

5 March 2020

Eyeopener

MPC not afraid of coronavirus

Optimism fuelled by hopes for stimulus
MPC with no surprise – rates flat
PLN stronger to EUR, EURUSD down
Interest rate market stable
Today US data

On Wednesday markets were under the influence of the Tuesday Fed emergency rate cut and expectations that other central banks will act the same (yesterday rates were cut by the central bank of Canada) and governments will deliver a fiscal impulse. As a result, equity indexes in Europe moved up, which let EM currencies stabilise or even see some gains. The dollar reversed the losses that occurred on profit taking from the Fed rate cut delivered earlier than expected. Looking at bonds it seemed the market believed that FOMC action would inspire other central banks and yields dropped even more yesterday. Final February PMIs for the services sector in the euro zone declined after a rise a month earlier which seems to better indicate the influence of the coronavirus on the European economy than the growing manufacturing indexes (due to the positive impact of longer delivery times).

Positive sentiment in the USA was also connected to a good result of Joe Biden in **presidential primaries** of the Democrats and the House of Representatives decision to grant more than **USD8bn to fight coronavirus**. Biden gained support of 566 delegates, while his main contender, Bernie Sanders, got 501. Sanders is considered a business-unfriendly socialist. To get a nomination it takes 1991 votes of the delegates.

IMF head Kristalina Georgieva said that this year the global GDP growth may be lower than last year's 2.9%. The previous **IMF 2020 growth forecast** was 3.3%.

The Monetary Policy Council kept interest rates unchanged, with the main reference rate at 1.5%. The official statement did not show much signs of coronavirus-related worries. As expected, the new NBP projection shows inflation higher (mid-point +0.8pp in 2020) and GDP growth lower (-0.35pp in 2020) than previously predicted. However, the Council still believes the economic outlook is favourable (although GDP will slow slightly), and inflation will converge to the official target in the medium term, after the factors remaining beyond the monetary policy's influence dissipate. NBP governor Adam Glapiński confirmed the earlier view that rates' stability until the end of the MPC's term of office is the baseline scenario. Such view was supported by two MPC members present at the conference (Ancyparowicz, Sura). To sum up, the MPC still sees a big virtue in interest rate stabilization and does not seem to be concerned about the possible virus implications. Any change in the policy bias towards more dovish would require, in our view, a clear evidence that the economic growth is slowing much more than currently anticipated. On the other hand, any considerations about monetary tightening are off the table, even though CPI will remain above the target in 2020-2021.

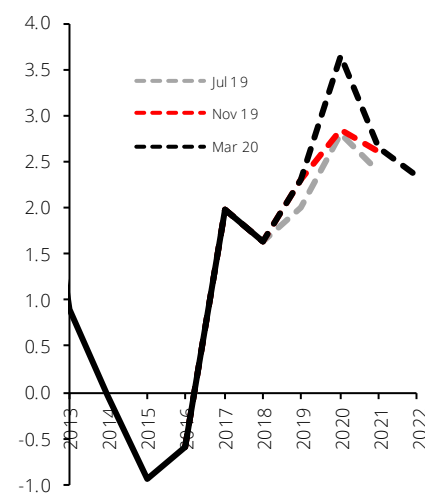
EURUSD more than corrected Tuesday's rise triggered by the FOMC decision and closed the day near 1.111. We sustain our view that the dollar could gain somewhat amid profit taking from the sharp rise observed since mid-February.

EURPLN fell for the third day in a row amid decent market mood persisting on the global market and was near 4.29 at the end of the day. During the last three days, the zloty recovered the whole last week's depreciation. The decision of the MPC to keep rates unchanged also supported the Polish currency. USDPLN down move paused and yesterday the exchange rate was hovering around 3.86.

In case of the **other CEE currencies**, the ruble gained the most vs Tuesday's closing, the koruna and forint appreciated somewhat less.

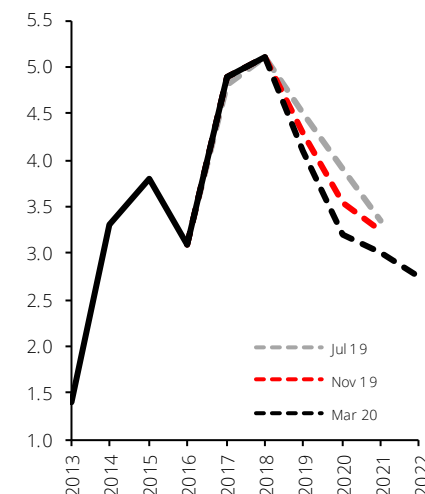
On the domestic interest rate market the intraday volatility was smaller than on the previous days. The bond curve shifted 1-4bp down, mainly on the belly, while the IRS recorded a minor rise. Today the Ministry of Finance will hold a bond auction with the total amount offered at PLN3-5bn.

NBP's CPI forecasts (central path)



Source: NBP, GUS, Santander

NBP's GDP forecasts (central path)



Source: NBP, GUS, Santander

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FX market

Today's opening

EURPLN	4.2931	CZKPLN	0.1697
USDPLN	3.8546	HUFPLN*	1.2777
EURUSD	1.1138	RUBPLN	0.0582
CHFPLN	4.0317	NOKPLN	0.4161
GBPPLN	4.9646	DKKPLN	0.5743
USDCNY	6.9420	SEKPLN	0.4071

*for 100HUF

Last session in the FX market 04/03/2020

	min	max	open	close	fixing
EURPLN	4.287	4.311	4.298	4.294	4.2993
USDPLN	3.836	3.871	3.852	3.860	3.8536
EURUSD	1.110	1.120	1.116	1.112	-

Interest rate market 04/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.23	-4	21 mar 19	OK0521	1.633
PS1024 (5L)	1.42	0	21 mar 19	PS0424	2.209
DS1029 (10L)	1.71	0	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	1.44	5	0.75	-19	-0.47	0
2L	1.37	8	0.69	-13	-0.49	-1
3L	1.34	6	0.71	-10	-0.48	-2
4L	1.35	6	0.75	-8	-0.46	-1
5L	1.38	6	0.79	-7	-0.43	-1
8L	1.43	4	0.90	-5	-0.31	-1
10L	1.46	5	0.97	-5	-0.22	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	-3
T/N	1.51	-2
SW	1.54	0
2W	1.58	0
1M	1.63	0
3M	1.70	0
6M	1.76	-1
9M	1.80	0
1Y	1.81	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.65	8
3x6	1.46	2
6x9	1.34	6
9x12	1.19	9
3x9	1.55	4
6x12	1.32	1

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.33 -2
France	18 1	0.31 -1
Hungary		2.60 -9
Spain	47 1	0.80 -1
Italy	146 3	1.63 -2
Portugal	47 -1	0.88 0
Ireland	22 1	0.39 -4
Germany	10 1	- -

* 10Y treasury bonds over 10Y Bunds

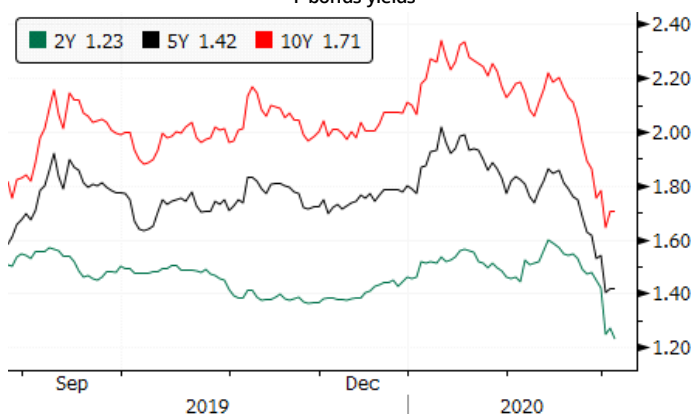
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

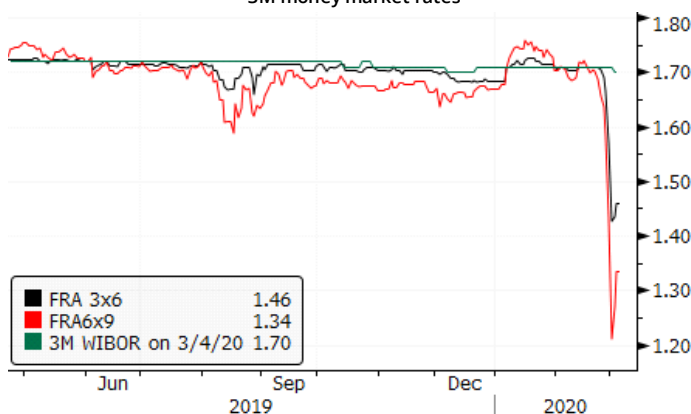
Zloty exchange rate



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	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	-	52.5	54.2
10:00	EZ	Eurozone Services PMI	Feb	pts	52.8	-	52.6	52.5
11:00	EZ	Retail Sales	Jan	% m/m	0.5	-	0,6	-1.1
14:15	US	ADP report	Feb	k	170	-	183	209
16:00	US	ISM services	Feb	pts	55.5	-	57.3	55.5
THURSDAY (5 March)								
14:30	US	Initial Jobless Claims	week	k	215	-		219
16:00	US	Durable Goods Orders	Jan	% m/m	-0.2	-		-0.2
16:00	US	Factory Orders	Jan	% m/m	-0.1	-		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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