

18 February 2020

Eyeopener

Lower volatility because of US bank holiday

US bank holiday lowers volatility
Zloty weaker at the start of the week, EURUSD stable
POLGBs yields slightly higher
Today ZEW index in Germany

During the Monday's session the market mood was rather positive but the intraday changes were not meaningful as there were no important data releases and the US market was closed. In Europe stock indexes rose slightly despite stock prices drop in Japan (after poor GDP data) and thanks to looser monetary policy in China. Also, the Chinese minister of finance said that directed tax and fees cuts are planned in order to ease the effect of the coronavirus. Today, German February ZEW index will be published and this would be the first number that could likely include the effect coronavirus might have on the economic activity. The consensus for both current and expected assessment points to deterioration vs January but in case of the former the scale of drop is not significant. Thus, we suspect there is a chance for a disappointing release today in Germany.

Yesterday, the ministers of finance of the euro zone countries were to discuss the document that calls for higher fiscal spending in case of a meaningful economic slowdown. The document does not allow to break the 3% deficit rule. After the discussion, the document was supposed to be accepted today.

The Ministry of Finance said that the 2019 budget deficit amounted to PLN13.7bn, that is half of what has been planned (PLN28.5bn) and less than the Ministry expected when it updated the 2020 budget draft in December (PLN14.4bn). In 2019, pace of growth of VAT revenues reached 3.4%, including -17.7% y/y in December (probably the tax returns accelerated). Total VAT collected in 2019 was PLN1bn lower than planned (assuming planned collection of hazard game tax). In 2019, PIT revenues rose 9.9% y/y and CIT by 15.5% y/y. In December, social security fund (FUS) returned part of the subsidy it earlier received (-PLN4.5bn) – this has happened only in two months since 2000 and at a much smaller scale (-PLN0.2bn in 2005).

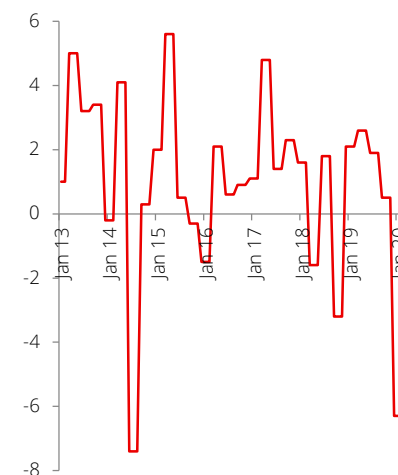
EURUSD moved at the start of the week around 1.084 staying between the minimum and maximum from Friday. The moves were smaller than before the weekend also in case of other developed markets currencies. Today volatility may be higher due to the release of ZEW index, shaping expectations ahead of the Friday flash PMIs for February. From a broader perspective, EURUSD is slightly above the 1.08 support. Option markets are increasingly pricing in strengthening of the dollar – the difference in the assessment of probabilities of a rise and a decline of the exchange rate is already negative (favouring the dollar) for tenors up to 6 months.

EURPLN rose yesterday above 4.26 and USDPLN to 3.93 despite positive global market mood. The performance of the zloty since the Friday close was the fourth worst among EM currencies and the worst in CEE. In a broader context, the start of the week did not bring significant changes and EURPLN is still moving in the range set on the first Wednesday of February (c4.23-4.28).

As regards **other CEE currencies**, the start of the session brought some strengthening, while the following hours were marked by a correction. The Czech koruna managed to keep some of its gains, while EURHUF and USDRUB returned to the opening levels. The downward correction of EURHUF could prove more significant than the previous ones in the upward trend, so far the central bank was not neutral to the forint depreciation. We are expecting a correction to deepen to 333.0, about 1% below current levels.

On the **domestic interest rate market**, IRS and bond yields rose by 2-3bps, while core market saw limited volatility and followed the horizontal trend established at the start of the month. 10Y bond spread to Germany remained close to 260bps and 10Y asset swap spread narrowed by 1bp to 25bp. FRA contracts remain close to but slightly above WIBOR3M with 9x12 at 1.71% and 21x24 at 1.73%.

Japan Q4 annualized GDP, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2618	CZKPLN	0.1716
USDPLN	3.9347	HUFPLN*	1.2693
EURUSD	1.0831	RUBPLN	0.0619
CHFPLN	4.0134	NOKPLN	0.4238
GBPPLN	5.1122	DKKPLN	0.5705
USDCNY	7.0010	SEKPLN	0.4052

*for 100HUF

Last session in the FX market 17/02/2020

	min	max	open	close	fixing
EURPLN	4.245	4.264	4.246	4.261	4.2502
USDPLN	3.916	3.937	3.920	3.933	3.9189
EURUSD	1.082	1.085	1.083	1.083	-

Interest rate market 17/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
PS0422 (2L)	1.57	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.86	2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.20	2	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	0	1.58	-1	-0.38	0
2L	1.82	1	1.46	1	-0.38	-1
3L	1.83	1	1.42	0	-0.36	-1
4L	1.86	2	1.41	1	-0.33	-1
5L	1.89	3	1.41	0	-0.30	-1
8L	1.95	2	1.48	0	-0.16	-1
10L	1.97	3	1.53	0	-0.05	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.49	-4
T/N	1.51	-2
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	0
6x9	1.72	1
9x12	1.71	1
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	2
France	16	-1	0.24	-1
Hungary			2.76	10
Spain	33	0	0.69	-1
Italy	99	-1	1.31	-2
Portugal	31	-1	0.69	0
Ireland	20	0	0.28	-1
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

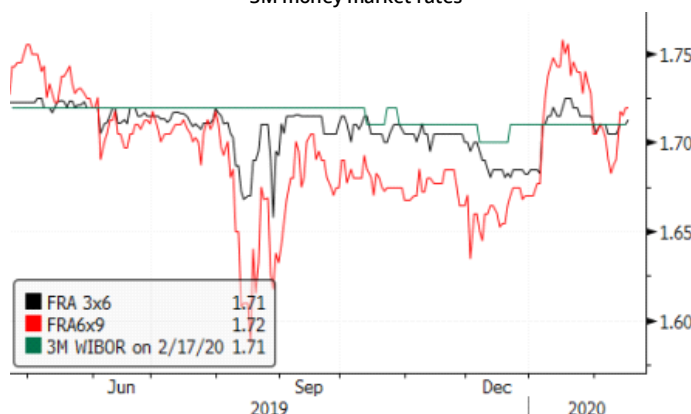
Zloty exchange rate



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 (14 February)								
08:00	DE	GDP WDA	4Q	% y/y	0.3	-	0.4	0.5
09:00	CZ	GDP SA	4Q	% y/y	2.0	-	1.7	2.5
09:00	CZ	CPI	Jan	% y/y	3.15	-	3.6	3.2
09:00	HU	GDP	4Q	% y/y	4.3	-	4.5	5.0
10:00	PL	CPI	Jan	% y/y	4.15	4.1	4.4	3.4
10:00	PL	Flash GDP	4Q	% y/y	3.0	3.1	3.1	3.9
11:00	EZ	GDP SA	4Q	% y/y	1.0	-	0.9	1.0
14:30	US	Retail Sales Advance	Jan	% m/m	0.3	-	0.3	0.2
15:15	US	Industrial Production	Jan	% m/m	-0.2	-	-0.3	-0.4
16:00	US	Michigan index	Feb	pts	99.45	-	100.9	99.8
MONDAY (17 February)								
No important data releases								
TUESDAY (18 February)								
11:00	DE	ZEW Survey Current Situation	Feb	pts	-10.0	-		-9.5
WEDNESDAY (19 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	2.1	1.6		2.6
10:00	PL	Average Gross Wages	Jan	% y/y	7.0	6.1		6.2
14:30	US	Housing Starts	Jan	% m/m	-12.9	-		16.9
20:00	US	FOMC Meeting Minutes						
THURSDAY (20 February)								
10:00	PL	Sold Industrial Output	Jan	% y/y	-0.6	-0.1		3.8
10:00	PL	PPI	Jan	% y/y	1.0	0.5		1.0
14:30	US	Initial Jobless Claims	week	k	210	-		205
14:30	US	Index Philly Fed	Feb	pts	10.0	-		17.0
FRIDAY (21 February)								
09:30	DE	Germany Manufacturing PMI	Feb	pts	44.8	-		45.3
09:30	DE	Markit Germany Services PMI	Feb	pts	53.5	-		54.2
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	47.5	-		47.9
10:00	EZ	Eurozone Services PMI	Feb	pts	52.2	-		52.5
10:00	PL	Construction Output	Jan	% y/y	-3.2	-4.0		-3.3
10:00	PL	Retail Sales Real	Jan	% y/y	4.0	4.5		5.7
11:00	EZ	HICP	Jan	% y/y	1.4	-		1.4
16:00	US	Existing Home Sales	Jan	% m/m	-1.1	-		3.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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