

2 March 2020

Eyeopener

Fed: we will use our tools and act as appropriate

Fed supported market sentiments
 Polish GDP growth above forecasts, but breakdown is worrying
 EURPLN up, forint gained
 Profit-taking after recent strengthening of Polish bonds
 Today final February PMI indices

The Friday session did not differ much from the previous ones and saw further falls of equities and stronger bonds. The market remained in panic mode due to the impact of the coronavirus, and the sell-off expanded to some commodities, which are on the one hand seen as safe haven assets, but on the other the demand for them depends on global growth. On Friday the Brent oil price approached the low from Dec 2018 (cUS\$50.5/bbl) and silver fell by c3.5%. Most of EM currencies lost vs the euro and the dollar. On Friday evening Fed released a [statement](#) saying that the epidemics is a risk for economic growth, but the US central bank will use its tools and act as appropriate. The statement helped investors calm down, and boosted expectations for rate cuts in the US. This morning market mood is better, despite poor Chinese PMI.

PMI for Polish manufacturing rose in Feb to 48.2 pts from 47.4, mainly due to longer delivery times – not really a sign of improvement. Output and new orders improved a bit m/m, but are still below 50 mark. The expected level of activity was corrected lower and employment index declined. There is clear evidence the virus has started to affect business conditions.

Poland central state budget recorded PLN3.4bn surplus after January. Revenues rose by 4.0% y/y with VAT collections rising by 6% y/y while PIT and CIT shrank by 3.6% y/y and 1.6% y/y, respectively. Expenditures rose 14.6% y/y. As long as January's data do not give much ground to conclude about the whole year's budget performance, we think the government's assumptions of tax collections (VAT: +8%, CIT +3.8%, PIT: +1.1%) look overly optimistic given the slowing economic growth.

Poland 4Q19 GDP growth reached 3.2% y/y, and 0.3% q/q in SA terms. The results were 0.1pp above the flash estimate released two weeks ago but the breakdown looks worrying, as the slowdown is fuelled mainly by domestic demand (a mere 2.2% y/y growth, lowest since 2016). The coronavirus-related surge in uncertainty at the start of the year and disruptions in supply chains may depress consumption and investments even further. GDP growth is likely to slow further in 1Q, probably below 3%. Find more in our Friday's [Economic comment](#).

EURUSD rose to its new February peak at c 1.105 soon after the session began but later in the day the dollar started to gain and the exchange rate closed the day at 1.097. EURUSD did not manage to hold above the 1.10 resistance for longer but today in the morning it takes the second attempt to break this level.

EURPLN set the new YTD peak at nearly 4.34 on early Friday while at the end of the day the exchange rate was close to 4.325. USDPLN was hovering around 3.935. The zloty has been under pressure vs the euro in the last two weeks and the 2-week % change of EURPLN indicates this has been the fastest zloty depreciation within this time frame since mid-2018. Back then, the upside momentum was continued for a while which was followed by a correction that lasted several weeks. Global market moods shall remain the core factor for the zloty. Today in the morning the zloty benefits from the Friday's Fed statement and EURPLN is trading below 4.32.

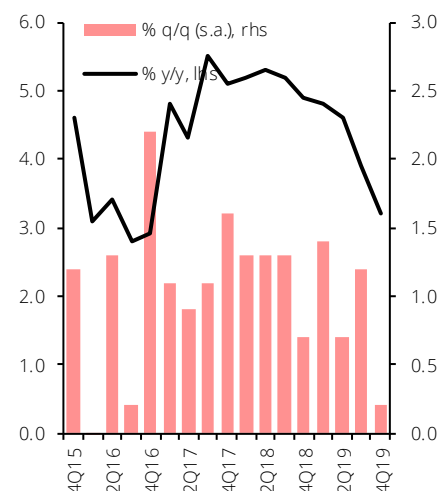
Among the other CEE currencies, the forint outperformed which should not be surprise given the recent Hungarian central bank shift of rhetoric towards more hawkish. EURHUF fell to nearly 337 from above 340 and the forint was the strongest EM currency at the end of the week.

On the domestic interest rate market the session was quite volatile. After the initial strengthening by c7bp (in case of 10Y bond), later in the day profit taking was recorded and finally the bond curve shifted 1-5bp above the Thursday's close. IRS fell again but this time much less than in the previous days (by 1-2bp). Bund managed to keep gains until the end of the day and so the 10Y PLN-DE bond yield spread widened after a noticeable narrowing in the previous days.

According to the MoF, in January **nonresidents continued to sell Polish PLN marketable bonds**. Foreign investors sold debt for more than PLN2.8bn in nominal terms, mainly "other entities" (-PLN1.8bn) and pension funds (-PLN1.1bn). At the same time, the foreign commercial banks purchased bonds for PLN2bn. Under geographical criteria, sellers were from Asia excluding Middle East (-PLN1.2bn) and North America (-PLN714mn). Polish banks bought bonds for PLN13bn and individuals for PLN1.4bn. Mutual funds sold bonds for PLN2.8bn.

The past week was dominated by the coronavirus case and the new one is likely to look similarly. In Poland, the MPC will hold a meeting after which we will see the updated inflation projection.

Polish GDP growth



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3174	CZKPLN	0.1701
USDPLN	3.8988	HUFPLN*	1.2800
EURUSD	1.1074	RUBPLN	0.0588
CHFPLN	4.0426	NOKPLN	0.4180
GBPPLN	4.9975	DKKPLN	0.5778
USDCNY	6.9643	SEKPLN	0.4091

*for 100HUF

Last session in the FX market 28/02/2020

	min	max	open	close	fixing
EURPLN	4.313	4.337	4.313	4.329	4.3355
USDPLN	3.920	3.955	3.928	3.926	3.9255
EURUSD	1.095	1.105	1.098	1.103	-

Interest rate market 28/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.42	-3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.54	2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.78	3	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	1.53	-10	1.14	-17	-0.42	-2
2L	1.41	-14	0.99	-17	-0.43	-2
3L	1.36	-12	0.95	-17	-0.42	-2
4L	1.37	-9	0.96	-16	-0.38	-1
5L	1.38	-7	0.98	-16	-0.35	-1
8L	1.40	-8	1.06	-15	-0.23	-1
10L	1.44	-4	1.12	-15	-0.14	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.53	1
T/N	1.54	1
SW	1.54	0
2W	1.58	0
1M	1.63	0
3M	1.71	0
6M	1.78	-1
9M	1.80	0
1Y	1.83	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.67	-4
3x6	1.56	-9
6x9	1.43	-15
9x12	1.35	-14
3x9	1.60	-12
6x12	1.45	-18

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.37 0
France	18 0	0.31 -1
Hungary		2.75 -3
Spain	48 0	0.87 -2
Italy	152 -7	1.68 -3
Portugal	47 0	0.93 -3
Ireland	24 -2	0.42 -2
Germany	9 0	- -

* 10Y treasury bonds over 10Y Bunds

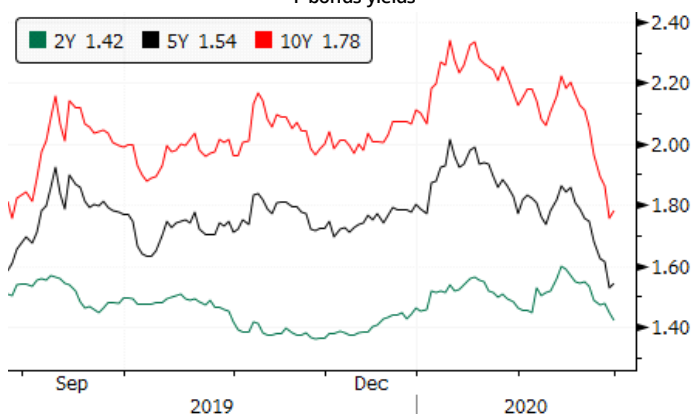
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

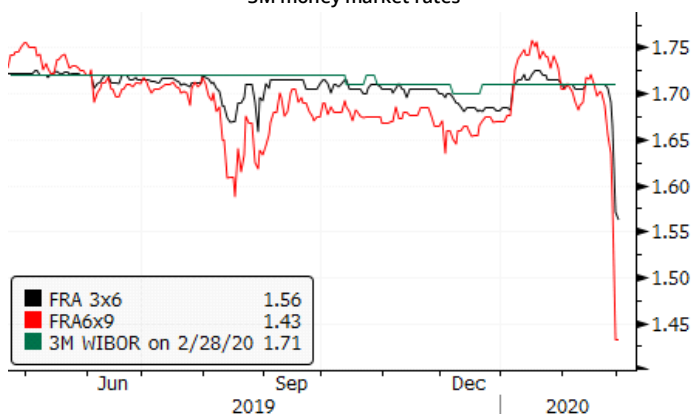
Zloty exchange rate



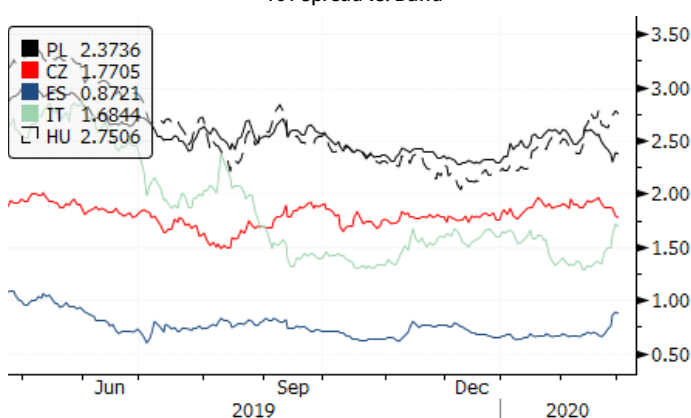
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (28 February)								
09:00	HU	GDP	4Q	% y/y	4.5		4.5	4.5
10:00	PL	GDP	4Q	% y/y	3.1	3.1	3.2	3.1
10:00	PL	Private consumption	4Q	% y/y	-	3.5	3.3	3.9
10:00	PL	Investments	4Q	% y/y	-	7.3	4.9	4.7
14:00	DE	HICP	Feb	% m/m	0.4	-	0.4	-0.8
14:30	US	Personal Spending	Jan	% m/m	0.3	-	0.2	0.4
14:30	US	Personal Income	Jan	% m/m	0.4	-	0.6	0.1
14:30	US	PCE Deflator SA	Jan	% m/m	0.2	-	0.1	0.3
16:00	US	Michigan index	Feb	pts	100.65	-		100.9
MONDAY (2 March)								
09:00	PL	Poland Manufacturing PMI	Feb	pts	48.0	46.8	48.2	47.4
09:55	DE	Germany Manufacturing PMI	Feb	pts	47.8	-		45.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	49.1	-		47.9
16:00	US	ISM manufacturing	Feb	pts	50.5	-		50.9
TUESDAY (3 March)								
09:00	CZ	GDP SA	4Q	% y/y	1.7	-		1.7
11:00	EZ	Flash HICP	Feb	% y/y	1.2	-		1.4
11:00	EZ	Unemployment Rate	Jan	%	7.4	-		7.4
WEDNESDAY (4 March)								
	PL	MPC decision		%	1.50	1.50		1.50
02:45	CN	Caixin China PMI Services	Feb	pts	48.0	-		51.8
09:55	DE	Markit Germany Services PMI	Feb	pts	53.3	-		53.3
10:00	EZ	Eurozone Services PMI	Feb	pts	52.8	-		52.8
11:00	EZ	Retail Sales	Jan	% m/m	0.5	-		-1.6
14:15	US	ADP report	Feb	k	170	-		291
16:00	US	ISM services	Feb	pts	55.5	-		55.5
THURSDAY (5 March)								
14:30	US	Initial Jobless Claims	week	k	212	-		219
16:00	US	Durable Goods Orders	Jan	% m/m	-1.4	-		-0.2
16:00	US	Factory Orders	Jan	% m/m	-0.4	-		1.8
FRIDAY (6 March)								
08:00	DE	Factory Orders	Jan	% m/m	1.5	-		-2.1
09:00	HU	Industrial Production SA	Jan	% y/y	0.0	-		-3.66
14:30	US	Change in Nonfarm Payrolls	Feb	k	195	-		225
14:30	US	Unemployment Rate	Feb	%	3.5	-		3.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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