

31 January 2020

Eyeopener

Main focus still on virus

Global mood still unstable
ESI confirms slowdown in Poland
Zloty yet weaker, EURUSD up
Polish yields down amid lower core yields
Today euro zone and US data and the last day with UK as EU member

On Thursday the markets were still focused on the threat of expansion of coronavirus. Asian stock indexes dropped 2-5%, the European ones by 1-1.5% and were stable in the USA and South America. Yields on core bond markets declined some more. Energy commodities kept losing value (Brent price down 2% to US\$58.6/bbl) but industrial metals prices stopped falling and it seems that after large decline (in the case of copper by c12%) in January, the markets may search for equilibrium around the current levels. The dollar weakened vs G7 by c0.2% but it did not save most of EM currencies from further losses (of c1%). Only CEE3 currencies were quite stable vs the dollar. One of the main reasons behind the EM fx weakness was the falling yuan (CNH, i.e. the offshore rate), which lost c0.5% and approached the psychological level of 7.0% If the level is breached it can cause further downside pressure on EM currencies in the nearest future.

Today is the last day when the United Kingdom is still the member of the European Union. Tomorrow UK enters the transition period, which will last until the end of 2020 and during which the economic relations between the country and the EU will remain unchanged. However, tomorrow the UK will lose its membership of the EU's political institutions, including the European Parliament and European Commission. Before the end of the year it should be negotiated how the economic relations after the transition period ends will look like.

January ESI indicators released by the European Commission showed an improvement of the general sentiment indicator in the euro zone as well as EU industry indicator. In Poland, both these gauges fell to the lowest level in six years. Consumer confidence and retail sales indicator also declined. There is no sign of any relief in the negative tendencies in Polish ESI indexes despite some improvement in euro zone soft indicators. The flash annual GDP reading for 2019 implied that economic slowdown was more painful in 4Q than we had thought and the ESI set of data suggests we should not be looking for any rebound in 1Q20.

EURUSD rebounded by 0.3% to 1.103 after better than expected European ESI index. FX options keep expecting higher probability of the move higher than the move lower even in the short, sub 1mth, tenors and even after the EURUSD traded lower almost every day in the passing week.

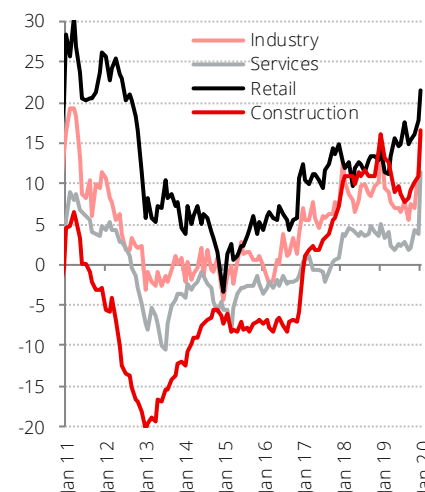
EURPLN after opening at 4.285 briefly traded lower at 4.278 (-0.2%) but later it joined the emerging market currency crowd and closed back higher at 4.288. If the pair trades above that level for good (which is our assumption), the next important levels are in the 4.31-4.32 are. If the level holds, we might see a retracement to 4.25.

In the case of other CEE currencies, EURHUF continued its march upwards closing the day at 338.4. EURCZK has not changed and remained around 25.23. More interestingly, another day of weakening of the ruble moved USDRUB up 1.0% to 63.18. We expect forint and ruble to further depreciate in the short term.

On the Polish fixed income market, yields decreased and the interest curves – both the swap and the bond one flattened to 9bp and 71bp respectively (by 2bp and 1bp) where the both 10Y tenors fell by 3bp and as a result asset swap remained unchanged at 29bp. Core market yields moved lower as well. In particular, the German curve moved in parallel lower by 2bp, and 10Y Bund closed at -0.40% implying 10Y PL-DE spread at 259bp (1bp).

Deputy Minister of Finance Piotr Nowak said that in Q2 the supply of bonds may be lower than in Q1 where MF plans 4-5 auctions for a total of PLN17-27bn, of which in the first two January auctions of 2020 already PLN11bn have been sold. Gross financing needs for 2020 have been financed in 62% however the MF has not unambiguously stated that as a result in the following quarters it will only focus on the switch auctions.

ESI, sectoral price expectations indexes



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.2935	CZKPLN	0.1701
USDPLN	3.8960	HUFPLN*	1.2739
EURUSD	1.1020	RUBPLN	0.0617
CHFPLN	4.0123	NOKPLN	0.4237
GBPPLN	5.1101	DKKPLN	0.5745
USDCNY	6.9109	SEKPLN	0.4036

*for 100HUF

Last session in the FX market 30/01/2020

	min	max	open	close	fixing
EURPLN	4.278	4.296	4.286	4.293	4.2813
USDPLN	3.883	3.896	3.894	3.889	3.8856
EURUSD	1.100	1.104	1.101	1.104	-

Interest rate market 30/01/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.48	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.83	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.17	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	1.59	-5	-0.36	-1
2L	1.80	-2	1.43	-8	-0.36	-1
3L	1.80	-3	1.36	-8	-0.34	-2
4L	1.81	-3	1.35	-9	-0.31	-2
5L	1.82	-3	1.36	-9	-0.28	-2
8L	1.86	-4	1.42	-9	-0.14	-3
10L	1.89	-4	1.48	-9	0.00	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.51	30
T/N	1.53	5
SW	1.54	0
2W	1.58	0
1M	1.63	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	0
3x6	1.72	0
6x9	1.73	0
9x12	1.73	-1
3x9	1.79	0
6x12	1.82	-1

Measures of fiscal risk

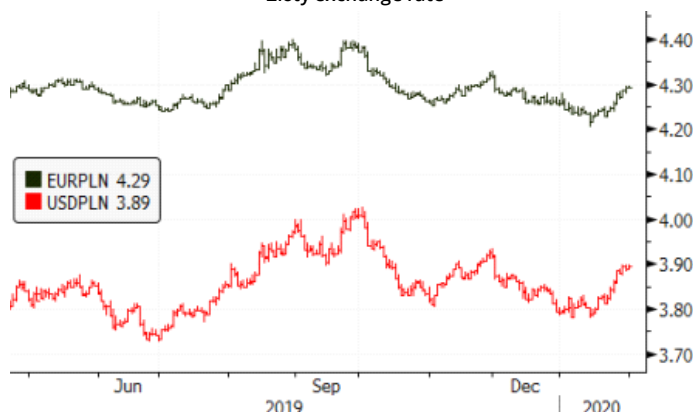
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.57	-5
France	18	-1	0.26	0
Hungary			2.49	-4
Spain	38	0	0.67	0
Italy	108	1	1.34	0
Portugal	33	1	0.69	0
Ireland	23	-1	0.27	-2
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	44.5	-	45.2	43.7
09:30	DE	Markit Germany Services PMI	Jan	pts	53.0	-	54.2	52.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	46.8	-	47.8	46.3
10:00	EZ	Eurozone Services PMI	Jan	pts	52.8	-	52.2	52.8
14:00	PL	Money Supply M3	Dec	% y/y	9.1	8.9	8.3	9.4
MONDAY (27 January)								
10:00	DE	IFO Business Climate	Jan	pts	97.0	-	95.9	96.3
10:00	PL	Unemployment Rate	Dec	%	5.2	5.2	5.2	5.1
16:00	US	New Home Sales	Dec	% m/m	1.5	-	-0.4	-1.1
TUESDAY (28 January)								
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
14:30	US	Durable Goods Orders	Dec	% m/m	0.3	-	2.4	-2.1
16:00	US	Consumer Conference Board	Jan	pts	128.0	-	131.6	128.2
WEDNESDAY (29 January)								
10:00	PL	GDP	2019	% y/y	4.2	4.1	4.0	5.1
16:00	US	Pending Home Sales	Dec	% m/m	0.6	-	-4.9	1.2
20:00	US	FOMC decision		%	1.75	-	1.75	1.75
THURSDAY (30 January)								
11:00	EZ	Unemployment Rate	Dec	%	7.5	-	7.4	7.5
11:00	EZ	ESI	Jan	pct.	101.75	-	102.8	101.3
14:00	DE	HICP	Jan	% m/m	-0.7	-	-0.8	0.6
14:30	US	GDP Annualized	4Q	% Q/Q	2.0	-	2.1	2.1
14:30	US	Initial Jobless Claims	week	k	215	-	216	223
FRIDAY (31 January)								
11:00	EZ	Flash HICP	Jan	% y/y	1.4	-		1.3
11:00	EZ	GDP SA	4Q	% y/y	1.0	-		1.2
14:30	US	Personal Spending	Dec	% m/m	0.3	-		0.4
14:30	US	Personal Income	Dec	% m/m	0.3	-		0.5
14:30	US	PCE Deflator SA	Dec	% m/m	0.2	-		0.2
16:00	US	Michigan index	Jan	pts	99.0	-		99.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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