

24 February 2020

Eyeopener

Fears about the virus resurface

German PMI rise does not tell the whole truth
Zloty and its CEE peers weaker
Polish bonds gain
Today Polish money supply and German Ifo

On Friday equity markets were declining by c.1%, and most of emerging markets currencies were depreciating. The flash estimates of February PMIs for the euro zone were not as bad as market anticipated, and in case of manufacturing index for Germany and the euro zone it has even improved substantially. It should be noted, though, that according to the official HIS Markit comment, "Almost half of the index's month-on-month gain was attributable to a deterioration in supplier delivery times", which could be attributed to coronavirus effect. PMIs in Asia and USA pointed to worsening of economic climate.

At the start of the week the sentiment is even worse than on Friday, which is the result of news about further spread of the virus outside China (in Italy the number of cases reached 150) and decision of Chinese authorities to relax restrictions in those areas where the situation looks to be under control.

Poland construction output surprised to the upside, adding 6.5% y/y in January 2020 (while market expected a decline by 3.6% y/y). This was one of the mildest Januaries by means of the average temperature in many years. Real retail sales rose by 3.4% y/y vs 4.1% market expectations and the previous print of 5.7%. The weakness was mostly seen in durable goods sales. Broad-based decline of GUS sectoral business sentiment indicators continued in February. Find more in our Friday's [Economic comment](#).

MPC's Grażyna Ancyparowicz said that the interest rate hike would undermine the economy. In her view, high inflation is fuelled by non-monetary factors and CPI should return to the target without the MPC intervention. NBP president Adam Glapiński wrote in *Rzeczpospolita* daily on Friday that the rise in inflation is temporary and it will return to target in 2021 due to weaker consumption and waning supply shocks. Jerzy Żyżyński also spoke against hikes, arguing that actions aiming at curbing inflation would also weaken the economic growth. Łukasz Hardt noted on Friday that the 15bp hike he supported in January would act as a communicative tool and would help cool down the inflation expectations. According to Hardt, the latter are unnecessarily fed by mentions about monetary easing. Hardt also noted that Czech and Hungarian central bankers have already addressed the elevated inflation issues. Polish central bankers are worried that inflation expectations in Poland could be de-anchoring, and he justified that with high demand of households for CPI-indexed bonds. We think that most MPC members will view stable rates as the best solution for a longer time.

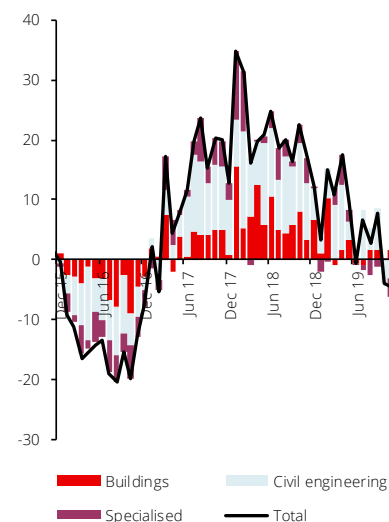
EURUSD has long remained in the vicinity of the support at 1.08 and only after weaker than expected US data the exchange rate corrected higher to 1.086. FX options remain bid suggesting that the downward trend might remain in place in the short term.

EURPLN on Friday remained near 4.28 as market digested the incoming macro data. At the end of the day the pair temporarily spiked to 4.29. In the coming days we do not expect the dollar to strengthen which might help EURPLN remain below this year's high at 4.31.

The other CEE currencies behaved mixed. EURHUF fell 0.4% and were it not for global risk aversion would probably correct even lower as the central bank turned a bit hawkish. EURCZK remained stable at 25.05, while USDRUB increased by 0.5% as oil was cheapening.

On the domestic interest rate market, yields went down together with the US curve, which fell by 5bp, mostly after the poor February PMIs. Polish IRS curve declined by 3bp and the bond curve by 1bp on the short end and by 5bp on the long end, which means that the 2x10 spread dropped from 55bp to 52bp. The Bund spread narrowed by 4bp to 251bp because of the stability of the German curve (its small intraday decline proved temporary).

Construction output, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3050	CZKPLN	0.1717
USDPLN	3.9815	HUFPLN*	1.2744
EURUSD	1.0812	RUBPLN	0.0614
CHFPLN	4.0580	NOKPLN	0.4248
GBPPLN	5.1551	DKKPLN	0.5763
USDCNY	7.0378	SEKPLN	0.4064

*for 100HUF

Last session in the FX market 21/02/2020

	min	max	open	close	fixing
EURPLN	4.276	4.294	4.282	4.288	4.2831
USDPLN	3.946	3.972	3.967	3.953	3.9623
EURUSD	1.078	1.086	1.079	1.085	-

Interest rate market 21/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.53	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.75	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.05	-6	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	1.71	0	1.51	-3	-0.38	0
2L	1.78	-2	1.37	-5	-0.38	0
3L	1.76	-3	1.32	-5	-0.37	0
4L	1.76	-3	1.30	-5	-0.34	0
5L	1.77	-4	1.31	-5	-0.32	-1
8L	1.81	-5	1.35	-6	-0.20	-2
10L	1.84	-4	1.40	-6	-0.10	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.53	4
T/N	1.53	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	1.70	0
9x12	1.69	-2
3x9	1.79	0
6x12	1.78	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.52	-3
France	15	0	0.24	1
Hungary			2.67	-9
Spain	33	1	0.68	2
Italy	99	2	1.37	4
Portugal	31	1	0.70	3
Ireland	20	1	0.31	5
Germany	8	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



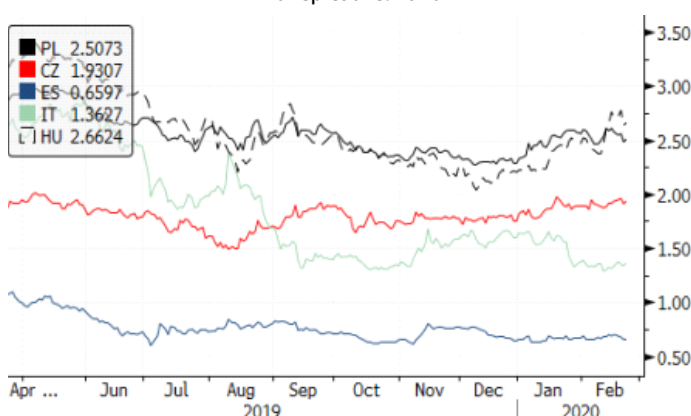
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (21 February)								
09:30	DE	Flash Manufacturing PMI	Feb	pts	44.8	-	47.8	45.3
09:30	DE	Flash Services PMI	Feb	pts	53.8	-	53.3	54.2
10:00	EZ	Flash Manufacturing PMI	Feb	pts	47.4	-	49.1	47.9
10:00	EZ	Flash Services PMI	Feb	pts	52.3	-	52.8	52.5
10:00	PL	Construction Output	Jan	% y/y	-3.6	6.5	6.5	-3.3
10:00	PL	Retail Sales Real	Jan	% y/y	4.1	3.4	3.4	5.7
11:00	EZ	HICP	Jan	% y/y	1.4	-	1.4	1.3
16:00	US	Existing Home Sales	Jan	% m/m	-1.8	-	-1.3	3.9
MONDAY (24 February)								
10:00	DE	IFO Business Climate	Feb	pts	95.2	-		95.9
14:00	PL	Money Supply M3	Jan	% y/y	8.8	9.0		8.3
TUESDAY (25 February)								
08:00	DE	GDP WDA	4Q	% y/y	0.4	-		0.4
10:00	PL	Unemployment Rate	Jan	%	5.5	5.5		5.2
14:00	HU	Central Bank Rate Decision		%	0.90	-		0.90
16:00	US	Consumer Conference Board	Feb	pts	132.1	-		131.6
WEDNESDAY (26 February)								
16:00	US	New Home Sales	Jan	% m/m	2.31	-		-0.4
THURSDAY (27 February)								
11:00	EZ	ESI	Feb	pct.	102.4	-		102.8
14:30	US	Durable Goods Orders	Jan	% m/m	-1.5	-		2.4
14:30	US	GDP Annualized	4Q	% Q/Q	2.2	-		2.1
14:30	US	Initial Jobless Claims	week	k	211	-		210
16:00	US	Pending Home Sales	Jan	% m/m	2.0	-		-4.9
FRIDAY (28 February)								
09:00	HU	GDP	4Q	% y/y	4.5	-		4.5
10:00	PL	GDP	4Q	% y/y	3.1	3.1		3.9
10:00	PL	Private consumption	4Q	% y/y	-	3.5		3.9
10:00	PL	Investments	4Q	% y/y	-	7.3		4.7
14:00	DE	HICP	Feb	% m/m	0.4	-		-0.8
14:30	US	Personal Spending	Jan	% m/m	0.3	-		0.3
14:30	US	Personal Income	Jan	% m/m	0.3	-		0.2
14:30	US	PCE Deflator SA	Jan	% m/m	0.1	-		0.3
16:00	US	Michigan index	Feb	pts	100.6	-		100.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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