

29 June 2020

Eyeopener

No big surprise in the first round

Duda and Trzaskowski will meet in the 2nd round of presidential elections
 Market sentiment deteriorated on Friday
 Zloty and other CEE currencies weakened, dollar strengthened
 Polish bond yields slightly up, despite lower Bund yield
 Today, inflation in Germany, US pending home sales

According to official data from 87.16% of voting precincts, in **the first round of the presidential election** the incumbent president Andrzej Duda won 45.24% of votes, Rafał Trzaskowski won 28.92%, and these two candidates will face off in the second round in two weeks' time. Ranking further were: Szymon Hołownia (13.69%) and Krzysztof Bosak (6.79%). Voter turnout is estimated at 63%. In our view such a result is market-neutral. The advantage of Andrzej Duda over the runner-up seems to secure him a high chance of victory, but yesterday's polls suggested that the second round could actually be a close call. According to head of State Voting Commission, full results will be published on Tuesday, or Wednesday morning at the latest.

On Friday moods in the equity markets were mixed and deteriorating – in Asia stock markets increased, in Europe the first part of the day saw gains, while in the afternoon the sentiment deteriorated, in the USA bears were dominating since the start of the session and S&P500 stopped only slightly above 3000. The swing in sentiment was caused by information about new Covid-19 infections and worse than expected consumer confidence indicators from the University of Michigan. June readings were not only below expectations but also below previous prints. As a result, yields in core debt markets declined – Bund closed below 0.48% and 10Y UST at 0.64%. Gold and dollar strengthened while energy commodities and industrial metals declined. Today during the Asian session the risk aversion was still predominant.

EURUSD has not changed much on Friday on a daily basis. The pair opened at 1.122 and closed just a bit higher at 1.1225 while the daily maximum stood at 1.1235. Option markets expect the EURUSD to move higher in the near term (1M risk reversals trade positive) while for the longer tenors expect it to move lower still but with less conviction (1Y risk reversals march up towards zero). For each next day that the EURUSD fails to attack and break the 1.15 level, the likelihood of a next move lower increases proving short term options wrong.

On Friday **EURPLN** opened on the strong side at 4.455 but then increased during the day to above 4.47 and closed the week at 4.4675. The daily change equal to 0.4% was roughly the same as the daily changes for the other regional currencies vs euro and hence points to at least regional, if not a global, cause of the move and not a positioning before the Sunday presidential elections. We expect the zloty to depreciate further, break the 4.50 in the coming days and move towards 4.55.

As to the **other regional currencies**, most of them were depreciating of Friday. EURHUF increased 0.4% on its fifth in a row losing session. It closed the week at 355.6, and the up move since mid-June equals 3.4%. Because of the both latest rate cuts (from 0.90% to 0.75%) and the upcoming ones (0.75% to 0.60%) the weakening of the forint will likely be continued. We expect EURHUF to breach 360.0 in the coming weeks. EURCZK also gained 0.4% and closed at 26.8. We expect EURCZK to trade in line with other CEE3 currencies and weaken to 27.0 and then to 27.5. USDRUB increased as well and neared the 70.0 level.

On the **domestic interest rate market**, on Friday there was a gentle upward pressure on longer yields, the 10Y benchmark closed the week at 1.38%. Bund yields decreased at the same time, and the spread grew to 186bp. This week, at the front end of the yield curve, the abundant banking sector liquidity is likely to gradually push bond yields even lower, towards zero. At the same time FRA and short IRS are likely to remain stable, pricing no NBP rate moves within at least the next 12 months. On the long end of the curve we would rather expect yields to remain stable as the less liquid summer holiday period starts to kick in. However, in the context of lower summer liquidity both a possible upside surprise by flash CPI and/or by the size of the BGK bonds auction have the potential to move yields higher.

Partial results of 1st round of presidential election (after counting 87.16% of voting precincts)

Candidate	% votes
Andrzej Duda	45.24
Rafał Trzaskowski	28.92
Szymon Hołownia	13.69
Krzysztof Bosak	6.79
Władysław Kosiniak-Kamysz	2.46
Robert Biedroń	2.12
Stanisław Żółtek	0.23
Marek Jakubiak	0.17
Paweł Tanajno	0.14
Waldemar Witkowski	0.13
Mirosław Piotrowski	0.11

Source: PKW

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FX market

Today's opening

EURPLN	4.4638	CZKPLN	0.1665
USDPLN	3.9662	HUFPLN*	1.2443
EURUSD	1.1256	RUBPLN	0.0569
CHFPLN	4.1884	NOKPLN	0.4099
GBPPLN	4.9090	DKKPLN	0.5988
USDCNY	7.0768	SEKPLN	0.4264

*for 100HUF

Last session in the FX market

28/06/2020

	min	max	open	close	fixing
EURPLN	4.446	4.472	4.458	4.454	4.462
USDPLN	3.955	3.993	3.962	3.970	3.970
EURUSD	1.119	1.125	1.125	1.122	-

Interest rate market

28/06/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.15	0	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.73	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.37	-1	5.03.2020	DS1029	1.725

IRS on the interbank market**

RIS on the inter-bank market						
Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	-1	0.27	-1	-0.46	-1
2L	0.30	-1	0.24	-2	-0.38	-1
3L	0.36	-1	0.25	-1	-0.38	0
4L	0.44	0	0.28	-2	-0.37	0
5L	0.53	0	0.34	-3	-0.35	0
8L	0.76	-1	0.52	-4	-0.26	-3
10L	0.87	-1	0.62	-5	-0.18	0

WIBOR rates

Term	%	Change (bps)
O/N	0.11	0
T/N	0.12	1
SW	0.15	0
2W	0.19	0
1M	0.23	0
3M	0.26	0
6M	0.28	-1
1Y	0.30	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.23	2
3x6	0.20	0
6x9	0.22	0
9x12	0.23	-1
3x9	0.24	0
6x12	0.27	2

Measures of fiscal risk

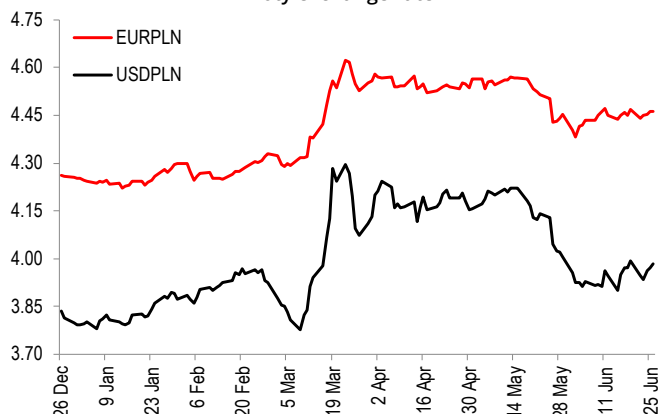
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	185	0
France	13	0	36	1
Hungary	77	0	263	-7
Spain	79	0	94	1
Italy	127	0	185	1
Portugal	48	0	95	1
Ireland	23	0	50	0
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

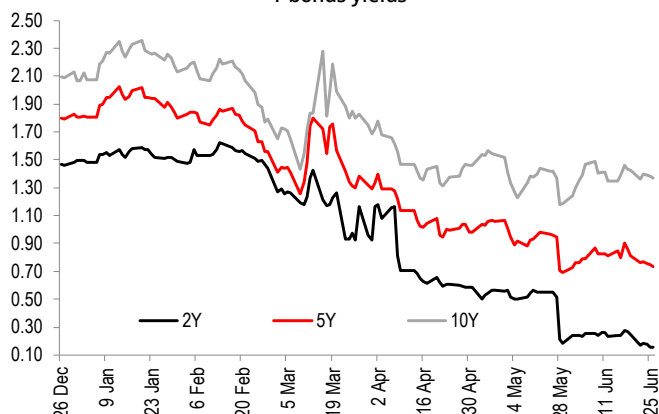
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

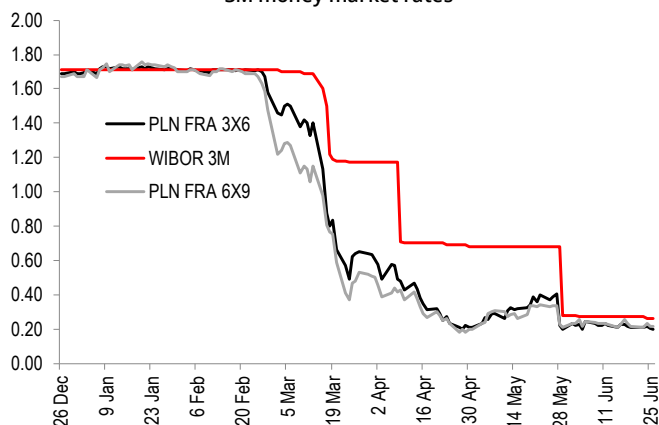
Zloty exchange rate



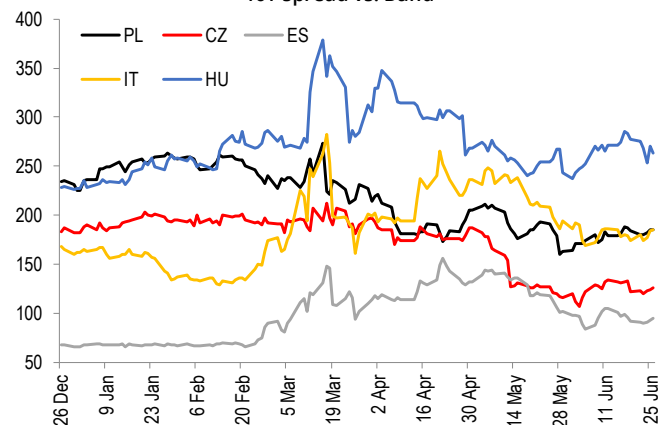
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
FRIDAY (26 June)								
14:30	US	Personal Spending	May	% m/m	9.2		8.2	-12.6
14:30	US	Personal Income	May	% m/m	-6.0		-4.2	10.8
14:30	US	PCE Deflator SA	May	% m/m	0.6		0.5	0.5
16:00	US	Michigan index	Jun	pts	79.2		78.1	78.9
MONDAY (29 June)								
11:00	EZ	ESI	Jun	pct.	80.3		-	67.5
14:00	DE	HICP	Jun	% m/m	0.4		-	0.0
16:00	US	Pending Home Sales	May	% m/m	18.85		-	-21.8
TUESDAY (30 June)								
09:00	CZ	GDP SA	1Q	% y/y	-2.0		-	-2.0
10:00	PL	CPI	Jun	% y/y	2.7	2.89	-	2.9
11:00	EZ	Flash HICP	Jun	% y/y	0.2		-	0.1
16:00	US	Consumer Conference Board	Jun	pts	90.0		-	86.6
WEDNESDAY (1 July)								
08:00	DE	Retail Sales	May	% m/m	3.75		-	-6.5
09:00	PL	Poland Manufacturing PMI	Jun	pts	0.0	46.0	-	40.6
09:55	DE	Germany Manufacturing PMI	Jun	pts	44.6		-	44.6
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	46.9		-	46.9
14:15	US	ADP report	Jun	k	3000.0		-	-2760.4
16:00	US	ISM manufacturing	Jun	pts	49.0		-	43.1
20:00	US	FOMC Meeting Minutes	Jun.20		-		-	0.0
THURSDAY (2 July)								
11:00	EZ	Unemployment Rate	May	%	7.6		-	7.3
14:30	US	Initial Jobless Claims	Jun.20	k	1320.0		-	1480.0
14:30	US	Change in Nonfarm Payrolls	Jun	k	3000.0		-	2509.0
14:30	US	Unemployment Rate	Jun	%	12.5		-	13.3
16:00	US	Durable Goods Orders	May	% m/m	10.45		-	15.8
16:00	US	Factory Orders	May	% m/m	8.0		-	-13.0
FRIDAY (3 July)								
03:45	CN	Caixin China PMI Services	Jun	pts	53.3		-	55.0
09:55	DE	Markit Germany Services PMI	Jun	pts	45.8		-	45.8
10:00	EZ	Eurozone Services PMI	Jun	pts	47.3		-	47.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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