

10 March 2020

# Eyeopener

## Volatility and multi-year high

Sharp declines of stock markets and crude oil prices  
EURUSD stable, EURPLN only slightly higher  
Bond yields in Poland and core markets sharply lower  
Today, no local data releases

Worries about deep global economic slowdown were rising yesterday due to news about the pace at which the virus is spreading across developed economies. In the evening Italy introduced country-wide quarantine. At the same time, lack of agreement of OPEC+ about oil output cuts caused a drastic fall of Brent oil price, reaching 32% intraday and 18% on Monday close (to US\$36.9/bbl). Such a low price level is a threat to the profitability of the US shale industry and is a credit blow to the US energy sector; as a result the equity markets saw further massive declines, by 7-10%, and currencies of commodity-extracting countries (South Africa, Russia, Mexico, Brazil) suffered significantly. Gold price broke the US\$1700 level, but closed at US\$1670.

This morning the sentiment seems to be stabilising – stock indexes in Asia rose a little, US bond yields rebounded up, oil price is slightly higher.

**The NBP's Inflation report**, released yesterday, shows higher path of inflation and lower path of GDP than predicted in November (CPI in 2020: 3.7% vs 2.8% in November, GDP: 3.2% vs. 3.6%). Changes in economic environment convinced the central bank to lower expectations about economic growth abroad (euro zone 0.9% in 2020 vs 1.1%). As regards Polish GDP, forecast of private consumption was lowered (but it still remained quite strong amid solid households' income), as well as investments (lower spending of local governments, weak external demand, decreasing absorption of EU funds). Expectations regarding net exports went up thanks to higher robustness of Polish exports and lower imports due to weaker domestic demand. As regards inflation, forecasts of all main components were revised up – core inflation (refuse collection prices), food inflation (ASF and pork prices, higher excise duties) and energy inflation (higher-than-expected scale of tariff hikes). NBP assessed the probability of CPI running below 2.5% at 24% at the end of 2020, 52% at the end of 2021 and 61% at the end of 2022. Impact of the coronavirus on the Polish economy was so far reflected in higher financial markets volatility, lower prices of energy commodities and lower foreign demand, especially in the German manufacturing. Meanwhile, escalation of the epidemic is the main risk factor for the economic growth forecast.

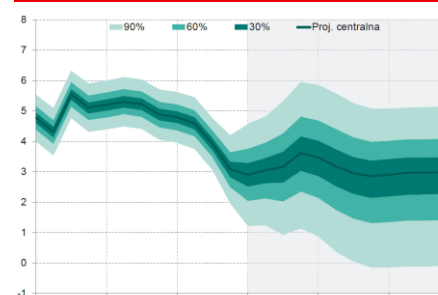
**EURUSD** has risen consistently since the local minimum at 1.078 on 21 February, towards 1.1500 on Monday morning (+5.9%). However on Monday, despite a volatile session – the pair tried three times to break 1.15 and three times it traded below 1.14 – the currency traded sideways and closed at 1.141. From the technical standpoint, there are now two important levels – one at 1.15 (maximums from 2015 and 2016) and second at 1.113 (200d moving average). Breaching of either one might set the mid-term direction for EURUSD.

**EURPLN** on Monday started to rise first thing in the morning and reached a daily maximum at 4.334 – by 0.7% higher vs Friday close at 4.305. In the remainder of the day the market sentiment cooled down and EURPLN closed at 4.316. USDPLN decreased for another day as EURPLN was rather stable and the dollar weakened further. The close at 3.780 was only slightly lower than the open, which suggest USDPLN is slightly oversold. CHFPLN closed at 4.075, during a day reaching a high of 4.110, the stabilization of the pair might be partially due to Swiss National Bank, which tries to stabilize EURCHF at around 1.060.

**Other CEE currencies**, except for the ruble, behaved in a similar fashion to zloty: they closed (EURHUF at 336.2, EURCZK 25.52) only slightly higher above the open, reaching highs during the day of, 338.8 (+0.8%) and 25.69 (+0.8%), respectively. USDRUB have risen significantly due to the collapse in oil prices – the pair moved to 75.8 from 68.4 (+10.5%) making FX Options market to scramble for Gamma (1M ATM up to 28.0). At the end of the day the market cooled down and the pair closed at 73.8 – up 8.0% vs a day before.

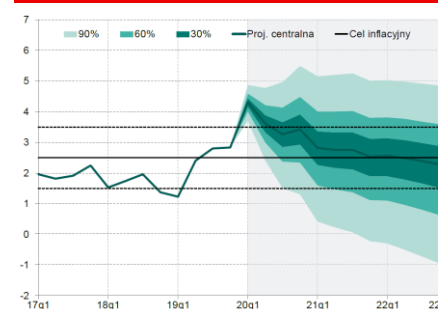
On the **domestic interest rate market** the sentiment was driven by strong declines of yields on core markets, where the German curve dropped by c15bp (10Y Bund went to -0.90%) and the US one even more: 10Y UST by 25bp to the record low level of 0.35%. The US 30Y bond went below the 1.00% level and the futures contract for this paper has gained 30% year-to-date. The domestic bond yields declined, but less on the short end (2Y by 9bp to 1.18%) and more on the long end (10Y by 25bp to 1.40%). 10Y spread vs Bund narrowed by 8bp to 227bp. The FRA 9x12 contracts dropped by 24bp to 0.92% – which means the market is pricing more than two 25bp rate cuts in this time horizon. Today in the morning yields in the USA are going up, which may translate to a similar move in Poland.

NBP projection: GDP, % y/y



Source: NBP, Inflation report

NBP projection: CPI, % y/y



Source: NBP, Inflation report

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## FX market

### Today's opening

EURPLN	4.3166	CZKPLN	0.1695
USDPLN	3.8035	HUFPLN*	1.2846
EURUSD	1.1349	RUBPLN	0.0528
CHFPLN	4.0694	NOKPLN	0.3989
GBPPLN	4.9558	DKKPLN	0.5780
USDCNY	6.9424	SEKPLN	0.4010

\*for 100HUF

### Last session in the FX market 09/03/2020

	min	max	open	close	fixing
EURPLN	4.292	4.335	4.292	4.328	4.3176
USDPLN	3.757	3.811	3.809	3.775	3.7899
EURUSD	1.129	1.150	1.129	1.146	-

## Interest rate market 09/03/2020

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.17	-6	21 mar 19	OK0521	1.633
PS1024 (5L)	1.26	-13	21 mar 19	PS0424	2.209
DS1029 (10L)	1.43	-20	21 mar 19	DS1029	2.877

### IRS on the interbank market\*\*

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.30	-13	0.53	-16	-0.46	1
2L	1.14	-19	0.49	-16	-0.50	-3
3L	1.06	-21	0.51	-16	-0.46	1
4L	1.04	-22	0.53	-17	-0.45	1
5L	1.03	-24	0.56	-18	-0.42	0
8L	1.05	-24	0.59	-21	-0.33	-1
10L	1.05	-26	0.60	-24	-0.26	-2

### WIBOR rates

Term	%	Change (bps)
O/N	1.54	2
T/N	1.54	2
SW	1.55	1
2W	1.58	1
1M	1.62	-1
3M	1.70	0
6M	1.76	0
9M	1.80	0
1Y	1.80	-1

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.56	-10
3x6	1.32	-13
6x9	1.10	-15
9x12	0.95	-17
3x9	1.39	-13
6x12	1.13	-16

### Measures of fiscal risk

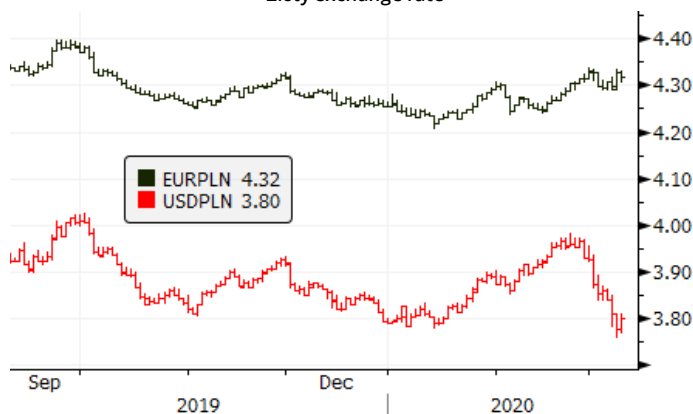
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.29	-6
France	23	13	0.52	20
Hungary			2.62	2
Spain	56	25	1.19	22
Italy	164	59	2.28	15
Portugal	56	27	1.27	18
Ireland	25	9	0.67	15
Germany	15	4	-	-

\* 10Y treasury bonds over 10Y Bunds

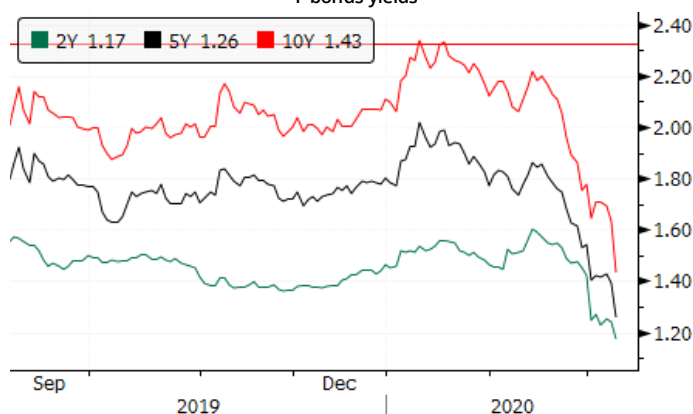
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

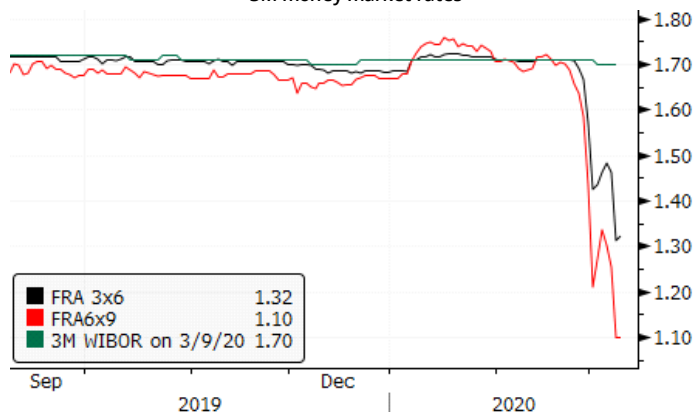
## Zloty exchange rate



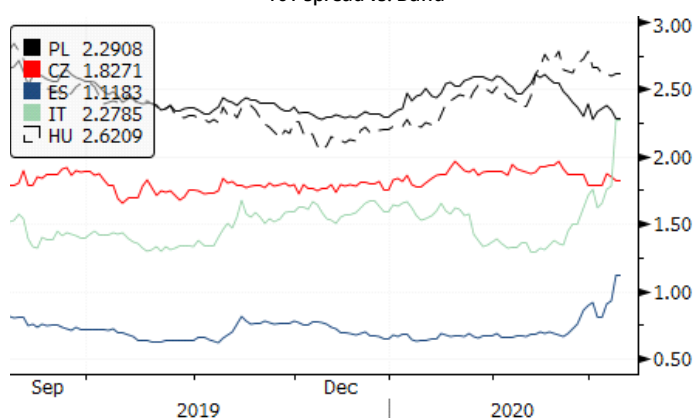
## T-bonds yields



## 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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