28 February 2020

Eyeopener

GDP data overshadowed by virus

Concerns about global growth persist
Selloff on the equity market pushes EURPLN up
Polish bonds benefit from core debt rally
Today Poland detailed GDP and many US data

On Thursday there was an increased risk aversion on the markets from the start of the day – European stock exchanges declined by 3-4% and the US ones by c2%. Oil price was falling for another day – Brent went down by 4% to US$51.4/bbl and the total weekly fall so far was 15%. Other commodities also got cheaper, including most of precious metals, and a large part of EM currencies vs the dollar, but the dollar itself also depreciated. Yields on core markets dropped – the US 10Y bond yield reached 1.25%, the lowest level ever. Gold price went up, but only by 1.2%, so a correction seems likely soon. In the USA the data about durable goods and new orders were better than expected.

According to ESI indicators for Poland, in February there was a further deterioration of sentiment in business and among consumers. The main indicator and the aggregate employment index dropped to the lowest level in 3.5 years. Only the retail trade sector index did not fall m/m, but even there the two year-old negative trend still seems to hold. Out of the ESI details we find it important that the construction sector saw an improvement of current activity leading to a renewed rise of labour shortage problem. The services sector is signalling the worst conditions for current activity and expected demand in six years. The fear of the retail trade sector about future orders keeps growing. Consumers corrected lower their assessment and expectations regarding the economy and their future financial situation. As a result, the major purchases and the saving index dropped significantly. It does not seem that the spread of the epidemics has drastically affected the businesses and their views so far, however several consumer sentiment indicators have worsened quite fast. The ESI indicators suggest further weakness of the economy.

EURUSD started the day at 1.089 and soon started an upward march, which kept on accelerating during the day. The rate hit 1.099 due to information in Handelsblatt that the German government is mulling fiscal stimulation in case the economic growth is undermined by SARS-CoV-2. In our view, this correction was deserved – the exchange rate rebounded after 13 downward sessions, but now it is the fifth day of upward movement and in our view this correction is approaching an end. However, EURUSD could approach 1.103: 50-day moving average first, in our view.

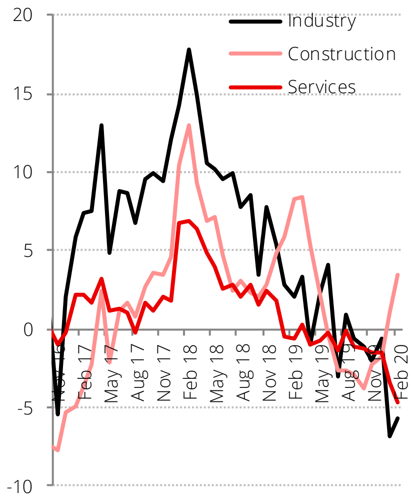
EURPLN is finalising the second week in a row of constant rises. The pair began Thursday with a decline but in the second half of the day the rate managed to rebound above 4.32 (+0.2%). A major part of this move resulted from rising EURUSD, but at the very same time USDPLN declined by 0.9% to 3.93. Let us say that despite rising EURPLN, the zloty (calculated versus 50:50 EUR/USD basket) gained about 0.35% on Thursday. We are expecting EURPLN to go up to 4.35. CHFPLN remained at 4.05 and GBPPLN at 5.07.

Regarding other regional currencies, EURHUF closed at 339.2 – below the open, and this despite the rise in EURUSD. The price action suggests that central bank's recent change to a slightly more hawkish stance might make forint outperform other CEE currencies in the nearest future. EURCZK initially traded lower but rebounded back to the opening level at 25.33. As the price of oil fell significantly, the Russian assets were under pressure – rouble basket weakened by another 2%, but what's important also local bonds were being sold – yield of the 10Y benchmark increased YTD already by 30bp to 6.15%.

On the Polish fixed income market we have had an another day of a significant yield declines. Counting from the local maximum on 13 February, the yield of a 2Y bond fell 16bp to 1.46% while that of 10Y by 47pb to 1.76%. Even more pronounced moves lower were seen on the swap curve, for example the 5Y IRS fell 13bp to 1.44% which is below WIBOR 3M. On the one hand, the price and yields dynamics are not surprising – Polish fixed income follows core markets closely most of the time and core markets keep printing new yield all-time lows – US 10Y bond closed at 1.25% - the lowest in history. On the other hand markets are pricing in quite a lot of a recessionary scenario already.

Today detailed 4Q19 GDP data will be published in Poland in Hungary. Abroad, we will see German inflation, and US Michigan index and PCE inflation.

ESI, Poland, sectoral indicators of trends in current business activity



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.3327	CZKPLN	0.1706
USDPLN	3.9391	HUFPLN*	1.2742
EURUSD	1.0999	RUBPLN	0.0590
CHFPLN	4.0739	NOKPLN	0.4166
GBPPLN	5.0672	DKKPLN	0.5797
USDCNY	6.9993	SEKPLN	0.4060

*for 100HUF

Last session in the FX market 27/02/2020

	min	max	open	close	fixing
EURPLN	4.304	4.325	4.314	4.313	4.31
USDPLN	3.928	3.968	3.965	3.928	3.9413
EURUSD	1.088	1.101	1.088	1.098	-

Interest rate market 27/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.45	-3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.53	-9	21 mar 19	PS0424	2.209
DS1029 (10L)	1.75	-11	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.63	-4	1.31	-6	-0.40	0
2L	1.55	-8	1.16	-5	-0.41	0
3L	1.48	-9	1.12	-4	-0.40	0
4L	1.46	-10	1.12	-3	-0.38	-1
5L	1.45	-10	1.14	-2	-0.35	-1
8L	1.47	-10	1.21	-2	-0.23	-1
10L	1.49	-11	1.26	-2	-0.14	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.52	0
T/N	1.53	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	1.66	-2
6x9	1.58	-5
9x12	1.49	-9
3x9	1.72	-3
6x12	1.63	-7

Measures of fiscal risk

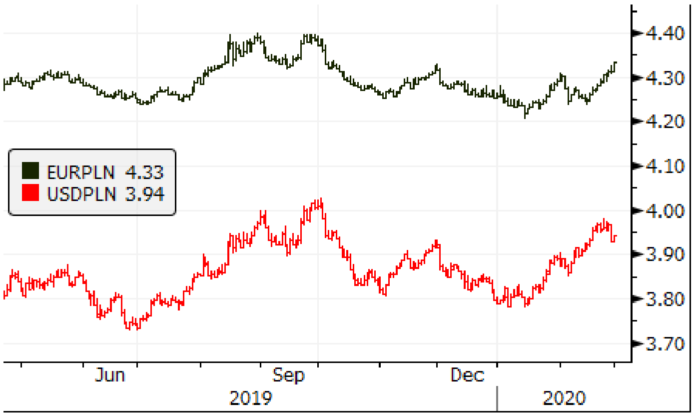
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.35	-6
France	16	2	0.32	3
Hungary			2.77	4
Spain	42	3	0.92	7
Italy	133	15	1.80	18
Portugal	39	5	0.98	7
Ireland	21	1	0.43	4
Germany	9	1	-	-

* 10Y treasury bonds over 10Y Bunds

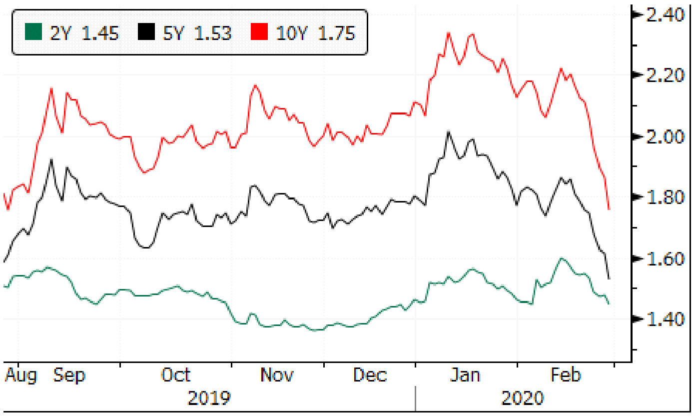
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

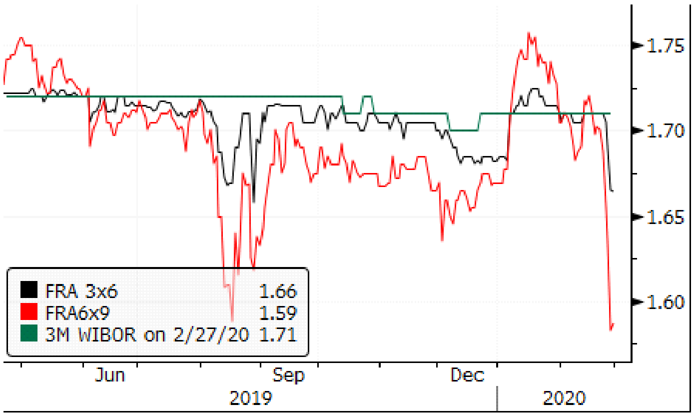
Zloty exchange rate



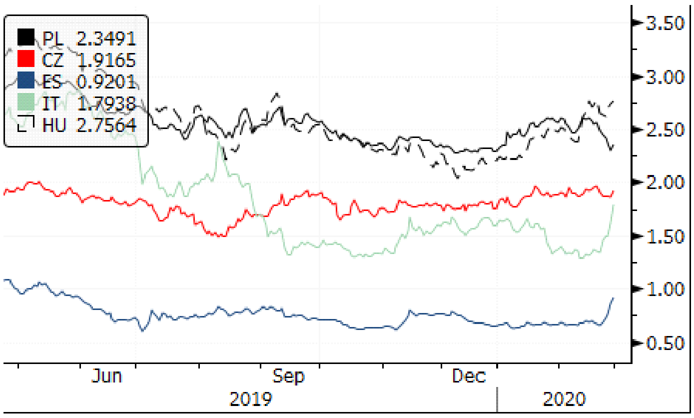
T-bonds yields



3M money market rates



10Y spread vs. Bund



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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST 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**	**-4.0**	**6.5**	**-3.3**
10:00	**PL**	**Retail Sales Real**	**Jan**	**% y/y**	**4.1**	**4.5**	**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	95.3	-	96.1	96.0
14:00	**PL**	**Money Supply M3**	**Jan**	**% y/y**	**8.8**	**9.0**	**9.3**	**8.3**
			TUESDAY (25 February)					
08:00	DE	GDP WDA	4Q	% y/y	0.4	-	0.4	0.4
10:00	**PL**	**Unemployment Rate**	**Jan**	**%**	**5.5**	**5.5**	**5.5**	**5.2**
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.9	0.90
16:00	US	Consumer Conference Board	Feb	pts	132.1	-	130.7	131.6
			WEDNESDAY (26 February)					
16:00	US	New Home Sales	Jan	% m/m	3,5	-	7,9	2,3
			THURSDAY (27 February)					
11:00	EZ	ESI	Feb	pct.	102.8	-	103.5	102.6
14:30	US	Durable Goods Orders	Jan	% m/m	-1.4	-	-0.2	2.9
14:30	US	GDP Annualized	4Q	% q/q	2.1	-	2.1	2.1
14:30	US	Initial Jobless Claims	week	k	212	-	219	211
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*

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.