

14 February 2020

Eyeopener

Record high current account surplus

Surprisingly high export and current account surplus in December
Zloty more volatile and slightly weaker, EURUSD lower
Polish debt selloff before the key data releases
Today, lots of important data; inflation and GDP in Poland

On Thursday stock indices were losing after a major jump in coronavirus infections count after change in diagnose methodology (to above 60k). In the EM world, only the forint and the Brazilian real gained. These two currencies were recently underperforming and were supported by central banks' interventions (verbal in case of Hungary). Core yields did not change, the franc, the dollar and the yen were gaining. Gold prices went up by 0.5% to \$1570 and Brent remained put at \$56.3.

The **European Commission has presented its winter forecasts**, with euro zone growth unchanged at 1.2% in 2020 and 2021 and the whole EU at 1.4% in 2020-21, with risk balance still skewed to the downside. CPI forecast for the euro zone went up to 1.3% from 1.2% in 2020 and to 1.4% from 1.3% in 2021. The Commission kept the GDP forecast for Poland at 3.3% in 2020 and 2021, while forecasts for Hungary and Romania went up (to 3.2% and 3.8%, respectively) and for the Czech Republic went down (to 2.1%). Such a result would place Poland fourth in 2020 (after Malta, Ireland and Romania) and third in 2021. The Commission estimated 4Q19 GDP growth in Poland at 0.1% q/q. Forecast of Poland's inflation went up to 2.7% in 2020 and maintained at 2.5% in 2021 (in both years it is the third highest result in the EU, following Romania and Hungary).

In December, Poland's **current account balance** showed a surplus of €990mn while the market expected c€500mn deficit. The main source of a surprise was solid trade balance: +€224mn vs -€1295mn in December 2018. Exports rose 10.6% y/y and imports by a mere 0.8% y/y and so the spread between these two growth rates was the biggest since December 2013. The remaining three components of the current account also improved. The annual current account showed a surplus of 1.1% GDP (the best result since the comparable data became available – that is from 2004) versus the deficit of 1.0% GDP in 2018. We think that in 2020 the current account will remain significantly positive because slowing internal demand will negatively contribute to imports growth. Surprisingly high surplus in trade of goods and services implies that either GDP growth in 4Q19 was higher than suggested by the flash annual data or its structure was different (better net exports' contribution).

EURUSD effectively repeated the price pattern from the day earlier but at the lower price levels: it opened at 1.087 then during the day – but before the US CPI data – slowly increased to 1.089. After higher than expected US CPI the currency pair decreased to 1.085. Option markets imply a higher probability of EURUSD declines than of increases – already up to a tenor of 1.5 months.

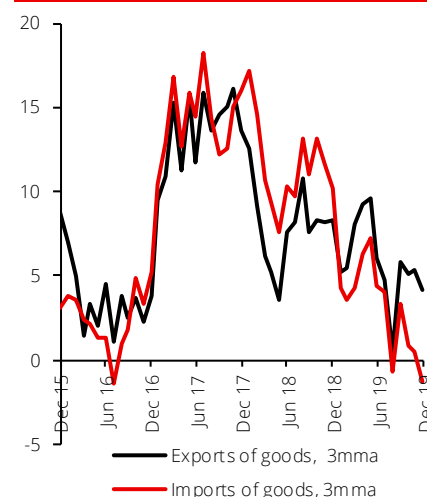
As the publication time of today's Polish GDP and inflation data nears, the **EURPLN** becomes slightly more volatile. Yesterday, after opening at 4.253 the currency pair increased and twice tried to break 4.26 (without a success). Then zloty strengthened by 0.3% to 4.248 just before the surprisingly positive current account data release. Right after the numbers became known zloty weakened again and closed at 4.257.

As regards the **remaining CEE currencies**, EURHUF opened at 340.2, near its all-time-high. The morning release of Hungarian January CPI surprised to the upside (4.7% vs market consensus at 4.4%). The highest inflation reading since December 2012 triggered a comment of the central bank representative (MNB). Martin Nagy, viewed as one of the most dovish members, said that the MNB is ready to use any means to stabilize inflation in the coming 5-8 quarters. After this statement, EURHUF fell 1% to 337. In our view, such verbal interventions could work only in the short term. EURCZK neared reached its support level at 24.87 and rebounded somewhat. USDRUB followed the oil price on Thursday – after the exchange rate rose 1%, it eased 0.5% and closed at 63.5.

On the **domestic interest rate market** Thursday brought continuation of the bond sell-off by domestic and foreign investors. The 10Y bond yield and IRS rose by 4bp to 2.20% and 1.95%, respectively. As the yields in Germany and US remained unchanged, the 10Y PL-DE bond yield spread widened to 260bp. In our view, today's data (weak 4Q GDP and January inflation at c4-4.1%) could bring at last some short-term relief on the bond market.

Today, 4Q19 GDP data will be released in euro zone, Germany, Poland, Hungary and Czechia. Additionally, in Poland and Czechia inflation data will be published. In the US, we will see retail sales, industrial output and flash Michigan index.

Foreign trade turnover, % y/y



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2424	CZKPLN	0.1706
USDPLN	3.9130	HUFPLN*	1.2582
EURUSD	1.0842	RUBPLN	0.0617
CHFPLN	3.9920	NOKPLN	0.4231
GBPPLN	5.1079	DKKPLN	0.5678
USDCNY	6.9838	SEKPLN	0.4043

*for 100HUF

Last session in the FX market 13/02/2020

	min	max	open	close	fixing
EURPLN	4.247	4.261	4.252	4.247	4.2557
USDPLN	3.907	3.926	3.909	3.917	3.9104
EURUSD	1.083	1.089	1.088	1.084	-

Interest rate market 13/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.60	4	21 mar 19	OK0521	1.633
PS1024 (5L)	1.86	5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.22	7	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	2	1.59	-1	-0.38	0
2L	1.82	5	1.47	-1	-0.37	-1
3L	1.83	5	1.43	-1	-0.35	-1
4L	1.86	6	1.43	-1	-0.32	-1
5L	1.89	5	1.44	-1	-0.29	-1
8L	1.95	6	1.51	-2	-0.15	-2
10L	1.96	6	1.56	-2	-0.04	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	0
T/N	1.52	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	1.71	1
6x9	1.72	3
9x12	1.71	4
3x9	1.79	1
6x12	1.80	2

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.61 6
France	15 2	0.24 0
Hungary		2.61 -1
Spain	33 2	0.69 0
Italy	97 0	1.31 2
Portugal	31 0	0.68 0
Ireland	18 2	0.30 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

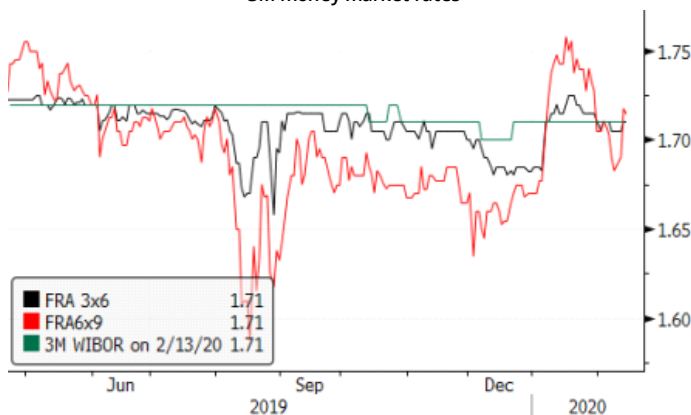
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST 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	-0.8
09:00	HU	CPI	Jan	% y/y	4.4	-	4.7	4.0
14:00	PL	Current Account Balance	Dec	€mn	-571	-551	990	1 564
14:00	PL	Trade Balance	Dec	€mn	-775	-811	224	893
14:00	PL	Exports	Dec	€mn	16 710	16 712	17 220	20 398
14:00	PL	Imports	Dec	€mn	17 690	17 523	16 996	19 505
14:30	US	CPI	Jan	% m/m	0.2	-	0.1	0.2
14:30	US	Initial Jobless Claims	week	k	215	-	205	203
FRIDAY (14 February)								
08:00	DE	GDP WDA	4Q	% y/y	0.3	-	0.4	0.6
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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.