

11 March 2020

Eyeopener

Sentiment improved, but for how long?

Markets rebounded after earlier declines
EURUSD lower, zloty quite stable
Bond yields higher in Poland and abroad
Polish government planning support for companies
Today, US inflation data

Tuesday was a day of relief on the markets after the very volatile Monday. Stock exchanges during the European session did not recover from the earlier losses, but at the end of the US session there were strong price increases and the S&P500 index finished the day c5% higher. Core markets' bond yields rebounded and the domestic yields followed suit. Prices of energy commodities went up – including Brent oil, which rose by 7% to US\$33.3/bbl. Implied volatilities remained elevated, e.g. VIX index stayed around 50+; gold price above US\$1650/oz. In Hungary and in Czechia, February inflation data were released – in both cases the headline figure was 0.1pp above expectations. The final 4Q19 GDP for the Eurozone proved better than expected, at 1.0% y/y. Industrial output data in France (much below expectations) and Italy (above expectations) were also released.

The Polish government is preparing a set of instruments to support enterprises faced with the consequences of the coronavirus. The instruments include: delay and/or payment in instalments of social security contributions, personal income and corporate income taxes, job subsidies for enterprises with a large drop of turnover, no penalties for delays in public investments. Also, firms will be able to take advantage of cheap credit with BGK guarantees (expansion of 'de minimis' support). The details are to be presented early next week.

Labour demand measured by the number of vacancies decreased in 4Q19 by 9.9% y/y (the fourth quarter with a negative growth). Newly created vacancies during the quarter also dropped in y/y terms, by 8.1% (the third quarter of declines), but if we correct for the number of jobs liquidated in this period, we come out with a moderate rise of such net job creation measure (+3.5% y/y) after two quarters of severe declines. It seems enterprises adjusted in 4Q19 their labour demand to the economic uncertainty and the growing labour costs as well as difficulties to find new employees (out of the newly created jobs in 4Q 24.8% remained vacant at the end of the period – this was the second highest share in the last decade, with the historical average at 13.2%).

MPC's Łukasz Hardt, who in January voted for a rate hike, said that currently the best strategy is to stabilise rates, as the coronavirus epidemic will decrease inflation and GDP growth (in his view 2020 growth will be below 3%). Hardt thinks a rate cut would not be supportive for companies, but might be a threat to the financial sector. Any potential monetary easing should be introduced via unorthodox tools. MPC's **Jerzy Kropwinicki** told PAP that while in 1Q20 inflation is going to be high, in the following quarters it should already be "under control". In our view, while the probability of rate cuts this year has gone up, the scale of deterioration of economic activity and the decrease of inflation forecasts would have to be very significant to make the MPC act. A strong argument against rate cuts will be the worries about the consequences for the financial sector.

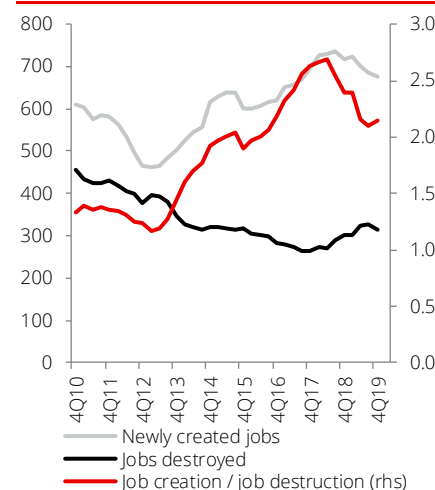
EURUSD after having opened at 1.440 during the day, traded consistently lower and closed at 1.137, and today in the morning opens at 1.134. Options volatilities remain high and point to further hedging against upside moves. As we wrote recently, the closest important technical levels are at 1.152 and 1.112.

EURPLN traded sideways on Tuesday from the open at 4.32 to closing at around 4.313. In the meantime the currency pair approached 4.33 a few times and also managed to set a daily minimum at 4.305. We are not expecting zloty strengthening too much (EURPLN below 4.30) in the near future, and further deterioration of global market sentiment might weaken it even more.

As to the **other CEE currencies** EURHUF declined by 0.2% to 335.6, but EURCZK went up by 0.2% to 25.62 and we think the pair might continue its march upwards towards 25.80. Thanks to the bounce back on the oil markets, the ruble gained on Tuesday. USDRUB fell 4.5% to 72.0. Given still low oil prices, both the upward trend in USDRUB and its heightened volatility might remain in place for some time.

On the **Polish interest rate market**, bond yields were climbing after core markets slightly corrected the Monday strengthening. 10Y Bund ended the day 7 bp above the opening, at -0.80%, 10Y UST closed at 0.60%, after a similar move. Polish 10Y yield jumped to 1.54% and 10Y IRS to 1.12%, so asset swap spread widened to 42 bp. 10Y spread to Bund widened to 234 bp by 7 bp. This move comes as no surprise given widening spreads in the euro zone peripheries (Italy, Spain).

Job creation and destruction, in quarter (k), 4Q mov.sum



Source: GUS

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3139	CZKPLN	0.1682
USDPLN	3.8032	HUFPLN*	1.2874
EURUSD	1.1342	RUBPLN	0.0531
CHFPLN	4.0710	NOKPLN	0.3965
GBPPLN	4.9028	DKKPLN	0.5772
USDCNY	6.9520	SEKPLN	0.4013

*for 100HUF

Last session in the FX market 10/03/2020

	min	max	open	close	fixing
EURPLN	4.304	4.332	4.328	4.326	4.32
USDPLN	3.767	3.825	3.775	3.823	3.8058
EURUSD	1.130	1.147	1.146	1.132	-

Interest rate market 10/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0422 (2L)	1.15	-2	21 mar 19	OK0521	1.633
PS1024 (5L)	1.32	6	21 mar 19	PS0424	2.209
DS1029 (10L)	1.53	10	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	1.32	3	0.55	2	-0.47	0
2L	1.19	4	0.52	3	-0.49	1
3L	1.11	5	0.56	6	-0.47	2
4L	1.09	5	0.60	7	-0.44	3
5L	1.08	5	0.64	8	-0.40	5
8L	1.10	5	0.70	11	-0.32	6
10L	1.12	6	0.73	13	-0.25	6

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-1
T/N	1.53	-1
SW	1.55	0
2W	1.58	0
1M	1.62	0
3M	1.69	-1
6M	1.75	-1
9M	1.80	0
1Y	1.79	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.59	3
3x6	1.37	4
6x9	1.16	6
9x12	1.02	7
3x9	1.44	6
6x12	1.20	7

Measures of fiscal risk

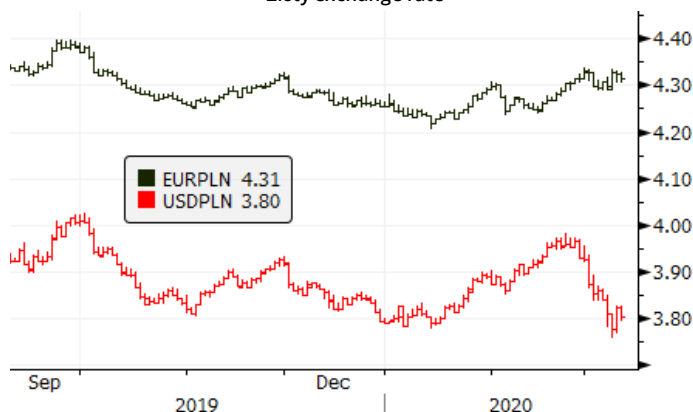
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.32	10
France	35	-4	0.48	-1
Hungary			2.68	0
Spain	81	4	1.12	-1
Italy	223	-5	2.11	-1
Portugal	83	2	1.26	-1
Ireland	33	1	0.67	-1
Germany	18	-1	-	-

* 10Y treasury bonds over 10Y Bunds

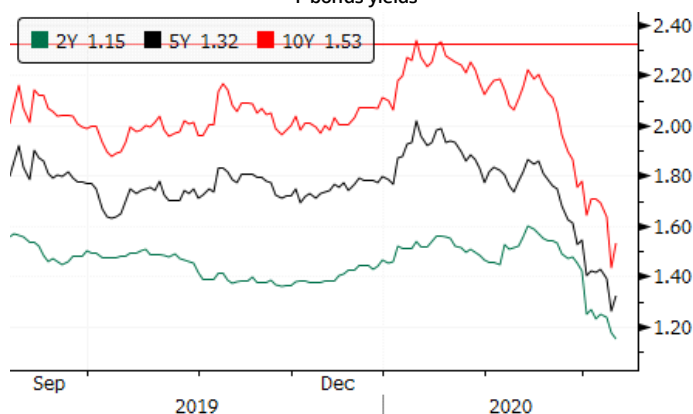
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

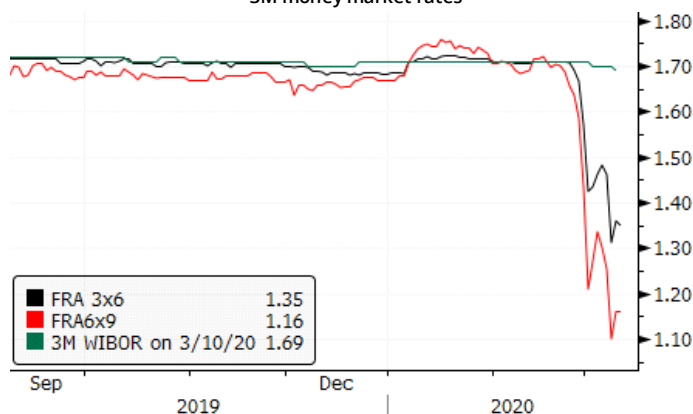
Zloty exchange rate



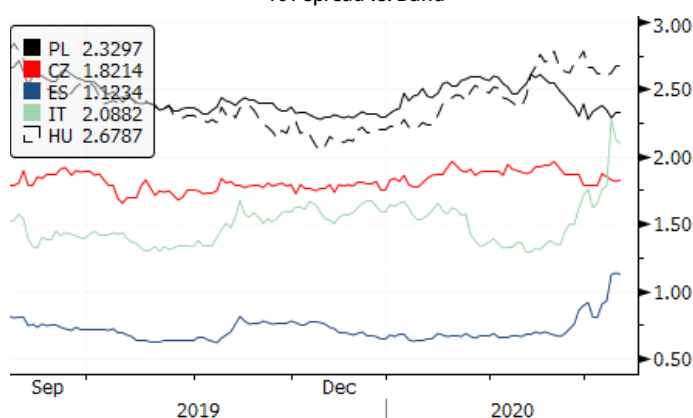
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	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	-	3.7	3.6
09:00	HU	CPI	Feb	% y/y	4.3	-	4.4	4.7
11:00	EZ	GDP SA	4Q	% y/y	0.9	-	1.0	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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.