

4 March 2020

Eyeopener

Fed cut interest rates

Fed reacted to downward risks – rates down by 50 bps
 Cautious reaction to the Fed move
 First CoV-2 case in Poland
 EURPLN lower, yields strongly up
 Today MPC decision, ADP report and US services activity

The statement after the teleconference of finance ministers and central bank governors of G-7 expressed readiness to act to support the global economy in its fight against the coronavirus was somewhat disappointing for the markets, which expected action. The action came two hours after the statement – Fed cut rates by 50bp on an extraordinary meeting. FOMC members still think the US economy is strong, but the spreading virus is generating a downside risk for economic outlook. Market response to the surprising FOMC decision was temperate. European equities increased somewhat the gains they saw from the morning, but not for long. 10Y bond yields in Germany only managed to recover from the previous loss. The FRA market in the USA had priced in a Fed rate cut by 50bp in March and the yesterday decision only brought forward the expected move. Apart from that, there are doubts if looser monetary policy is the right tool against supply chain issues (like factory closures). We think the yesterday decision may improve market mood for a couple of days, but to see a lasting improvement there would have to be news about that the virus is already close to being contained and firms' activity will be soon back to normal.

Today in Poland **the first case of coronavirus** was found – the patient is from Lubuskie voivodship returning from a trip to Germany.

EURUSD was hovering around 1.112 and jumped above 1.12 for a while after the FOMC decision. We think that the upside trend observed since mid-February has been to a large extent driven by expectations for the Fed rate cut and the yesterday's decision, although surprising, may lead to a pause in EURUSD rise. Today in the morning the exchange rate is near 1.116.

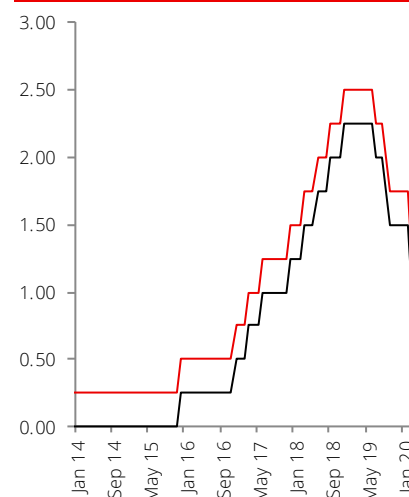
EURPLN fell for the second day in a row largely thanks to the Fed rate cut. The zloty gained also vs the dollar, pound and the franc – the respective crosses closed at 3.84, 4.92 and 4.02. We do not expect the yesterday's FOMC decision to trigger a persistent improvement of the global market mood and so we do not think the zloty appreciation will continue at that pace in the days to come. Today in the morning EURPLN is around 4.30.

The other CEE currencies also benefited from the Fed rate cut. EURHUF fell fourth session in a row and was close to 335 at the end of the day. EURCZK fell to 25.3 and neutralized the rise recorded in the previous two sessions. USDRUB fell to 65.4 from 67.0.

On the domestic interest rate market Tuesday was a yet another day of higher intraday volatility. Since the beginning of the day, yields were rising strongly with the 10Y yield adding more than 10bp amid better global market mood and investors' retreat from safe assets. The unexpected FOMC rate cut has had some positive impact on Polish bonds but helped only to recover part of the losses. At the closing of the session, the 10Y benchmark yield was 10bp and 5Y 7bp above Monday's closing. IRS rose by less (no more than 5bp).

Today **Polish MPC will announce its decision** about interest rates. In contrast to the FOMC, we do not expect the Council to surprise the market. Following the G-7 statement on readiness to act to support their economies in the face of the epidemic and the Fed cut, we believe the Polish MPC can be highlighting that negative growth surprises could lead them to cut rates at some point. The MPC members will have updated CPI and GDP forecasts at their disposal with inflation path likely revised up, and growth estimates revised down.

Fed funds rate – upper and lower bound



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3009	CZKPLN	0.1701
USDPLN	3.8568	HUFPLN*	1.2812
EURUSD	1.1152	RUBPLN	0.0588
CHFPLN	4.0229	NOKPLN	0.4169
GBPPLN	4.9341	DKKPLN	0.5778
USDCNY	6.9643	SEKPLN	0.4091

*for 100HUF

Last session in the FX market 03/03/2020

	min	max	open	close	fixing
EURPLN	4.294	4.329	4.329	4.298	4.3355
USDPLN	3.837	3.892	3.873	3.852	3.9255
EURUSD	1.110	1.121	1.118	1.116	-

Interest rate market 03/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.27	2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.42	2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.71	7	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	1.39	0	0.94	-5	-0.47	-2
2L	1.30	1	0.83	-6	-0.48	-1
3L	1.28	2	0.82	-6	-0.47	-1
4L	1.29	4	0.83	-7	-0.44	-1
5L	1.32	4	0.86	-7	-0.41	-1
8L	1.39	6	0.96	-6	-0.30	0
10L	1.41	6	1.02	-5	-0.21	0

WIBOR rates

Term	%	Change (bps)
O/N	1.53	0
T/N	1.53	-1
SW	1.54	0
2W	1.58	0
1M	1.63	0
3M	1.70	-1
6M	1.77	0
9M	1.80	0
1Y	1.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.57	-2
3x6	1.44	0
6x9	1.27	6
9x12	1.10	7
3x9	1.50	0
6x12	1.31	5

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.35 8
France	18 1	0.31 1
Hungary		2.67 1
Spain	47 -2	0.83 1
Italy	146 2	1.63 1
Portugal	47 -2	0.89 1
Ireland	22 -2	0.42 0
Germany	10 1	- -

* 10Y treasury bonds over 10Y Bunds

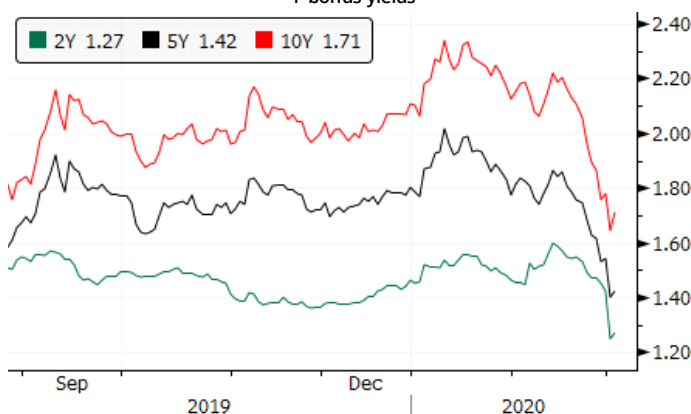
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

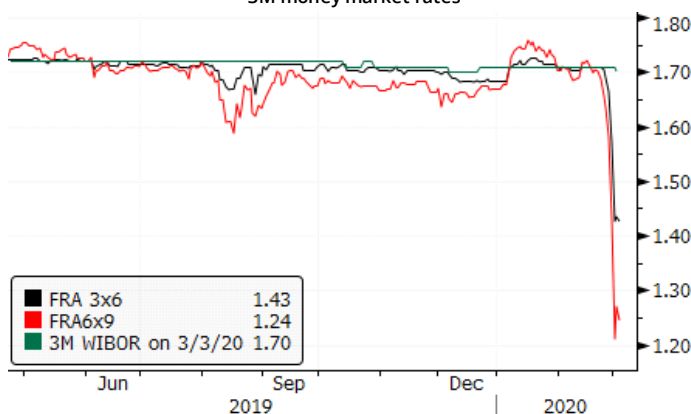
Zloty exchange rate



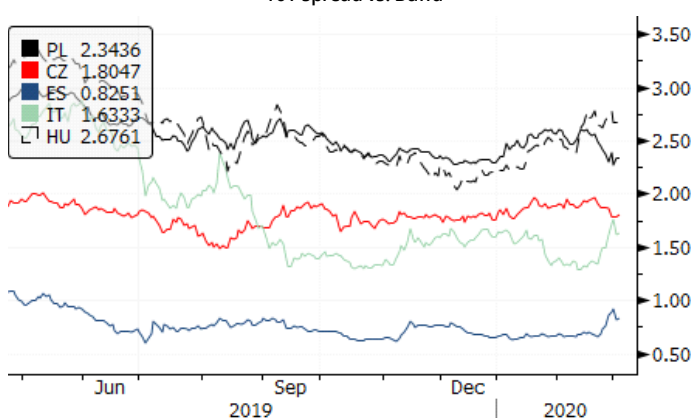
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					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	-	48.0	45.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	49.1	-	49.2	47.9
16:00	US	ISM manufacturing	Feb	pts	50.5	-	50.1	50.9
TUESDAY (3 March)								
09:00	CZ	GDP SA	4Q	% y/y	1.7	-	1.8	1.7
11:00	EZ	Flash HICP	Feb	% y/y	1.2	-	1.2	1.4
11:00	EZ	Unemployment Rate	Jan	%	7.4	-	7.4	7.4
16:00	US	FOMC decision		%	-	-	1.0-1.25	1.50-1.75
WEDNESDAY (4 March)								
	PL	MPC decision		%	1.50	1.50		1.50
02:45	CN	Caixin China PMI Services	Feb	pts	48.0	-	26.5	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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