

24 June 2020

Eyeopener

Hungary cut rates, is now Czechs' turn?

European data and news from the US improve market sentiment
Zloty under pressure of weaker forint
Bonds roughly unchanged
Today Czech central bank decision

The optimism returned to global markets on Tuesday. Initially, the market reacted positively to late evening words of president Trump, who denied that the US-China trade deal is no longer valid. Later during the European trading time we got to see June PMI for manufacturing and services in the euro zone. In both cases, after the April drop and modest rise in May, the market was hoping for a major rebound and these expectations were exceeded. As a result European stock markets went up, the euro gained versus the dollar and core market debt lost.

In May **Polish construction output** fell by 5.1% y/y (-1.4% y/y in SA terms) vs market expectations at -0.5% and our -1.6% forecast. This is still a relatively benign response to the pandemic. This time all categories (construction of buildings, civil engineering, specialised works) contributed negatively, all registering c.5% y/y decline. Business sentiment index for construction suggests that output should not fall further, yet we are not that optimistic about the housing market. Number of finished flats was at 10.1% y/y in May versus -22.3% y/y in April. Despite this rebound, numbers of new house starts and building permits were still visibly depressed (-28.1% y/y and -28.3% y/y, respectively), and this will translate into lower number of finished flats in 2021.

The **growth of M3 money supply** rose in May to 16.0% y/y, the highest since March 2009. The visible acceleration was caused by fiscal stimulus and mass issuance of bonds by PFR (Polish Development Fund) and state-owned bank BGK. Household deposits grew at 11.2% y/y, up from 10.0%, and corporate deposits by 24.6% y/y, up from 18.0%. The value of term deposits dropped by 11.9% y/y while current accounts rose by 28.4% y/y. Credit growth corrected for fx changes, decreased to 3.3% y/y in May from 4.2%. Loan growth fell to 5.0% y/y from 5.4% for individuals and to 1.6% y/y from 3.1% for enterprises.

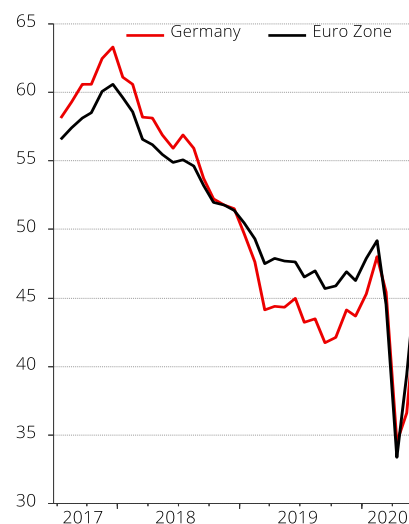
EURUSD climbed for the second session in a row, fuelled by rising stock indices in Europe and positive surprises in PMI indices. At the end of the Polish session the rate was close to 1.135 as compared to 1.125 at the start of the day.

For the better part of the day **EURPLN** was below 4.44, but in the afternoon the zloty was under pressure from the forint, which suffered after an unexpected rate cut in Hungary. As a result, at the end of the day EURPLN was close to 4.445. USDPLN was still falling, benefitting from rising EURUSD and approached 3.915 yesterday down from 3.94. If today the Czech central bank cuts rates (details below), then the zloty could lose a bit more.

In case of the **other CEE currencies**, the forint underperformed pressured by the unexpected interest rate cut by 15bp to 0.75%. The new deputy central bank's governor, Barnabas Virag said that this was just a one-off adjustment but according to the message from the bank, the 1-week deposit rate could be cut (several weeks ago it was hiked to prevent excessive forint depreciation). As a result, EURHUF rose 0.8%, temporarily above 350 to its highest since mid-May. EURCZK fell in the first part of the day to 26.58 but in the second part it rebounded to c26.61 amid forint weakening. USDRUB broke out of the narrow 69-70 range in which it has been holding for seven sessions and reached 68.6. **Today** the Czech central bank will decide about the interest rates. Yet in January, the bank hiked rate by 25bp to 2.25% but then it cut it in three moves to 0.25% responding to the coronavirus crisis and competing with the Polish MPC who will have the lowest rates in the CEE region. Consensus for today's decision is no change but in our view the next cut will not be a big surprise.

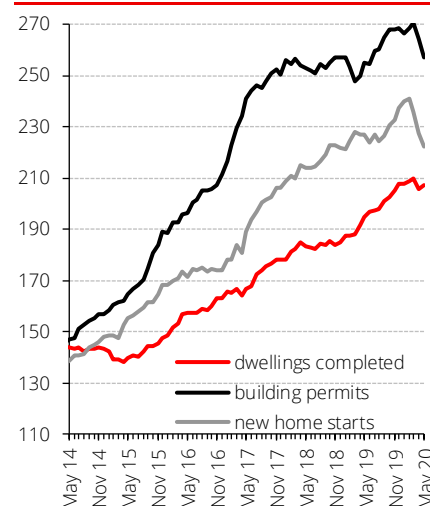
On the **domestic interest rate market**, Tuesday did not bring many changes, the reaction to Bund and UST weakness caused by European data was small, within 2-3bp. The ministry of finance announced that at tomorrow's switch auction it will offer the following series: OK0722, PS0425, WZ0525, WZ1129, DS1030 and WS0447, a will accept DS1020, WZ0121, PS0421 and OK0521.

Manufacturing PMI (pts)



Source: Refinitiv Datastream, Santander Bank Polska

Trends on the Polish real estate market (12-month rolling sum, k)



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4434	CZKPLN	0.1667
USDPLN	3.9272	HUFPLN*	1.2705
EURUSD	1.1318	RUBPLN	0.0571
CHFPLN	4.1601	NOKPLN	0.4133
GBPPLN	4.9091	DKKPLN	0.5965
USDCNY	7.0674	SEKPLN	0.4234

*for 100HUF

Last session in the FX market

6/23/2020

	min	max	open	close	fixing
EURPLN	4.430	4.453	4.439	4.444	4.439
USDPLN	3.912	3.947	3.942	3.925	3.931
EURUSD	1.126	1.135	1.126	1.132	-

Interest rate market

6/23/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.18	1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.77	1	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.40	3	5.03.2020	DS1029	1.725

IRS on the interbank market**

RIS on the interbank market						
Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	-1	0.29	0	-0.45	1
2L	0.29	-1	0.25	0	0.00	0
3L	0.34	1	0.26	-1	0.00	0
4L	0.41	0	0.30	0	0.00	0
5L	0.50	1	0.37	0	0.00	0
8L	0.72	2	0.57	0	0.00	0
10L	0.84	3	0.69	0	0.00	0

WIBOR rates

Term	%	Change (bps)
O/N	0.12	-1
T/N	0.13	0
SW	0.17	0
2W	0.20	0
1M	0.23	0
3M	0.27	0
6M	0.29	0
1Y	0.30	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	2
3x6	0.21	0
6x9	0.21	0
9x12	0.22	0
3x9	0.24	1
6x12	0.25	0

Measures of fiscal risk

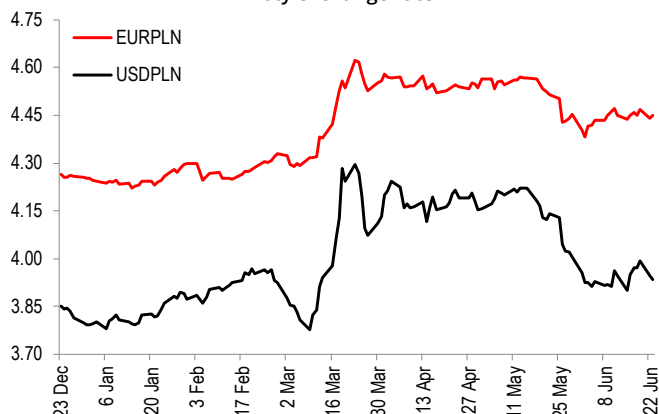
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	57	-1	180	0
France	14	0	32	0
Hungary	77	0	268	-6
Spain	76	-3	90	-1
Italy	121	-4	174	-6
Portugal	46	-2	90	-4
Ireland	23	0	46	10
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

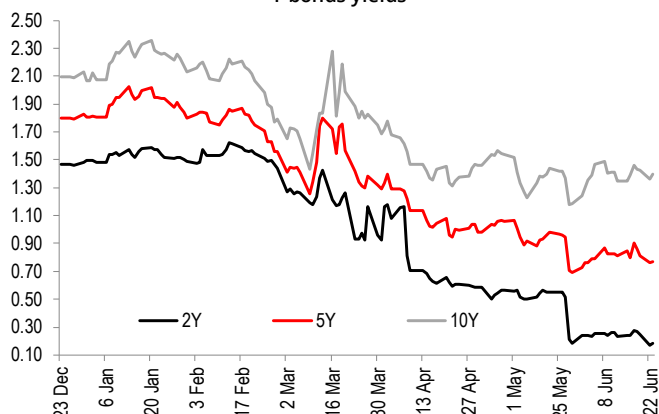
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

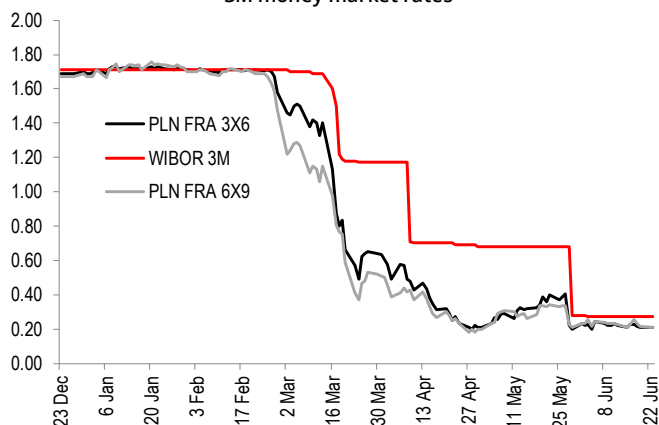
Zloty exchange rate



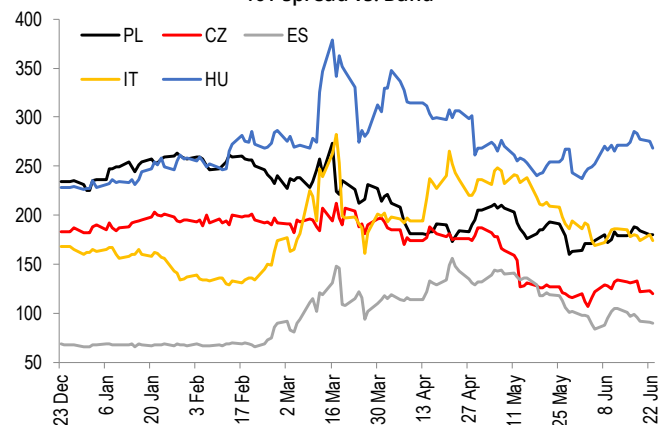
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		REALIZACJA	OSTATNIA WARTOŚĆ*
			MARKET	SANTANDER				
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	-7.7	-22.9
16:00	US	Home sales	May	% m/m	-4.2	-	-9.7	-17.8
TUESDAY (23 June)								
9:30	DE	Flash PMI – manufacturing	Jun	pts	44.0	-	44.6	36.6
10:00	EZ	Flash PMI – manufacturing	Jun	pts	43.2	-	46.9	39.4
14:00	PL	Money supply	May	% y/y	14.6	16.2	16.0	14.0
16:00	US	New home sales	May	% m/m	1.1	-	16.6	-5.2
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

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