were mostly depreciating, and the zloty was leading this trend for the second day in the row, only Chilean peso weakened more. Brent oil price decreased slightly, by 0.4%, to US\$40/bbl and industrial metal prices soared. UK's inflation rate in May proved lower than expected, while in the euro zone final inflation reading was in line with the flash print (0.1% y/y). US housing market data were worse than expected, especially new house starts: instead of an expected rebound by 23.5% m/m, we saw +4.3%. Worse data could have contributed to slightly lower UST yields.

GUS foreign trade data for April look roughly in line with the earlier NBP C/A publication, with a drop in exports by c.26% y/y and imports by 25% y/y. Data breakdown offered by GUS shows exports to Germany going down by 20% y/y in April and to the rest of euro zone by 37% y/y (Italy -56%, France almost -40%). Export growth to developing countries fell by only 5% y/y (after three months of rapid growth by c.20% y/y on average). On the imports side the largest drop was seen in trade with Russia (-44% y/y) most likely on much lower oil demand and EU (-30%). It is interesting that a much smaller decline was seen in imports from the USA (-1.4% y/y), South Korea (-3%) and China (-6.2%).

Local governments recorded a PLN9.8bn surplus in 1Q20 after PLN11.0bn one year earlier. Sector's investment increased by 11.3% y/y, but bear in mind that the start of the year sees low investment activity (the first quarter accounts for 10% of total annual investment), so even slight shifts in outlays could produce major changes in growth rates. Moreover, 1Q20 saw mild temperatures, supporting construction. We are generally pessimistic as regards outlook for local governments' investment this year and expect declines in annual terms, especially given Covid-related slump in PIT and CIT receipts as well as delays in realisation of EU-financing contracts. We expect a major deterioration of local government's balances in 2Q20.

Poland **HICP inflation** rose to 3.4% y/y in May from 2.9% (exactly the opposite move to what we have seen in CPI). The key factor behind this increase was a jump of financial services by c.40% y/y. Core HICP inflation rose to 4.6% from 2.8% - the biggest acceleration since data is available (1997). According to Eurostat, services prices in Poland grew by c.9%, the highest pace for 19 years. We expect inflation to ease gradually later in the year.

EURUSD tried to reach 1.13 early in the morning but later in the day the dollar appreciated and the exchange rate fell by 0.3% to 1.123. The down correction from levels above 1.13 observed in the first half of June made the option market price in higher probability of EURUSD moving down rather than up.

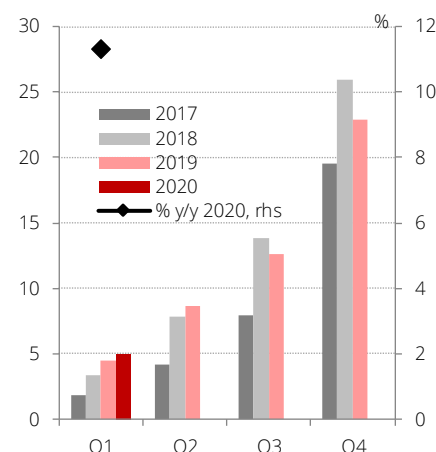
EURPLN was quite volatile on Wednesday despite lack of important data. The day started with continuation of the up move initiated by the Tuesday's NBP statement that the zloty has not depreciated enough. The exchange rate jumped above 4.47, then sharply fell to 4.44 only to rise to 4.47 again. At the end of the day, EURPLN was at 4.46. The exchange rate is holding in the middle of 4.40-4.50 range and we expect it to climb towards its upper end.

As for the **other CEE currencies**, the forint gained for another day, EURHUF closed 0.3% lower at 344.3, while its whole correction lower from Monday highs has already reached 1.1%. Similarly, EURCZK declined, albeit less - by 0.2% to 26.6. Russian rouble basket was stable because of almost unchanged oil prices and Q1 GDP numbers which were in line with expectations at 1.6% y/y. USDRUB slowly marched higher and closed at 69.7.

On the Polish **fixed income market** yields increased both at the short end of the curve (1bp for bonds and 3-4bp for IRS) as well as at the long end of the curve (7bp both for bonds and IRS) and hence the 10Y ASW remained unchanged at 52bp. The selling of Polish bonds accelerated towards the end of the day, when the core market bonds started to gain. 10Y POLGB closed at 1.45% vs Bund at -0.39% and as a result the 10Y PL-DE spread widened to 185bp. The state-owned **BGK** bank in its 5th issuance so far sold another 10Y bonds (series FPC03630) for PLN4.15bn and the funds will go directly to the Covid-19 Fund. So far the BGK has issued a total of PLN42.7bn (FPC0427 in PLN 33.6bn and FPC0630 in PLN 9.0bn). The next BGK issuances for Covid-19 Fund will be in the form of an auction organised technically by NBP.

Today we will get corporate wages and employment data. We expect a deepening of the y/y decline in employment and a further quick deceleration of annual wage growth to almost zero.

Investment in local governments, PLNbn



Source: Ministry of Finance, Santander

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FX market

Today's opening

EURPLN	4.4611	CZKPLN	0.1674
USDPLN	3.9634	HUFPLN*	1.2932
EURUSD	1.1252	RUBPLN	0.0569
CHFPLN	4.1743	NOKPLN	0.4164
GBPPLN	4.9722	DKKPLN	0.5981
USDCNY	7.0753	SEKPLN	0.4252

*for 100HUF

Last session in the FX market 17.06.2020

	min	max	open	close	fixing
EURPLN	4.436	4.470	4.462	4.463	4.450
USDPLN	3.934	3.985	3.960	3.978	3.953
EURUSD	1.121	1.129	1.127	1.122	-

Interest rate market 17.06.2020

T-bonds on the interbank market**					
Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.28	4	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.90	10	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.46	7	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.26	2	0.30	-1	-0.43	-2
2L	0.34	3	0.26	-1	-0.33	-1
3L	0.41	3	0.27	-1	-0.34	-1
4L	0.51	4	0.32	0	-0.32	0
5L	0.61	5	0.38	-1	-0.30	-1
8L	0.83	7	0.60	-2	-0.19	1
10L	0.93	7	0.70	-3	-0.11	1

WIBOR rates

Term	%	Change (bps)
O/N	0.14	0
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	0.25	-1
3x6	0.23	0
6x9	0.26	3
9x12	0.28	4
3x9	0.26	2
6x12	0.30	3

Measures of fiscal risk

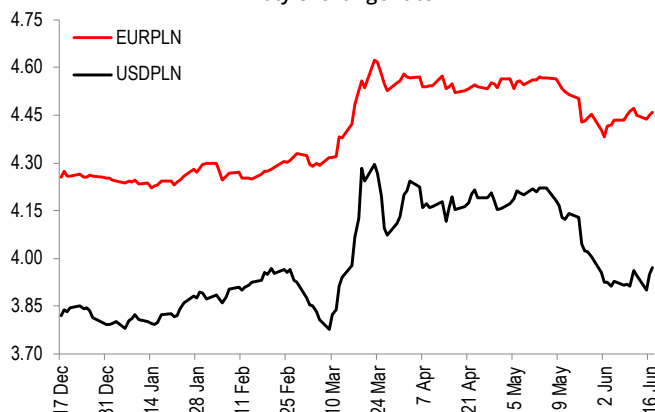
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	188	7
France	14	0	38	0
Hungary	77	0	286	11
Spain	77	0	99	3
Italy	126	0	180	2
Portugal	46	0	99	2
Ireland	23	0	42	0
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

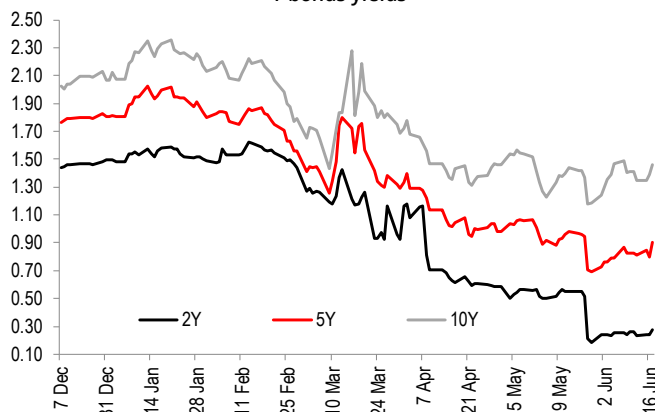
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

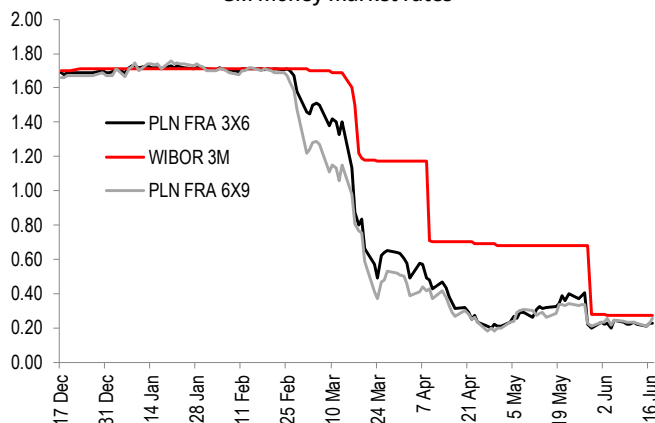
Zloty exchange rate



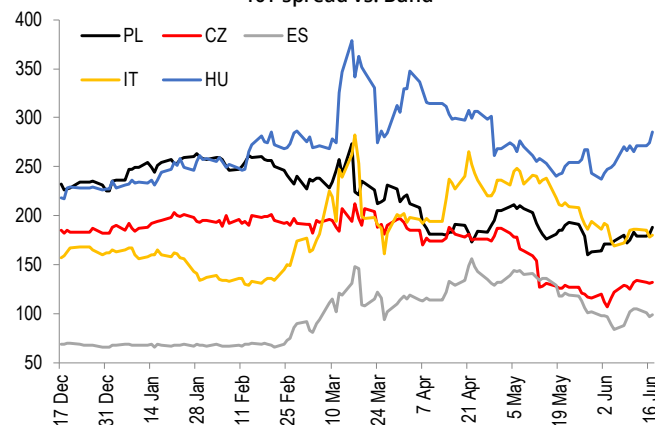
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		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	0.1	-	0.1	0.3
14:30	US	House starts	May	% m/m	23.5	-	4.3	-26.4
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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