

9 March 2020

Eyeopener

Markets in disarray

Rapid decline of stock indexes, free fall of oil price
EURUSD keeps rising
New records on Polish debt market, huge drop of US yields
Today NBP Inflation Report

The end of the week saw a lot of volatility. European stock indexes dropped meaningfully (by c3.5-4%) while the US and German bonds gained sharply, mainly the former ones. Today's Asian session was a continuation of a dramatic equity sell off (by 7% in Australia, 5% in Japan, the European Euro Stoxx index has been falling by c10% at today's opening). Oil price tumbled by 25% (Brent price is below US\$35/bbl) which has been also the effect of failed Friday's OPEC+Russia talks about the cut in oil production: Saudi Arabia said it will expand production and sell oil at a much lower price. The market is pricing that the coronavirus will spur global economic slowdown and the central banks will ease monetary policy further. After the last week's 50bp rate cut, the Fed is expected to be still the frontrunner in this cycle and this is likely behind the dollar sharp depreciation. Hopes for more monetary policy easing have not been yet seen not only on the equity market but also in case of the EM currencies which mostly lost vs the euro and one third of them vs the dollar at the end of the week. The CEE currencies outperformed their Latam and Asian peers. In the US, the much better-than-expected labour market data was released but failed to be the game changer. Today in the morning we saw above-consensus January German data (+3% m/m vs +1.7% expected) but these should be meaningless since they show pre-virus picture.

Jerzy Żyżyński said that the **MPC** may consider rate cut in May provided that the economic growth slides below 3% and inflation goes down. Żyżyński added that the Council should think about cutting by 50bp in order to stabilise moods. Eryk Łon, who has been voting for 25bp cuts for six months already, said that the coronavirus and the new NBP projections are argument to cut rates quickly.

EURUSD on Friday rose significantly for another day, and the whole weekly move higher was the highest since February 2016. Further deterioration of sentiment and a collapse in oil prices through the weekend helped the currency pair move above 1.14. The dollar is trading on the weak side as the market prices further Fed rate cuts. In general, in periods of increased risk aversion the dollar should be strengthening however the fears regarding the scale of the possible coronavirus problems in the USA help weaken the currency at the moment.

EURPLN jumped almost to 4.32 at the start of the session and in the following hours it was benefitting from rising EURUSD. The pair ended the day at 4.30. USDPLN declined below 3.80 and the weekly decline was the most significant since September 2012. Over the weekend the rate moved by another PLN0.03 down. EURPLN has been moving in an uptrend since mid-January and the momentum seems to be declining. However, we are not expecting the zloty to gain markedly in the days to come, as the risk aversion is likely to stay. Moreover, the EURUSD rise seems to be overdone and downward correction of EURUSD could pressurise the zloty.

As to the **other regional currencies** – most of them, except for the rouble, outperformed the EM currencies of Asia and Latam. EURCZK temporarily rose to 25.50 and closed the day near the open at 25.40. EURHUF fell to 335 from 336 and forint again was the strongest EM currency not only in CEE region but also among 21 EM currencies we monitor, yet this morning it was back to 337. USDRUB after a correction lower which lasted for a few days, on Friday started to rise abruptly towards 74.0 (highest level since early 2016).

On the Polish **fixed income market**, the POLGBs yields fell by another 5-7bp. The move lower might continue however, as over the weekend the core yields fell further significantly: 10Y UST to 0.44% while Bund to -0.84%. Market sentiment might remain volatile in the coming weeks or even months which should support the yields to remain at the current or lower levels. In the short term the correction higher is plausible in case the ECB does not meet investor's expectations.

This week the pace of coronavirus spreading among the developed countries will be closely watched. Market mood could improve when the number of the new cases starts to fall, just like it is the case in China and South Korea. On Thursday, the ECB holds its meeting – the scale of market tumble does not allow to exclude any option.

Brent oil, USD/bbl



Source: Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.3279	CZKPLN	0.1689
USDPLN	3.7748	HUFPLN*	1.2804
EURUSD	1.1466	RUBPLN	0.0509
CHFPLN	4.0941	NOKPLN	0.3956
GBPPLN	4.9791	DKKPLN	0.5793
USDCNY	6.9436	SEKPLN	0.4040

*for 100HUF

Last session in the FX market 06/03/2020

	min	max	open	close	fixing
EURPLN	4.289	4.320	4.307	4.297	4.3178
USDPLN	3.781	3.849	3.841	3.809	3.8231
EURUSD	1.119	1.136	1.121	1.128	-

Interest rate market 06/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.24	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.39	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	1.64	-6	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	1.42	-1	0.69	-3	-0.46	1
2L	1.33	-3	0.64	-1	-0.48	2
3L	1.27	-4	0.67	0	-0.47	1
4L	1.26	-7	0.70	1	-0.45	1
5L	1.27	-7	0.74	1	-0.43	0
8L	1.29	-10	0.80	-4	-0.32	-1
10L	1.32	-10	0.84	-7	-0.23	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.52	4
T/N	1.52	0
SW	1.54	0
2W	1.57	-1
1M	1.63	0
3M	1.70	0
6M	1.76	0
9M	1.80	0
1Y	1.81	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.66	0
3x6	1.45	-1
6x9	1.25	-5
9x12	1.12	-5
3x9	1.51	-3
6x12	1.29	-5

Measures of fiscal risk

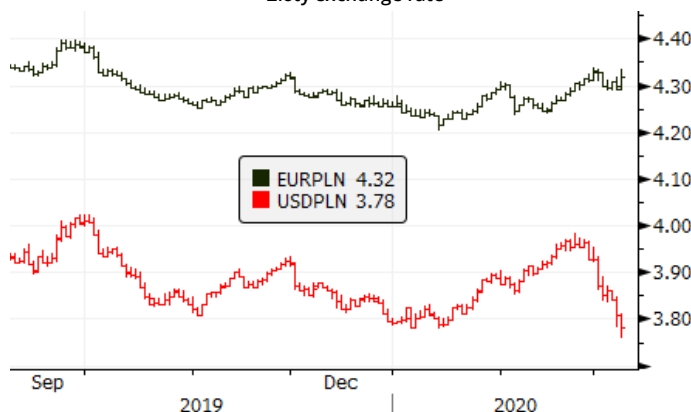
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.49 9
France	19 4	0.51 15
Hungary		2.73 13
Spain	50 7	1.09 17
Italy	155 9	2.16 38
Portugal	50 7	1.18 18
Ireland	23 2	0.64 12
Germany	10 5	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

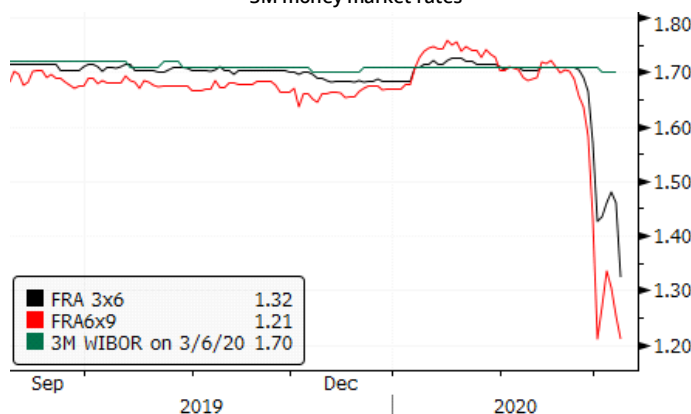
Zloty exchange rate



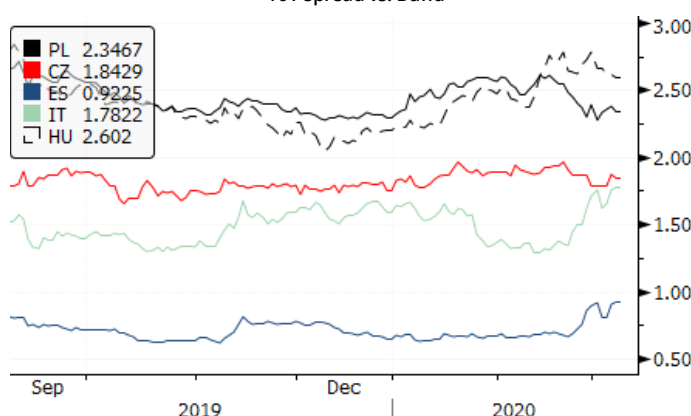
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (6 March)								
08:00	DE	Factory Orders	Jan	% m/m	1.2	-	5.5	-2.1
09:00	HU	Industrial Production SA	Jan	% y/y	-0.9	-	2.7	-3.7
14:30	US	Change in Nonfarm Payrolls	Feb	k	175	-	273	225
14:30	US	Unemployment Rate	Feb	%	3.6	-	3.5	3.6
MONDAY (9 March)								
08:00	DE	Exports SA	Jan	% m/m	0.9	-	0.0	0.1
08:00	DE	Industrial Production SA	Jan	% m/m	1.7	-	3.0	-2.2
TUESDAY (10 March)								
09:00	CZ	CPI	Feb	% y/y	3.6	-		3.6
09:00	HU	CPI	Feb	% y/y	4.3	-		4.7
11:00	EZ	GDP SA	4Q	% y/y	0.9	-		0.9
WEDNESDAY (11 March)								
13:30	US	CPI	Feb	% m/m	0.0	-		0.1
THURSDAY (12 March)								
09:00	CZ	Industrial Production	Jan	% y/y	-1.2	-		-0.9
11:00	EZ	Industrial Production SA	Jan	% m/m	1.3	-		-2.1
13:30	US	Initial Jobless Claims	week	k	215	-		216
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
FRIDAY (13 March)								
08:00	DE	HICP	Feb	% m/m	0.6	-		0.6
10:00	PL	CPI	Feb	% y/y	4.4	4.4		4.4
15:00	US	Michigan index	Mar	pts	96.3	-		101.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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