22 June 2020

Eyeopener

Symptoms of recovery

Optimism at the end of the week
EURUSD higher after European Council meeting, then back to 1,12
Zloty is not participating in the risk assets rally, POLGB slightly stronger
Today Polish retail sales

Rumours that China wants to increase purchases of US agriculture goods in order to fulfil conditions of the first trade deal with the USA and talks of EU officials on economic support programme secured a positive market moods. After Friday conference the European leaders, including Angela Merkel and Emmanuel Macron suggested that further talks will be conducted in July and that they look forward to refine the programme as quickly as possible. This would be a positive surprise for the market, which is rather used to a slow decision process in the EU. As a result, stock indices went up and the euro gained versus the dollar. As regards the CEE region, the zloty and the koruna did not benefit from the positive mood.

In May **Polish industrial output** fell by 17.0% y/y vs -24.6% y/y in April. In seasonally-adjusted terms this means a 12.2% m/m rebound from the April trough. The largest decline was seen among industries producing investment goods, -38.4% y/y vs -50.9% previously, output growth of consumer durables improved the most, to -13.7% y/y from -47.8%, and consumer non-durables again saw the smallest decline (-8.7% y/y). Cars, machinery and equipment and furniture were still the most depressed industries, together with coal mining. We expect production growth to improve in the following months, possibly entering single-digit y/y declines area as we move to 2H20. Read more in our Economic Comment.

Central budget showed a PLN26.0bn deficit after May, as compared to PLN18.9bn after April. Bear it in mind, however, that currently the central budget does not say much about the state of the public finance, as the government has pushed the bulk of the epidemic-related spending out from the central sector. As of the end of May, the government spent PLN62.35bn on covid-related programmes and in our view only an insignificant part of this sum is already visible in the central government balance. VAT revenues tumbled in May by 35% y/y, while PIT and CIT were stable or even increased in annual terms. The two latter are however affected by the government decision to prolong payment deadlines, so timeline shifts are making it difficult to interpret the data.

EURUSD for most of the day stayed slightly above 1.12 and only at the end of the day it registered a meaningful rise of volatility. At first it went strongly up to 1.125 due to remarks by EU leaders about a quick introduction of the support program, but in the end it dropped to 1.118. EURUSD has already tried twice to break through 1.14 resistance this year, without success. We see chances for a correction of the exchange rate to 1.10-1.11.

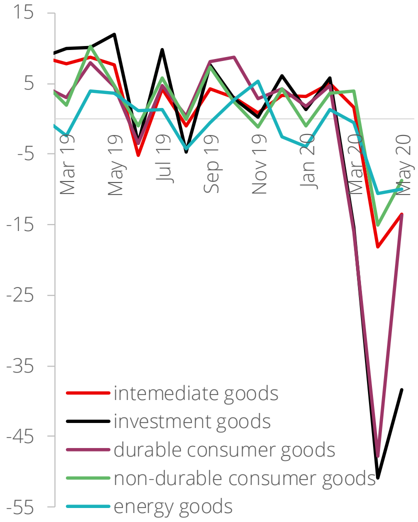
EURPLN rose on Friday to 4.465 from 4.44, the zloty failed to take advantage of the rising equity indexes and the weakening of the dollar. USDPLN moved around 3.975 and CHFPLN rose to 4.19 from 4.17. On Monday EURPLN opens up at 4.464.

Other CEE currencies, the ruble performed the best, gaining despite a rate cut in Russia by 100bp to 4.5%, the lowest level in history. The central bank announced that on the following meetings it could ease policy further if the economic situation develops in line with CBR forecasts (poor growth, CPI below target). USDRUB fell from c.70 to 69.4, remaining in a tight range observed throughout the whole last week. EURHUF and EURCZK were still relatively stable, the forint and the koruna ignored the positive global sentiment on stock ezchanges but at least they did not wekane like the zloty.

On the **domestic interest rate market**, Friday saw IRS and bond yields falling by no more than 3bp, mainly on the long end of the curves. Euro zone peripheral debt gained at a similar scale while on the core market Bund remained stable while UST lost slightly.

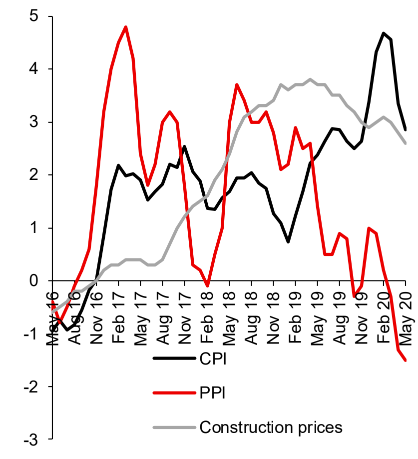
This week, we will see first economic activity data for June, including flash PMIs in Europe. In Poland, today the stat office will publish May retail sales. We sustain our view that EURPLN could rise gradually, helped additionally by the recent MPC's verbal intervention. Should this form of intervention prove insufficient, one cannot exclude more aggressive activity of the central bank on the bond market and this option may help bond yields to stay at low levels.

Production by main industrial groups, % y/y



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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Santander

FX market

Today's opening

EURPLN	4.4611	CZKPLN	0.1672
USDPLN	3.9845	HUFPLN*	1.2778
EURUSD	1.1198	RUBPLN	0.0573
CHFPLN	4.1886	NOKPLN	0.4140
GBPPLN	4.9326	DKKPLN	0.5984
USDCNY	7.0766	SEKPLN	0.4220

*for 100HUF

Last session in the FX market 6/21/2020

	min	max	open	close	fixing
EURPLN	4.438	4.468	4.445	4.465	4.457
USDPLN	3.953	4.001	3.965	3.991	3.974
EURUSD	1.117	1.125	1.121	1.119	-

Interest rate market 6/21/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.25	-2	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.81	-5	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.42	-1	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.25	-1	0.29	0	-0.45	-1
2L	0.31	-1	0.25	-1	-0.34	0
3L	0.36	-2	0.27	0	-0.35	0
4L	0.44	-2	0.30	-1	-0.34	0
5L	0.53	-3	0.36	-1	-0.31	0
8L	0.75	-4	0.56	-1	-0.22	0
10L	0.85	-3	0.67	-1	-0.14	0

WIBOR rates

Term	%	Change (bps)
O/N	0.13	0
T/N	0.13	0
SW	0.17	-1
2W	0.20	0
1M	0.23	-1
3M	0.27	0
6M	0.29	0
1Y	0.30	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	0
3x6	0.21	0
6x9	0.22	-1
9x12	0.24	0
3x9	0.25	0
6x12	0.28	-1

Measures of fiscal risk

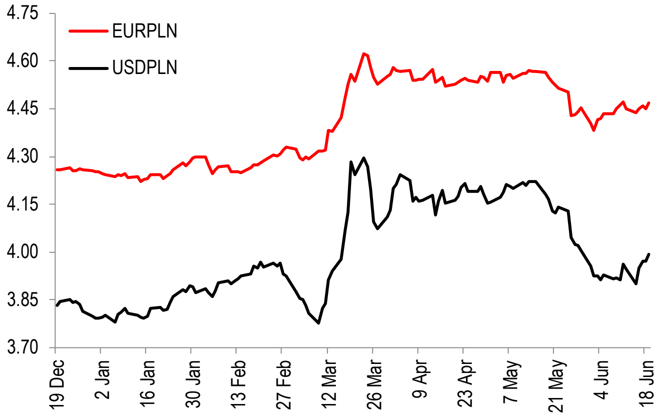
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	0	184	-4
France	14	0	33	-5
Hungary	77	0	278	-6
Spain	78	0	92	-5
Italy	125	1	174	-5
Portugal	48	0	94	-2
Ireland	23	0	37	-3
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

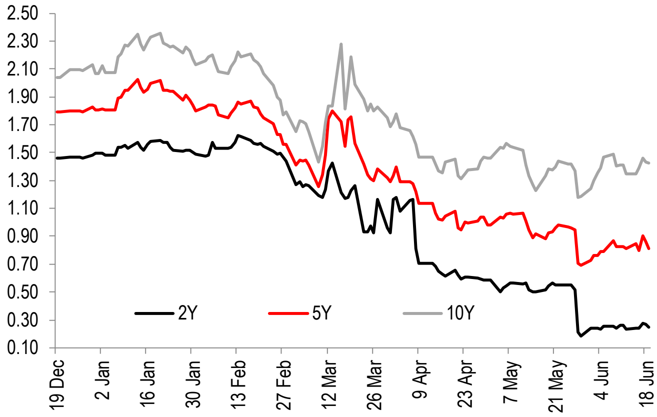
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

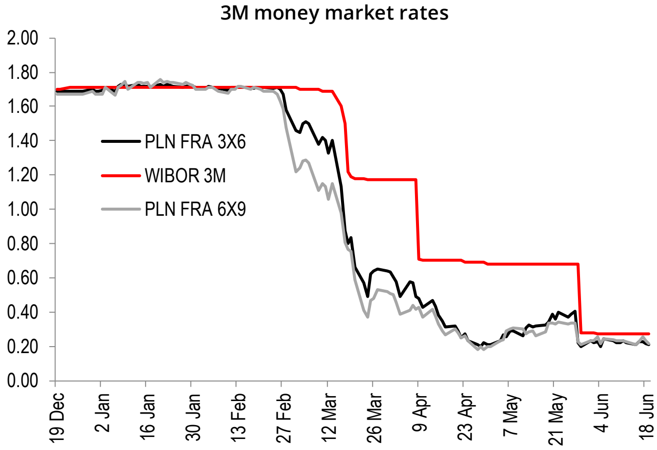
Zloty exchange rate



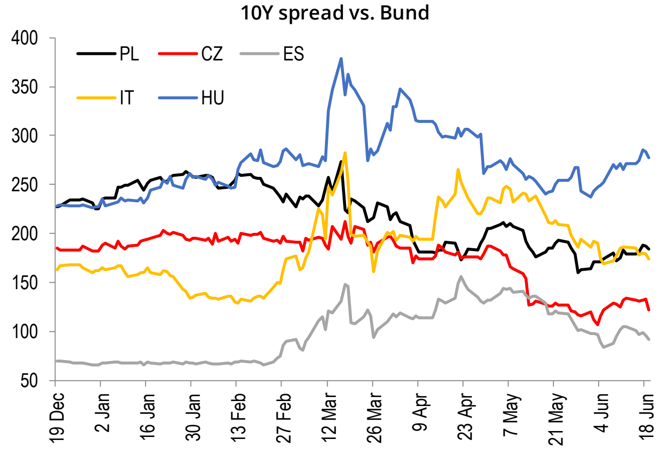
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	REALIZACJA	OSTATNIA WARTOŚĆ*
			FRIDAY (19 June)					
10:00	**PL**	**Industrial output**	**May**	**% y/y**	**-18.0**	**-16.7**	**-17.0**	**-24.6**
10:00	**PL**	**PPI**	**May**	**% y/y**	**-1.5**	**-1.4**	**-1.5**	**-1.3**
			MONDAY (22 June)					
10:00	**PL**	**Real retail sales**	**May**	**% y/y**	**-11.7**	**-13.8**		**-22.9**
16:00	US	Home sales	May	% m/m	-4.2	-		-17.8
			TUESDAY (23 June)					
9:30	DE	Flash PMI – manufacturing	Jun	pts	44.0	-		36.6
10:00	EZ	Flash PMI – manufacturing	Jun	pts	43.2	-		39.4
14:00	**PL**	**Money supply**	**May**	**% y/y**	**14.6**	**16.2**		**14.0**
16:00	US	New home sales	May	% m/m	1.1	-		0.6
			WEDNESDAY (24 June)					
10:00	**PL**	**Unemployment rate**	**May**	**%**	**6.1**	**6.0**		**5.8**
10:00	DE	Ifo index	Jun	pts	85.0	-		79.5
13:00	CZ	Central bank decision		%	0.25	-		0.25
			THURSDAY (25 June)					
14:30	US	GDP third estimate	Q1	% q/q	-5.0	-		-5.0
14:30	US	Durable goods orders	May	% m/m	12.0	-		-17.7
14:30	US	Initial jobless claims	week	k	-	-		1 508
			FRIDAY (26 June)					
14:30	US	Consumer incomes	May	% m/m	-5.8	-		10.5
14:30	US	Consumer spending	May	% m/m	8.7	-		13.6
16:00	US	Michigan index	Jun	pts	78.9	-		78.9

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*