

19 February 2020

Eyeopener

German ZEW below expectations

Coronavirus fears return

Zloty weaker again, EURUSD at its lowest level since 2017

POLGBs gain thanks to risk aversion

Today labour market data in Poland, in the evening FOMC minutes

On Tuesday, concerns about the impact of the coronavirus may have on the global growth played the main role. Next to the worrying statements from the US companies, the risk we mentioned that the German ZEW index could fall short of the market expectations materialized. In February, the current and expected situation were worse than in January and the deterioration was bigger than expected. In the afternoon, the US February Empire State Manufacturing index beat consensus noticeably (rising to 12.9pt from 4.8pt vs 5.0pt expected). After the poor European and robust US data releases, the dollar gained vs the euro and yen and generated a negative pressure on the EM currencies.

EURUSD recorded its tenth downside in the last twelve session. In reaction to the European and US data, the exchange rate has been testing important support at 1.08 and was just above this level at the end of the day. EURUSD has been falling since the beginning of the year and the 7-week % change shows that this is so far the fastest decline within this time since November 2018. Back then, the dollar did not give up its gains but EURUSD stabilized for a next couple of weeks.

MPC member Eugeniusz Gatnar said that if the March projection shows higher CPI path than the November one, then he could submit a 15bp rate hike motion. The November projection correctly predicted where inflation would be in 4Q19 but after the January reading (4.4% y/y) it looks obvious that 1Q20 estimate at 3.5% would have to be revised. For the inflation path in the subsequent quarters, any potential revision of the GDP growth would be more important. According to Gatnar, inflation is mostly driven by the demand factors, not the supply and regulatory ones that are beyond the scope of the monetary policy impact, like the MPC statements say. In his view, suggestions made by the MPC members that rate cuts could be considered, may boost inflation expectations that already now imply CPI above 4% in the coming 12 months. The CPI may not return to the target during the MPC's term. We think that the interest rates will stay on hold this year and in 2021 – the MPC is likely to prefer to wait the period of an elevated inflation amid uncertainty related to the scale of an economic slowdown.

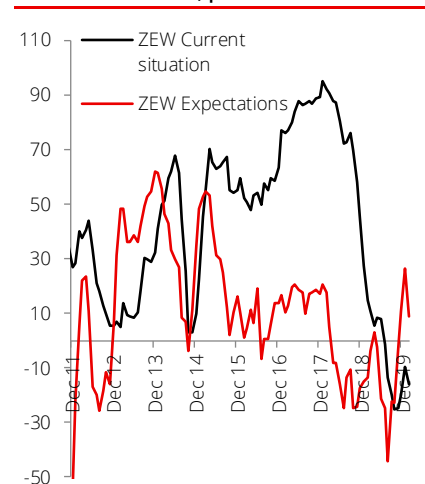
Yesterday **EURPLN** continued the upward move initiated on Friday and approached 4.28 due to the stronger dollar and weaker stock markets. The rate tested the upper boundary of range valid since the first Wednesday of February. USDPLN rebounded to 3.96 from 3.39 reaching the highest level since October. Thus, the zloty was the second weakest (following the Czech koruna) EM currency.

As regards **other CEE currencies**, the forint ended the day near to Monday close, while EURCZK climbed to 24.95 after three days of stabilising around 24.85. USDRUB was long stable around 63.7 and gained some momentum at the end of the day, approaching local peak at 64.3 set last week on Monday.

On the **domestic interest rate market**, the bond yields and IRS rates went down by 4-5bps thanks to cooler global sentiments and strong start of the session on the Bund market. Thus, the initial upward move was more than offset. 10Y Poland-Germany spread went down a bit, but remained close to 260bp. The Finance Ministry declared it will sell OK0722, PS1024, WZ0525, DS1029, WZ1129, WS0447 at the switching tender on 20 February, while it will repurchase PS0420, OK0720, DS1020 and WZ0121.

Today at 10:00CET the Poland's labour market data (employment and wages in the corporate sector) are due to release. Let us remind that the employment data will be affected by the annual change of the enterprise sample, so will not be useful for assessing the current trends. Wage growth, in turn, will be affected by the large minimum wage hike - we estimate its effect at 1 percentage point to the y/y growth, so only a reading of c7%+ would mean an acceleration of the underlying wage growth, while a lower one would be a sign of a slowdown.

German ZEW index, pts



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.2737	CZKPLN	0.1712
USDPLN	3.9577	HUFPLN*	1.2729
EURUSD	1.0798	RUBPLN	0.0620
CHFPLN	4.0256	NOKPLN	0.4250
GBPPLN	5.1426	DKKPLN	0.5722
USDCNY	7.0003	SEKPLN	0.4045

*for 100HUF

Last session in the FX market 18/02/2020

	min	max	open	close	fixing
EURPLN	4.258	4.278	4.261	4.269	4.2714
USDPLN	3.928	3.961	3.933	3.951	3.9448
EURUSD	1.079	1.084	1.083	1.080	-

Interest rate market 18/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.55	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.81	-5	21 mar 19	PS0424	2.209
DS1029 (10L)	2.16	-4	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	1.56	-2	-0.38	0
2L	1.80	-2	1.43	-4	-0.38	0
3L	1.80	-2	1.38	-4	-0.36	0
4L	1.82	-4	1.37	-4	-0.33	0
5L	1.85	-4	1.38	-4	-0.30	0
8L	1.90	-5	1.44	-4	-0.16	0
10L	1.92	-5	1.49	-4	-0.05	0

WIBOR rates

Term	%	Change (bps)
O/N	1.50	1
T/N	1.51	0
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	1.71	-1
9x12	1.71	0
3x9	1.79	0
6x12	1.80	-1

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.57 -3
France	15 0	0.24 0
Hungary		2.70 -6
Spain	33 1	0.69 1
Italy	98 1	1.34 3
Portugal	31 0	0.69 0
Ireland	20 -2	0.28 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 (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	-	-15.7	-9.5
WEDNESDAY (19 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	2.2	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	-11.7	-		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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