

3 February 2020

Eyeopener

Zloty weakens further

Global markets still anxious on Friday
 EURPLN went above 4.30, EURUSD up
 Polish bonds slightly stronger
 Today manufacturing PMIs in Europe, ISM in the USA

The end of last week was similar to preceding days. Stock market indices were declining (albeit at a slower pace), bonds were gaining (also less than before) amid worries about the impact of the spreading virus on global economy. On Friday the EM currencies reacted more significantly to declining risk appetite and most of them were under pressure, despite weakening of the US dollar. Data from Europe were lower than expected (German retail sales, euro zone 4Q GDP) and data from USA exceeded forecasts (consumer confidence, PCE inflation). The January's PMI indicators released today in the morning in Asia did not show a positive picture, even though they have probably not taken into account the worries related to coronavirus yet (only manufacturing PMI in India increased, while in China it fell from 51.5 pts to 51.1 pts). The Chinese central bank decided to boost market liquidity in the banking sector today by injecting cash worth c.USD170bn. Today Chinese markets opened for the first time since January 23rd (after Chinese New Year break) and the Shanghai stock market index plummeted by more than 7%.

The MPC released its **opinion to the 2020 budget draft**. The Council views the GDP growth assumption at 3.7% as realistic while CPI may be higher than 2.5% the government expects though it should not be above 3.5%. According to the MPC, 2019 and 2020 changes in the fiscal policy will limit the scale of an economic slowdown in but will work towards higher inflation. The Council thinks that in 2020 the structural deficit will be above the medium term objective of 1% of GDP.

EURUSD was on the rise for the second day in a row despite the rather poor mood persisting on the global market. As a result, the exchange rate managed to climb to 1.07 and the euro recorded the first weekly gain vs the dollar after the three consecutive weeks of depreciation. Today we will see final euro zone manufacturing PMIs that are rather unlikely to differ much from the initial estimates. Thus, the US manufacturing ISM may prove more important. The first level EURUSD will have to break to continue the upside move is 1.08.

EURPLN continued the strong upside move initiated in mid-January and on Friday was close to 4.31 for a while. The last week's up move was the biggest EURPLN weekly rally since September. USDPLN rose above 3.90 for a while but at the end of the day was back at 3.89 seen at the opening. EURPLN approached the 4.31-4.33 resistance area.

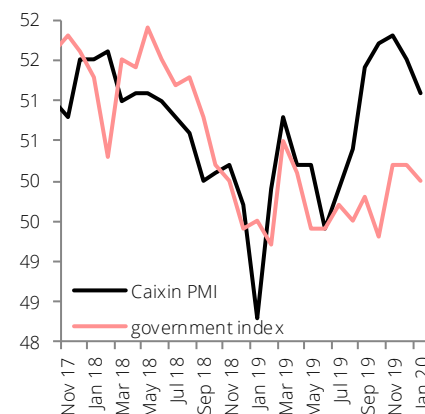
As for the **other regional currencies** it was only the ruble which was depreciating, similarly to the zloty. Despite weaker USD and stable oil prices, USDRUB rose to 63.8 – a new January maximum. On Friday both forint and koruna gained both versus the euro and the dollar – a rare behaviour among the emerging market currencies on that day.

On the Polish fixed income market, bond yields and IRS lowered 2-3bp along the curve. The changes on the core markets were of similar amplitude or slightly higher (10Y Bund and UST yields dropped by 2bp and 4bp respectively). As a result 10Y PL-DE spread remained at a heightened level of 260bp.

On Friday, the Ministry of Finance released data about **the structure of Polish PLN-denominated marketable bond holders**. In December, non-residents cut their holdings but only by nearly PLN600mn. Domestic mutual funds bought debt for a nominal value of PLN1.08bn and insurance companies for PLN966mn. Although the net change of foreign investors holdings was minor, flows within this group were noticeable. Commercial banks sold bonds for PLN1.9bn and nonfinancial entities by PLN5.0bn. However, foreign insurance companies purchased bonds for PLN5.0bn and PLN1.2bn was added on the omnibus accounts.

This week we will seem important data, particularly from the US (manufacturing and services ISM and monthly nonfarm payrolls). However, the impact of these releases could be minor when the uncertainty regarding the economic outlook has risen as the virus is spreading. As long as markets remain driven by the global factors it is reasonable to expect further zloty depreciation. We expect EURPLN to rise to 4.31-4.32 level, however in the case of the escalation of global fears the currency pair might reach even 4.40. If the EURPLN move happens to be rapid it might influence other markets like government bonds. Next week the macroeconomic calendar in Poland is relatively light hence the Polish yields should follow the German ones and the spread might slightly widen.

Chinese manufacturing PMI indexes



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2854	CZKPLN	0.1696
USDPLN	3.8914	HUFPLN*	1.2674
EURUSD	1.1013	RUBPLN	0.0617
CHFPLN	4.0048	NOKPLN	0.4227
GBPPLN	5.0581	DKKPLN	0.5735
USDCNY	6.9109	SEKPLN	0.4036

*for 100HUF

Last session in the FX market 31/01/2020

	min	max	open	close	fixing
EURPLN	4.290	4.307	4.293	4.298	4.2766
USDPLN	3.872	3.904	3.889	3.874	3.8871
EURUSD	1.102	1.110	1.104	1.109	-

Interest rate market 31/01/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
DS1021 (2L)	1.44	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.79	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.12	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-2	1.54	-5	-0.37	0
2L	1.78	-3	1.38	-5	-0.37	-1
3L	1.78	-3	1.32	-4	-0.36	-1
4L	1.78	-3	1.31	-4	-0.33	-2
5L	1.80	-3	1.32	-4	-0.30	-2
8L	1.83	-3	1.39	-3	-0.16	-2
10L	1.86	-4	1.45	-3	-0.05	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.51	0
T/N	1.53	0
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	1.71	-1
6x9	1.71	-2
9x12	1.70	-4
3x9	1.79	0
6x12	1.79	-3

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.55 -1
France	17 1	0.26 0
Hungary		2.47 0
Spain	38 0	0.67 0
Italy	109 -2	1.37 1
Portugal	34 0	0.69 -1
Ireland	22 1	0.29 0
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

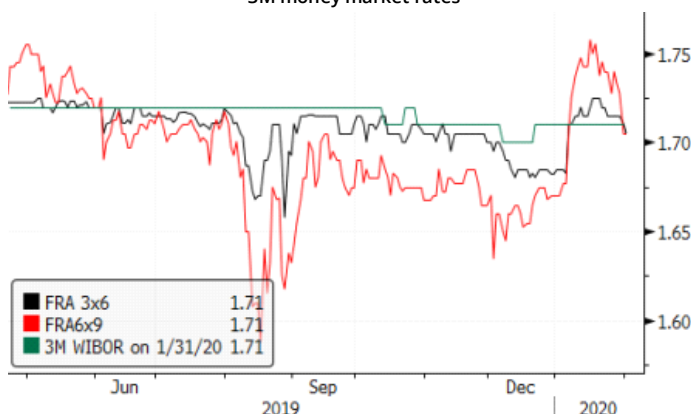
Zloty exchange rate



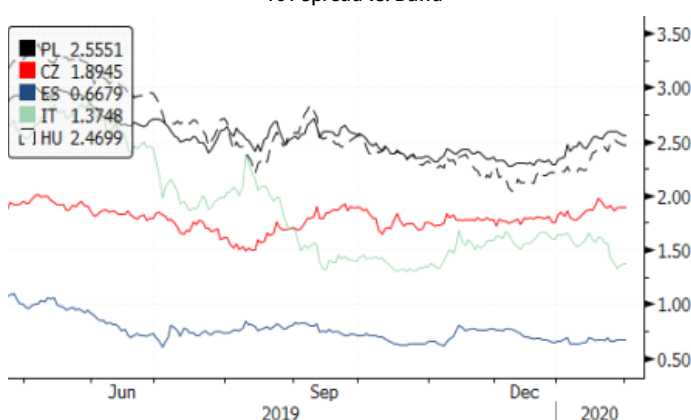
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (31 January)							
08:00	DE	Retail Sales	Dec	% m/m	-0.5	-3.3	1.6
11:00	EZ	Flash HICP	Jan	% y/y	1.4	1.4	1.3
11:00	EZ	GDP SA	4Q	% y/y	1.1	1.0	1.2
14:30	US	Personal Spending	Dec	% m/m	0.3	0.3	0.4
14:30	US	Personal Income	Dec	% m/m	0.3	0.2	0.4
14:30	US	PCE Deflator SA	Dec	% m/m	0.2	0.3	0.1
16:00	US	Michigan index	Jan	pts	99.1	99.8	99.1
MONDAY (3 February)							
09:00	PL	Manufacturing PMI	Jan	pts	48.1	48.2	48.0
09:55	DE	Manufacturing PMI	Jan	pts	45.2	-	45.2
10:00	EZ	Manufacturing PMI	Jan	pts	47.8	-	47.8
16:00	US	ISM manufacturing	Jan	pts	48.3	-	47.2
TUESDAY (4 February)							
16:00	US	Durable Goods Orders	Dec	% m/m	2.3	-	2.4
16:00	US	Factory Orders	Dec	% m/m	0.7	-	-0.7
WEDNESDAY (5 February)							
	PL	MPC decision		%	1.50	1.50	1.50
02:45	CN	Caixin China PMI Services	Jan	pts	52.0	-	52.5
09:55	DE	Services PMI	Jan	pts	54.2	-	54.2
10:00	EZ	Services PMI	Jan	pts	52.2	-	52.2
11:00	EZ	Retail Sales	Dec	% m/m	-0.5	-	1.0
14:15	US	ADP report	Jan	k	150	-	201
16:00	US	ISM services	Jan	pts	55.1	-	55.0
THURSDAY (6 February)							
08:00	DE	Factory Orders	Dec	% m/m	0.55	-	-1.3
09:00	CZ	Industrial Production	Dec	% y/y	1.8	-	-5.7
09:00	HU	Industrial Production	Dec	% y/y	0.0	-	5.66
13:00	CZ	Central Bank Rate Decision		%	2.0	-	2.0
14:30	US	Initial Jobless Claims	week	k	215	-	216
FRIDAY (7 February)							
08:00	DE	Exports	Dec	% m/m	0.3	-	-2.3
08:00	DE	Industrial Production	Dec	% m/m	-0.2	-	1.1
14:30	US	Change in Nonfarm Payrolls	Jan	k	160	-	145
14:30	US	Unemployment Rate	Jan	%	3.5	-	3.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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