

2 July 2020

Eyeopener

PMI higher, zloty weaker

Stable market moods, yields higher after solid macro data
 Strong improvement of Polish manufacturing PMI in June
 Zloty weaker, underperforming other CEE3 currencies
 Bond yields up, following core debt markets
 Today, US data including non-farm payrolls

On Wednesday market sentiments were neutral – changes of main stock indices did not exceed 0.3%. Prices of energy commodities and metals were also stable. EM currencies again followed various patterns. Core market yields were climbing after a series of better data. German retail sales and US ISM in manufacturing were much better than expected. As regards June PMI in manufacturing, every country recorded an improvement versus the previous month, but only a few saw index going above 50.0 (including China, USA, Brazil, Colombia).

In June **Polish manufacturing PMI** rose sharply to 47.2 pts from 40.6 in May, so already to more-or-less the 2H19 average. Output and new orders sub-indexes were also back to pre-pandemic levels, new export orders index increased to the highest level since February. Input purchases and employment remained in contraction, with smaller falls than in April-May. For the third month output prices were lowered according to PMI report. It seems the recovery is going smoothly, but the pandemic-related decline of industrial output was big and we think that production actually requires more time to recover to pre-pandemic levels than the PMI index, which is already at a level we would expect in this period if there was no global disease at all. We forecast June industrial output growth at -11.4% y/y vs -17% in May.

Minutes from the last Fed meeting which were published yesterday in the evening showed that FOMC members discussed monetary policy tools such as forward guidance as well as the possibility of introduction of the yield curve control. According to Fed, the economic growth outlook is very uncertain and will depend, inter alia, on how the pandemic evolves. Some of the FOMC members saw a risk of a second wave coronavirus wave, which would risk prolonging the economic slowdown.

EURUSD was again volatile intraday. After opening at 1.123 the pair remained stable for some part of the day only to drop quickly by 0.4% to 1.1185 after which it increased by 0.8% to 1.1275 and closed the day at 1.1260. Such elevated volatility might remain for some time e.g. a week.

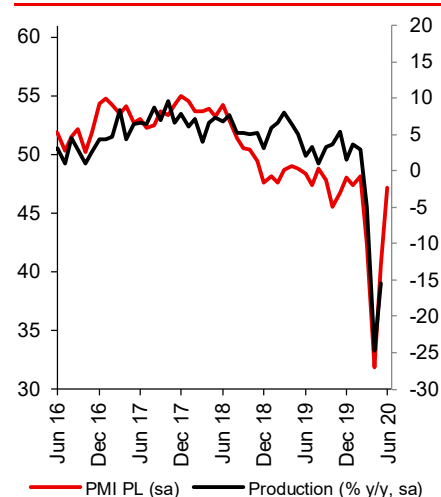
EURPLN after opening yesterday on the strong side at 4.445, declined even lower in the first morning hours by 0.2% to 4.4350 and then abruptly rose as much as 1.0% to 4.48 (yesterday's close and today's open both only slightly below this level). As we have been writing lately such a price behaviour is likely related to positions in FX options with short tenors which should expire within a week or two. We expect the zloty to weaken and EURPLN to reach 4.50 and then 4.55 in the coming days.

In the case of **other CEE currencies**, it is important to note that price changes were aligned with June manufacturing PMIs, which rose by 6.3pts to 47.0 in Hungary, 5.3pts to 44.9 in Czechia and 13.2pts to 49.4 in Russia. The forint and the koruna, unlike the zloty, did not weaken. EURHUF consolidated for the second day in a row and fell by 0.3% to 353.5. We expect to see one more day of consolidation after which an upward trend to 360+ should be back. EURCZK decreased by just 0.1% to 26.6. USDRUB decreased by 0.7% with oil prices unchanged, partly due to rising EURUSD.

On the **domestic interest rate market**, bonds gave back the whole Monday's gain. IRS rates also went up, 2Y by 2bp to 0.30% and 10Y by 7bp to 0.93%. Short term bonds remained stable at 0.13% and longer ones returned to the level from the previous day, eg. 10Y to 1.42%. The rise of yields were most likely linked to weaker core market bonds, but were not proportionate and the Bund spread narrowed to 181bp.

BGK informed it sold bonds worth PLN11.85bn in two series: 5Y FPC0725 worth PLN9.55bn and 10Y FPC0630 worth PLN2.30bn. Moreover, BGK informed these two papers will be offered again on 15 July (Wednesday).

PMI (pts) vs industrial production (% y/y)



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4741	CZKPLN	0.1680
USDPLN	3.9717	HUFPLN*	1.2653
EURUSD	1.1268	RUBPLN	0.0563
CHFPLN	4.1996	NOKPLN	0.4188
GBPPLN	4.9624	DKKPLN	0.6005
USDCNY	7.0640	SEKPLN	0.4273

*for 100HUF

Last session in the FX market

01/07/2020

	min	max	open	close	fixing
EURPLN	4.433	4.479	4.441	4.473	4.447
USDPLN	3.947	3.988	3.959	3.974	3.959
EURUSD	1.118	1.127	1.122	1.126	-

Interest rate market

01/07/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.16	-1	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.76	3	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.41	3	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ (17.06)	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.22	1	0.26	0	-0.46	1
2L	0.31	2	0.23	1	-0.38	0
3L	0.39	3	0.24	1	-0.37	2
4L	0.50	5	0.28	2	-0.35	2
5L	0.59	5	0.34	2	-0.33	2
8L	0.82	7	0.54	2	-0.22	3
10L	0.93	7	0.65	2	-0.13	4

WIBOR rates

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.11	0
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	0.23	3
3x6	0.18	1
6x9	0.21	3
9x12	0.23	4
3x9	0.19	0
6x12	0.25	3

Measures of fiscal risk

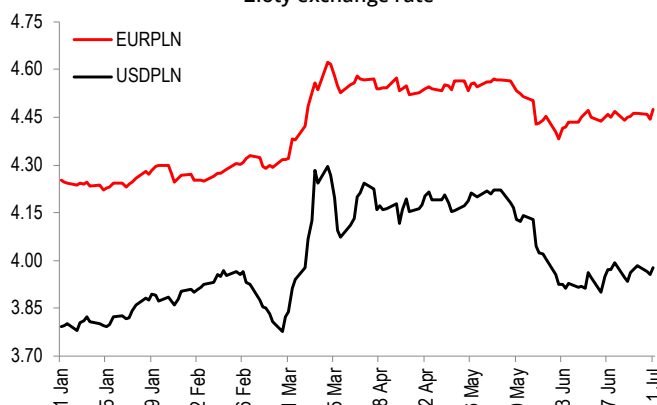
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	56	0	181	-3
France	13	-1	34	0
Hungary	77	0	269	1
Spain	77	-2	91	-2
Italy	122	-3	174	-4
Portugal	46	-3	89	-6
Ireland	22	-1	47	0
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

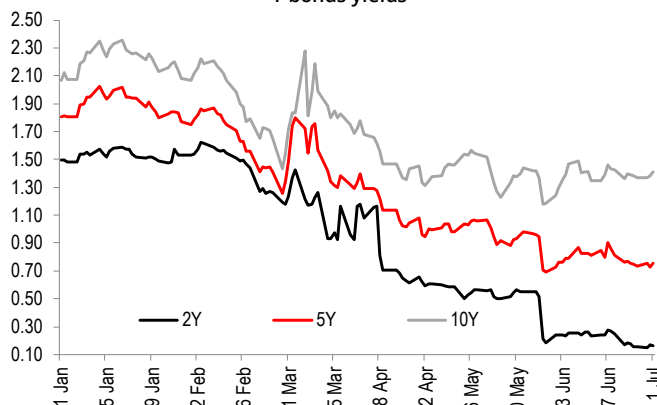
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

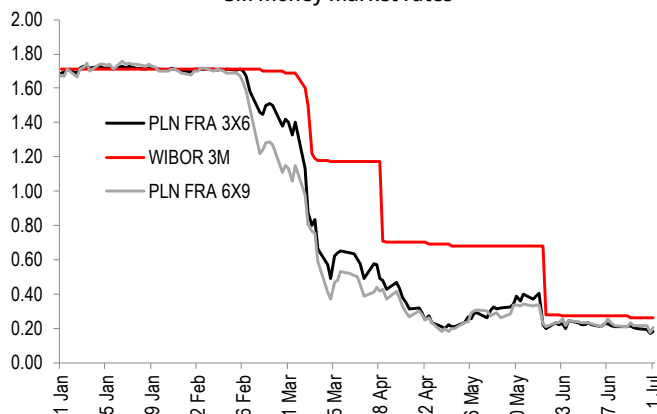
Zloty exchange rate



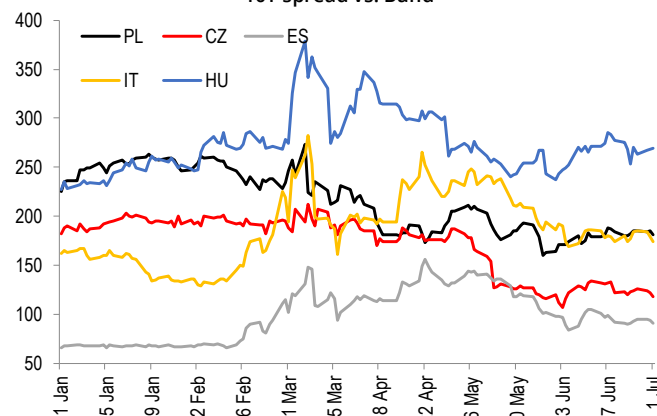
T-bonds yields



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	-2.0
10:00	PL	CPI	Jun	% y/y	2.7	3.0	3.3	2.9
11:00	EZ	Flash HICP	Jun	% y/y	0.2		0.3	0.1
16:00	US	Consumer Conference Board	Jun	pts	90.0		91.5	85.9
WEDNESDAY (1 July)								
08:00	DE	Retail Sales	May	% m/m	3.8		13.9	-6.5
09:00	PL	Poland Manufacturing PMI	Jun	pts	46.2	46.0	47.2	40.6
09:55	DE	Germany Manufacturing PMI	Jun	pts	44.6		45.2	44.6
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	46.9		47.4	46.9
14:15	US	ADP report	Jun	k	2900.0		2369	3065
16:00	US	ISM manufacturing	Jun	pts	49.8		52.6	43.1
20:00	US	FOMC Meeting Minutes	Jun.20					
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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