

30 June 2020

Eyeopener

June CPI to surprise upwards?

Market sentiment improved after good US data
Zloty as the only stronger CEE currency on Monday
Bond yields soaring ahead of today's CPI data
Today, inflation in Poland and euro zone, US consumer confidence

After a negative start of Monday (June economic indicators for the euro zone released in the morning were worse than expected), stock markets ended the day with major rises after better-than-expected US data were released. May pending home sales rose by 44.3% m/m, above expectations, suggesting that the housing market sector is rebounding faster than the entire economy thanks to low interest. The June Dallas Fed economic indicator also surprised to the upside. Moving average from 5 key regional manufacturing indices returned above zero in June, meaning an expansion. This morning we got to see PMI for Chinese manufacturing (50.9 pts) and services (54.4) and these were better than expected, also in the expansion zone. In Germany flash CPI inflation surprised to the upside and showed 0.9% y/y thanks to the less negative contribution of energy prices and rising services prices.

June **ESI sentiment indicators** for Poland showed an improvement m/m in all sectors, the largest in services and retail trade – the only two sectors that were still in decline in May. The main ESI index, despite some rebound, remained the lowest since the data are available (1993) excluding the last two prints. The main employment index is already above the low recorded in 2009. Contrary to GUS indicators, ESI showed further weakening of current industrial output, with new orders index going up a bit and inventories index at the highest level in more than a decade. The index of price expectations in retail trade rose significantly, to the 2019 average, while consumer inflation expectations decreased, but are still the highest since 2004 (excluding the last two prints).

Fitch rating agency still expects Poland's GDP to drop by 3.2% this year and to rebound by 4.5% in 2021, as in the forecasts released last month. The growth structure has been changed however, with private consumption and investments corrected lower by 0.6-0.7pp in 2020 and raised by a similar amount in 2021. For the first time the agency showed 2022 GDP forecast, at +3.3%. According to Fitch, average annual inflation will be above the target this year and in the following two years, while interest rates will be moved higher by 50bp per year in this period.

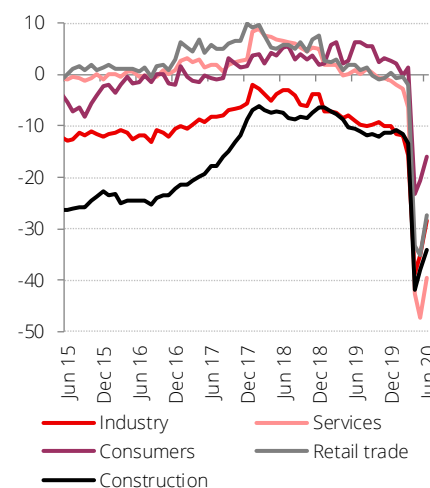
EURUSD was quite volatile on Monday. Having opened at 1.122, it rose to 1.129 on dollar weakness, but better-than-expected US data caused its quick decline to 1.1245. If the exchange rate does not go above 1.128 in the coming days and the US data keep improving, then a descent of the exchange rate towards 1.105 will become quite likely.

After opening at elevated 4.47, **EURPLN** was going down over the day and ended the session at 4.46. The zloty was the only CEE currency gaining on Monday, so theoretically one could look for a link between this move and the results of the first round of president elections (yet, in our view, this factor should not be relevant at this stage). We think that until the election is over, caution is advised as regards directional calls, and in the meantime the volatility could be fuelled by surprises in today's CPI or tomorrow's PMI.

As for the **other regional currencies** EURHUF after opening at 355.4 increased dynamically to 357.3, by 0.5%, after which it slightly moved back lower to 356.3. We are bearish the forint for the fundamental reasons, however after six EURHUF rising sessions in a row, today there is a decent chance of stabilisation, even if short one, as the market awaits new data (PMI manufacturing is being published on Wednesday). Even more volatility has been observed on EURCZK, which after opening at 26.8 declined 0.2% to 26.74 only to abruptly increase to 26.9 by 0.6% and then also abruptly move back lower to 26.80, by 0.4%. Given such high realized volatility, the implied volatilities (currently at 6-7%) seem cheap and options are likely to become more expensive going forward. USDRUB gained 0.6% and broke an important 70.0 level (close at 70.3) and this despite the slightly higher oil prices (Brent +1%).

On the **Polish fixed income market** the front end of the curve was relatively stable with 2Y IRS at 0.31% and 2Y government bonds at 0.13%. On the long end of the curve yields have increased both for bonds (by around 3bp to 1.42%) and swaps (by 2bp to 0.89%). Given stable Bund, the 10Y PL-DE spread widened to 190bp. Our forecast of today's June CPI (at 3.0%) is above the consensus and if materializes, might push the yields higher still.

ESI sentiment indicators



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.4536	CZKPLN	0.1659
USDPLN	3.9668	HUFPLN*	1.2506
EURUSD	1.1227	RUBPLN	0.0567
CHFPLN	4.1649	NOKPLN	0.4090
GBPPLN	4.8729	DKKPLN	0.5975
USDCNY	7.0700	SEKPLN	0.4242

*for 100HUF

Last session in the FX market

29/06/2020

	min	max	open	close	fixing
EURPLN	4.455	4.469	4.466	4.462	4.463
USDPLN	3.954	3.975	3.973	3.971	3.966
EURUSD	1.123	1.129	1.124	1.123	-

Interest rate market

29/06/2020

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)	0.75	2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.37	0	5.03.2020	DS1029	1.725

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.22	-1	0.27	0	-0.46	0
2L	0.31	1	0.24	0	-0.38	0
3L	0.38	2	0.23	-2	-0.38	0
4L	0.47	3	0.26	-2	-0.37	0
5L	0.56	4	0.31	-3	-0.34	1
8L	0.79	3	0.50	-3	-0.25	1
10L	0.90	3	0.60	-3	-0.17	1

WIBOR rates

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.11	-1
SW	0.15	0
2W	0.19	0
1M	0.23	0
3M	0.26	0
6M	0.28	0
1Y	0.30	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	1
3x6	0.19	-1
6x9	0.22	0
9x12	0.23	0
3x9	0.22	-1
6x12	0.26	-1

Measures of fiscal risk

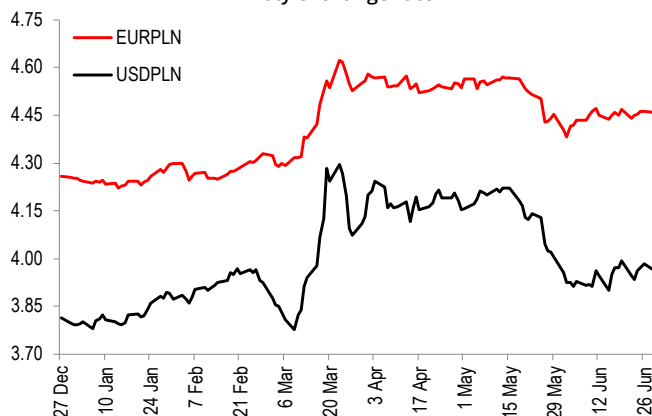
Measures of credit risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	184	-1
France	13	0	35	-1
Hungary	77	0	267	4
Spain	79	0	95	1
Italy	127	0	184	-2
Portugal	48	0	96	1
Ireland	23	0	48	-2
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

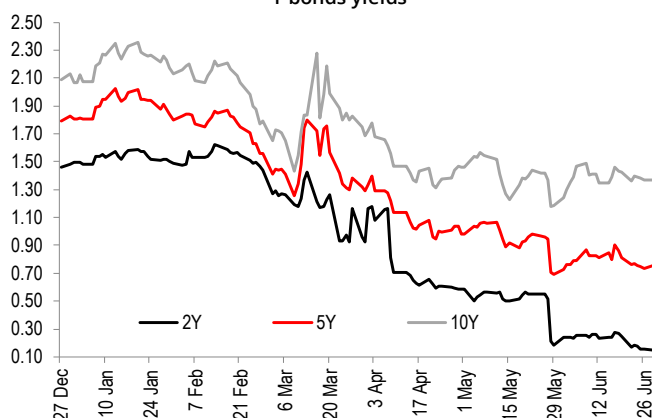
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

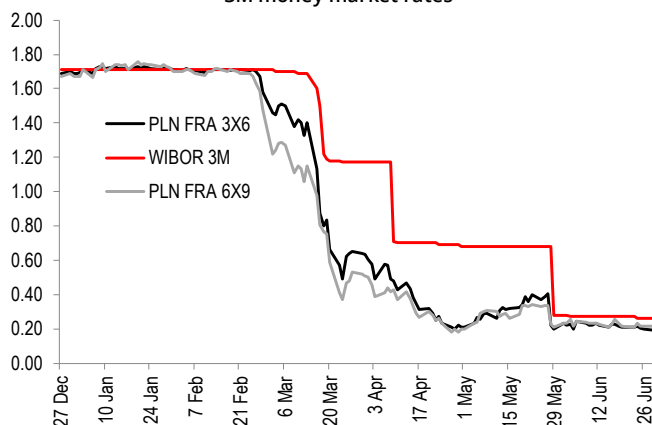
Zloty exchange rate



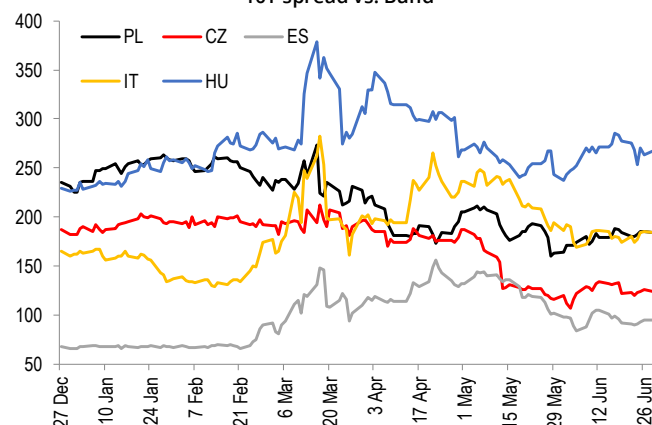
T-bonds yields



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		75.7	67.5
14:00	DE	HICP	Jun	% m/m	0.4		0.7	0.0
16:00	US	Pending Home Sales	May	% m/m	19.3		44.3	-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	3.0	-	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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