5 February 2020

Eyeopener

Return of demand for risk assets

Demand for risk assets is back on global markets
Zloty and other CEE currencies gained
EURUSD dropped
Bonds under pressure of better sentiment
Today Polish MPC decision, US ADP report, services sentiment indexes

On Tuesday the markets were in positive moods again. The decrease of worries about coronavirus' potential consequences for world economy, the end of equity price declines in Chinese stock markets, and Monday's better than expected data from the euro zone and the USA, triggered strengthening of higher-risk assets, while save havens were under pressure. Almost all EM currencies gained versus the dollar and the euro, and the zloty ranked in the middle of the first ten. Bond yields in Poland and abroad increased by a few basis points. Moreover, next better-than-expected data were released in the USA in the afternoon, this time about durable goods orders. The sentiment was not spoiled by the Chinese services PMI released today in the morning, which was slightly worse than before.

The minister for the state assets Jacek Sasin said that the draft bill for **compensation for higher energy prices** in 2020 is now finished. As it was claimed earlier, the compensations will not be paid in cash but the energy bills would be reduced in 2021 and only for individuals in the first (lower) tax threshold rate. The government estimates the cost of this reductions would amount to PLN3bn. In January and February we will see a noticeable impact of higher energy prices on CPI (+0.5pp in total, according to our estimates) – the scale and timing of compensations will not tame this impact.

EURUSD was heading south since the beginning of the Tuesday session and at the end of the day was slightly below the Monday minimum. Weaker demand for safe haven assets has not weakened the dollar but it was also not strengthened by better than expected US data – Tuesday EURUSD move lower was smaller than that on Monday. The exchange rate after stabilising a bit above the support at 1.098 have risen to almost 1.11. But since then reversed half of the move. Today January ISM non-manufacturing and ADP data are being published.

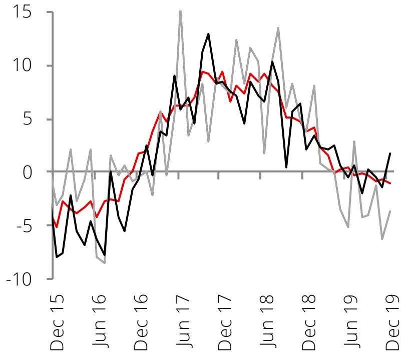
EURPLN and USDPLN fell yesterday by around 3 figures to 4.27 and 3.865, respectively, after the global market sentiment improved and despite the slight strengthening of the dollar. It has been the highest 1-day fall of EURPLN this year so far. In our opinion, one of the reasons which drove the EURPLN higher in the previous 3 weeks were local macroeconomic data pointing to further growth slowdown (faster than expected) while the NBP's MPC rhetoric remained neutral despite the surprisingly sharp CPI rise. Today's MPC meeting will probably be similar to the previous ones. However, in a situation of heightened uncertainty regarding global growth, the lack of rate hikes suggestions amid high inflation should not have a negative effect on the zloty. At the moment global factors are more important for the zloty.

The remaining **CEE currencies** also gained. EURCZK fell for the third session in a row and daily EURHUF drop was the biggest since mid-January. USDRUB fell to nearly 63.0 from 63.7 despite still strong dollar and only mild rise of the oil price.

On the domestic **interest rate market**, IRS and bond yields rose 3-4bp amid weakening on the core markets driven by stronger demand for the risky assets. The scale of move in Poland and in case of Bund was similar and so the 10Y PL-DE bond yield spread remained steady near 260bp. The January yield's down correction of the upside trend observed since August it not bigger than the previous correction and for now there is no suggestion that yields could stay lower for longer.

Today the MPC will announce its decision about the interest rtes. The outcome of the Council's meeting is unlikely to surprise – recent data, including flash 2019 GDP pointing to the stronger than expected slowdown and worries about the virus impact on growth support the Council's stance that there is no need to react to rising inflation, as according to the majority of its members it is only a temporary development.

US durable goods orders, %y/y



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2760	CZKPLN	0.1703
USDPLN	3.8742	HUFPLN*	1.2723
EURUSD	1.1037	RUBPLN	0.0613
CHFPLN	3.9993	NOKPLN	0.4194
GBPPLN	5.0416	DKKPLN	0.5722
USDCNY	7.0007	SEKPLN	0.4037

*for 100HUF

Last session in the FX market 04/02/2020

	min	max	open	close	fixing
EURPLN	4.271	4.301	4.301	4.275	4.2867
USDPLN	3.866	3.891	3.889	3.873	3.8773
EURUSD	1.103	1.107	1.106	1.104	-

Interest rate market 04/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.46	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.83	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.18	3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.72	1	1.62	5	-0.36	1
2L	1.79	2	1.48	7	-0.36	1
3L	1.80	1	1.44	7	-0.34	2
4L	1.83	3	1.42	7	-0.31	2
5L	1.86	4	1.43	7	-0.27	3
8L	1.90	3	1.50	8	-0.13	4
10L	1.93	3	1.56	8	-0.02	4

WIBOR rates

Term	%	Change (bps)
O/N	1.49	-3
T/N	1.51	-2
SW	1.55	1
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	0
6x9	1.71	0
9x12	1.70	1
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland			2.59	4
France	18	0	0.26	0
Hungary			2.52	4
Spain	38	-1	0.67	0
Italy	107	-4	1.33	-2
Portugal	34	1	0.70	-1
Ireland	22	1	0.31	4
Germany	9	0	-	-

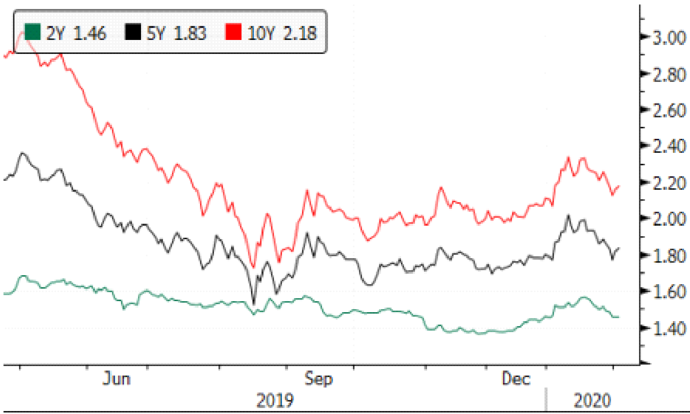
* 10Y treasury bonds over 10Y Bunds

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

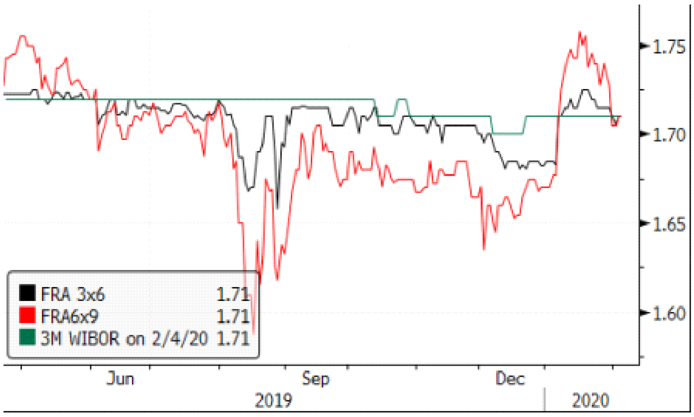
Source: Bloomberg

Zloty exchange rate

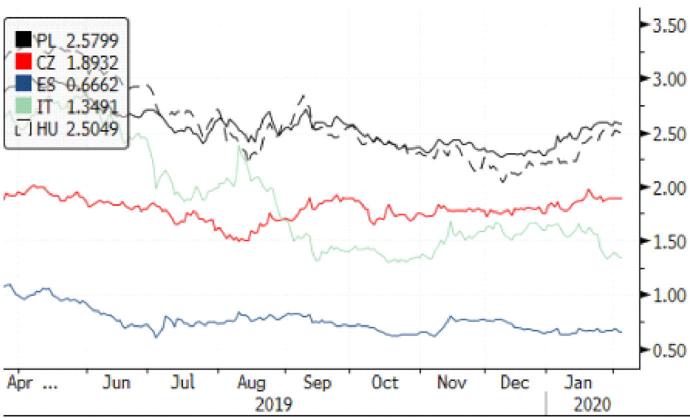
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST 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**	**47,4**	**48.0**
09:55	DE	Manufacturing PMI	Jan	pts	45.2	-	45,3	45.2
10:00	EZ	Manufacturing PMI	Jan	pts	47.8	-	47,9	47.8
16:00	US	ISM manufacturing	Jan	pts	48.3	-	50,9	47.8
			TUESDAY (4 February)					
16:00	US	Durable Goods Orders	Dec	% m/m	2.4	-	2.4	2.4
16:00	US	Factory Orders	Dec	% m/m	1.2	-	1.8	-1.2
			WEDNESDAY (5 February)					
	PL	**MPC decision**		**%**	**1.50**	**1.50**		**1.50**
02:45	CN	Caixin China PMI Services	Jan	pts	52.0	-	51.8	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	-1.1	-		1.0
14:15	US	ADP report	Jan	k	158	-		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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