

6 February 2020

# Eyeopener

## Monetary policy stance unchanged

### Further gains of risk assets

EURPLN and USDPLN strongly down again, EURUSD close to 1.10

Domestic bonds stable, weakening abroad

Today Czech central bank decision, industrial data from the region

The better than expected data and media saying that the cure or vaccination for the coronavirus have been found or are about to be found (WHO denied in the evening) boosted stock indexes, pushed bond yields up and supported the EM currencies. The final January euro zone services PMI were above the initial estimate and the ADP report showed much bigger-than-expected rise of jobs in the US non-farm sector. The US services ISM beat consensus as well. Additionally, China announced it will cut by half the retaliatory tariffs imposed on the selected US goods (this move is beyond what was communicated when the phase one deal was signed in mid-January). The series of positive data surprises ended today in the morning when the German factory orders extended the contraction in y/y terms, falling by 8.7% in December vs -6.0% in November amid weakness inside the whole euro zone and despite improvement of the manufacturing sentiment indexes.

The **Monetary Policy Council kept main interest rates unchanged** again (reference rate at 1.50%), in line with expectations. In the official statement the MPC wrote that economic outlook for Poland remains good, although there is some uncertainty regarding the depth and persistence of the slowdown. The Council expects that inflation may exceed the upper limit of +/- 1pp band of deviations around the target in the nearest months, but the acceleration of price growth will be temporary and driven by supply-side and regulatory factors, which remain beyond the direct impact of domestic monetary policy. Thus, inflation should decrease later this year, and hover near the inflation target in the medium run. The NBP governor repeated his earlier views: interest rates should remain unchanged until the end of his term of office (2022) and the probability of rate cuts is higher than of rate hikes. Kamil Zubelewicz (the most hawkish MPC member) present at the conference, said that interest rates are too low, but the Council should wait with decision until the new inflation projection (next month). Ultra-dovish Eryk Łon said, in turn, that he still sees room for slight monetary easing that would support economic growth. On balance, nothing new on the monetary policy front in Poland. The situation may get more interesting once/if economic outlook improves visibly later this year, but as long as economic slowdown is in progress the majority of MPC members will not think seriously about any policy tightening.

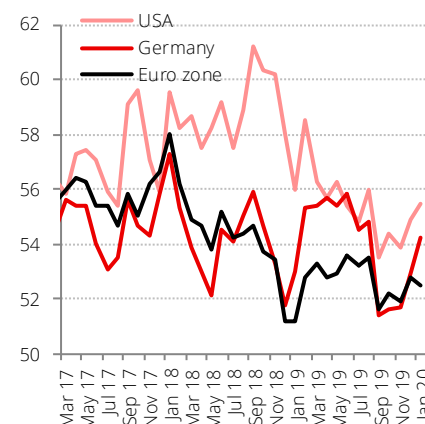
**EURUSD** declined for the third time in a row, more than offsetting its rapid increase in the last two days of previous week. At the end of the Polish session the rate was near 1.10, the level that has already three times halted the deeper dollar appreciation vs the euro. We think that the proximity of this level and of tomorrow's publication of employment report could stabilise the exchange rate today.

**EURPLN and USDPLN** fell yesterday by another 3-4 figures as a result of the positive global market sentiment and a wave of stop losses. Zloty as well as many other EM currencies strengthened despite the stronger dollar. As a result EURPLN fell temporarily below 4.24 and USDPLN to 3.85. Taking two previous trading sessions into consideration the fall in EURPLN was the biggest since the end of 2016. We think the appreciating trend might slow down now the closer EURPLN is to 4.22.

**Other regional currencies** also continued the appreciating trend. The ruble was the region's best performer (second best in the whole EM universe). EURCZK managed to print this year's minimum briefly trading below the 25.05. While the EURHUF remained near the Tuesday's close (336.8).

On the Polish **fixed income market** IRS rates and bond yields have not changed by much (1-2bp) while the moves on the core markets were more pronounced – German Bunds (10Y) increased by 3bp while those of UST (10Y) by 3.5bp. As a result the spread vs Bund slightly narrowed bouncing off the 260bp level. We think that the yields increases abroad will translate into higher yields of POLGBs as well.

### Services PMIs



Source: Bloomberg, Santander

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## FX market

### Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.2454 | CZKPLN  | 0.1692 |
| USDPLN | 3.8580 | HUFPLN* | 1.2610 |
| EURUSD | 1.1004 | RUBPLN  | 0.0614 |
| CHFPLN | 3.9632 | NOKPLN  | 0.4194 |
| GBPPLN | 5.0109 | DKKPLN  | 0.5681 |
| USDCNY | 6.9734 | SEKPLN  | 0.4025 |

\*for 100HUF

### Last session in the FX market 05/02/2020

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.236 | 4.278 | 4.275 | 4.247 | 4.262  |
| USDPLN | 3.850 | 3.877 | 3.873 | 3.860 | 3.8654 |
| EURUSD | 1.100 | 1.105 | 1.104 | 1.100 | -      |

## Interest rate market 05/02/2020

### T-bonds on the interbank market\*\*

| Benchmark (term) | %    | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| PS0422 (2L)      | 1.45 | -1           | 21 mar 19    | OK0521    | 1.633         |
| PS1024 (5L)      | 1.82 | -1           | 21 mar 19    | PS0424    | 2.209         |
| DS1029 (10L)     | 2.18 | 0            | 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 | 0            | 1.63 | 1            | -0.36 | 0            |
| 2L                            | 1.78 | -1           | 1.50 | 2            | -0.35 | 1            |
| 3L                            | 1.79 | -1           | 1.46 | 3            | -0.33 | 1            |
| 4L                            | 1.82 | -1           | 1.46 | 3            | -0.29 | 2            |
| 5L                            | 1.85 | -1           | 1.47 | 4            | -0.25 | 3            |
| 8L                            | 1.91 | 0            | 1.55 | 4            | -0.10 | 3            |
| 10L                           | 1.93 | 0            | 1.61 | 4            | 0.02  | 4            |

## WIBOR rates

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 1.48 | -1           |
| T/N  | 1.50 | -1           |
| SW   | 1.55 | 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  | 1.70 | 0            |
| 6x9  | 1.71 | 0            |
| 9x12 | 1.69 | -1           |
| 3x9  | 1.78 | -1           |
| 6x12 | 1.79 | 0            |

## Measures of fiscal risk

| Measures of financial risk |            |              |             |              |
|----------------------------|------------|--------------|-------------|--------------|
| Country                    | CDS 5Y USD |              | 10Y spread* |              |
|                            | Level      | Change (bps) | Level       | Change (bps) |
| Poland                     |            |              | 2.54        | 0            |
| France                     | 18         | 1            | 0.26        | 0            |
| Hungary                    |            |              | 2.44        | 0            |
| Spain                      | 38         | -1           | 0.66        | 0            |
| Italy                      | 103        | -6           | 1.32        | -1           |
| Portugal                   | 34         | -2           | 0.70        | 0            |
| Ireland                    | 23         | 1            | 0.27        | 0            |
| Germany                    | 9          | 1            | -           | -            |

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

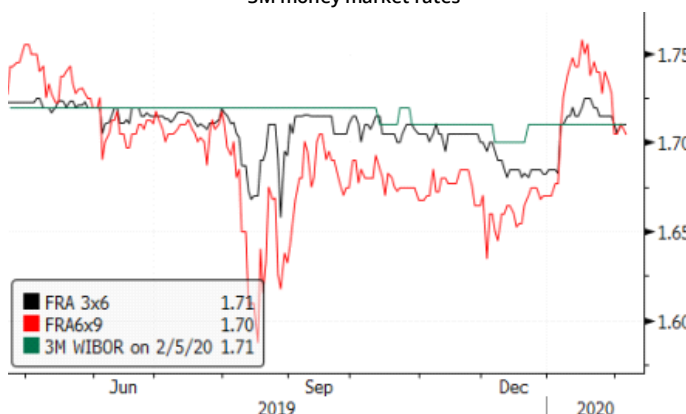
## Zloty exchange rate



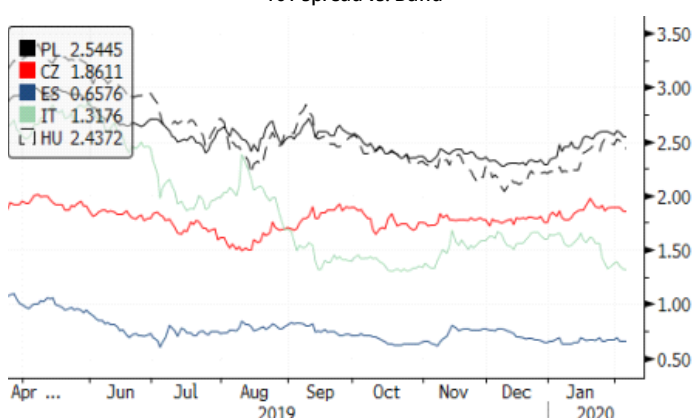
## T-bonds yields



## 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      | 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  | 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  | 54,2   |
| 10:00                  | EZ      | Services PMI               | Jan    | pts   | 52.2     | -         | 52.5  | 52,2   |
| 11:00                  | EZ      | Retail Sales               | Dec    | % m/m | -1.1     | -         | -1.6  | 0,8    |
| 14:15                  | US      | ADP report                 | Jan    | k     | 158      | -         | 291   | 199    |
| 16:00                  | US      | ISM services               | Jan    | pts   | 55.1     | -         | 55.5  | 54,9   |
| THURSDAY (6 February)  |         |                            |        |       |          |           |       |        |
| 08:00                  | DE      | Factory Orders             | Dec    | % m/m | 0.6      | -         | -2.1  | -0.8   |
| 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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