

13 February 2020

Eyeopener

Proceed with caution

Jump in the reported number of coronavirus cases in China
 Zloty relatively strong, EURUSD lower
 Polish debt weakening before important data, following US curve
 Today, inflation in USA, Germany, Hungary; balance of payments in Poland

On Wednesday, stock indexes ended the day higher, as market participants were less and less worried about a dynamic spread of the coronavirus. Gains on emerging markets were to the tune of 0.5%, and on developed markets 0.8%, VIX dropped by 0.8pp to 14.5%. Energy commodities prices rose by another 3%. What is interesting, industrial metals finally went up (unlike on Tuesday), but only moderately, by c1-2%. EM currencies performed in various ways vs the dollar: the worst performers were the currencies of Hungary, Turkey and South Africa – the latter after very weak retail sales print for December. The ruble and Latam currencies gained the most (ex Brazil, where there was also a poor retail sales reading, casting a shadow on expectations of economic rebound). Gold was stable at US\$1564/oz and silver price fell by 0.5% to US\$17.5.

Overnight China revised the methodology of counting the **number of Covid-19 cases** and as a result the total number of infected jumped by 14.8k. Total number of deaths increased significantly as well: +242, to 1350.

We suggest caution when investing in the higher-risk assets, including the emerging market currencies, especially after a series of worse-than-expected macroeconomic data in the recent days in India, South Africa, Malaysia, South Korea and Israel. The dynamics of EURCHF and EURUSD currency pairs, which remain at the many days' lows and deny to rebound higher suggests that despite the seemingly calm markets, decent amounts of the capital still seek safe havens.

EURUSD after very stable Tuesday, as the currency pair tested the important 1.09 level, on Wednesday initially traded higher at 1.093 only to decline quickly during the day to 1.089 – new minimum of the recent days. FX options market in 1mth tenor gives equal probabilities to both upward and downward moves scenarios and soon the probability of the EURUSD move lower might increase even further – a significant change even versus the beginning of February. We still expect the EURUSD to move towards 1.06.

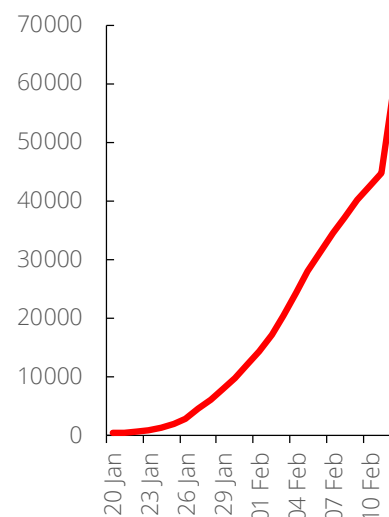
EURPLN, having opened at 4.258, remained stable for long. In early afternoon it traded above 4.26, but it finished the day below 4.25. We can say the zloty performed relatively well, especially compared to the forint. Today's current account data may trigger some volatility of the zloty, albeit only temporarily – more important will be the top-tier releases coming on Friday (January CPI and flash 4Q GDP).

Other CEE currencies continued their recent moves – EURCZK dropped to the level we mentioned yesterday (24.85) and stabilised there. On the other hand, EURHUF reached a record high level of 340. As a result, CZKHUF rose by 0.8% yesterday and 2.3% in total last week. The ruble also got stronger, by 0.3% which, in the light of a substantial rise of oil price by 3%, suggests that the currency was temporarily oversold. In the coming days we expect stabilisation of the koruna and the ruble, and some further weakness of the forint.

On the **domestic interest rate market** yields moved noticeably up for yet another day. The IRS curve shifted 4bp up and bond by 3bp on the front end and 7bp on the long end – the 10Y yield closed at 2.16%. The 10Y asset swap spread widened by 3bp to 25bp. Polish bonds followed the UST (where the 10Y bond yield rose 5bp to 1.63%) while the 10Y Bund yield rose only by 2bp to -0.38%. Thus, the 10Y PL-DE bond yield spread rose by 5bp to 254bp – only 6bp below the recent peak.

Today inflation data will be released in the US, Hungary and Germany. In the US, we will also see weekly initial jobless claims. In Poland, December balance of payments will be released in the afternoon. Tuesday's foreign trade data released by the stat office suggest that exports and the current account balance could be better than expected by the market consensus.

Number of coronavirus cases in China



Source: China National Health Commission

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FX market

Today's opening

EURPLN	4.2572	CZKPLN	0.1713
USDPLN	3.9144	HUFPLN*	1.2516
EURUSD	1.0876	RUBPLN	0.0616
CHFPLN	4.0059	NOKPLN	0.4226
GBPPLN	5.0717	DKKPLN	0.5698
USDCNY	6.9803	SEKPLN	0.4055

*for 100HUF

Last session in the FX market 12/02/2020

	min	max	open	close	fixing
EURPLN	4.249	4.261	4.257	4.252	4.2599
USDPLN	3.895	3.910	3.898	3.909	3.901
EURUSD	1.088	1.093	1.092	1.088	-

Interest rate market 12/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.56	4	21 mar 19	OK0521	1.633
PS1024 (5L)	1.82	4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.16	5	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	1.71	0	1.60	2	-0.38	-1
2L	1.77	1	1.48	3	-0.37	0
3L	1.77	0	1.44	3	-0.35	0
4L	1.80	2	1.44	4	-0.31	0
5L	1.83	3	1.45	4	-0.27	0
8L	1.88	2	1.52	4	-0.13	0
10L	1.90	3	1.58	5	-0.02	1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	0
T/N	1.51	-1
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	1.70	0
6x9	1.69	0
9x12	1.67	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

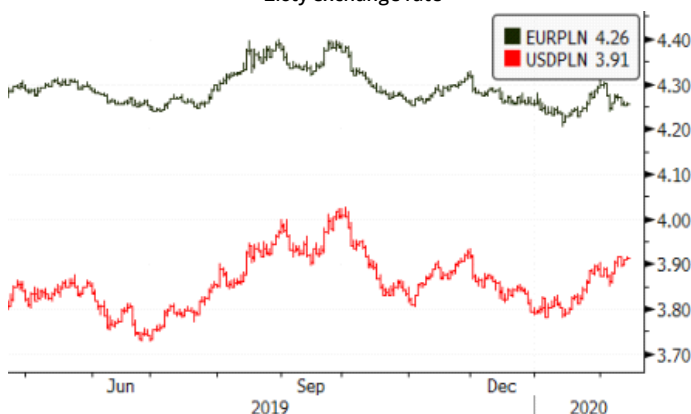
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	7
France	16	0	0.24	0
Hungary			2.47	11
Spain	35	-1	0.69	0
Italy	99	-3	1.30	1
Portugal	32	1	0.68	0
Ireland	21	-1	0.32	3
Germany	9	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

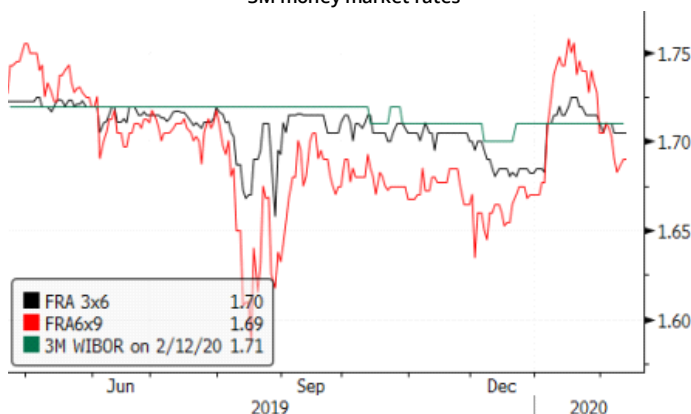
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (7 February)								
08:00	DE	Exports SA	Dec	% m/m	0.5	-	0.1	-2.3
08:00	DE	Industrial Production SA	Dec	% m/m	-0.15	-	-3.5	1.1
14:30	US	Change in Nonfarm Payrolls	Jan	k	165	-	225	147
14:30	US	Unemployment Rate	Jan	%	3.5	-	3.6	3.5
MONDAY (10 February)								
No important data releases								
TUESDAY (11 February)								
No important data releases								
WEDNESDAY (12 February)								
11:00	EZ	Industrial Production SA	Dec	% m/m	-2.0	-	-2.1	0.0
THURSDAY (13 February)								
08:00	DE	HICP	Jan	% m/m	-0.8	-		-0.8
09:00	HU	CPI	Jan	% y/y	4.4	-		4.0
14:00	PL	Current Account Balance	Dec	€mn	-571	-551		1 457
14:00	PL	Trade Balance	Dec	€mn	-775	-811		829
14:00	PL	Exports	Dec	€mn	16 710	16 712		20 238
14:00	PL	Imports	Dec	€mn	17 690	17 523		19 409
14:30	US	CPI	Jan	% m/m	0.2	-		0.2
14:30	US	Initial Jobless Claims	week	k	215	-		202
FRIDAY (14 February)								
08:00	DE	GDP WDA	4Q	% y/y	0.4	-		0.5
09:00	CZ	GDP SA	4Q	% y/y	2.0	-		2.5
09:00	CZ	CPI	Jan	% y/y	3.1	-		3.2
09:00	HU	GDP	4Q	% y/y	4.25	-		5.0
10:00	PL	CPI	Jan	% y/y	4.1	4.1		3.4
10:00	PL	Flash GDP	4Q	% y/y	3.0	3.0		3.9
11:00	EZ	GDP SA	4Q	% y/y	1.0	-		1.0
14:30	US	Retail Sales Advance	Jan	% m/m	0.3	-		0.3
15:15	US	Industrial Production	Jan	% m/m	-0.3	-		-0.3
16:00	US	Michigan index	Feb	pts	98.9	-		99.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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