

12 March 2020

# Eyeopener

## Waiting for the ECB

Market sentiment volatile, BoE emergency rate cut by 50bp  
EURUSD in horizontal trend, zloty as well  
Bond yields in US and Poland clearly higher, in Germany only slightly  
Today, ECB decision, industrial production in the euro zone

On Wednesday markets started full of optimism, but it did not last long and at the end of the day European stock indexes closed unchanged and the US ones in red. FX and commodity markets saw decreased volatility awaiting the today's ECB meeting, where some policy changes may be introduced, e.g. a possible deposit rate cut by 10bp to -0.60% and a set of tools to support banks and SMEs. The Bank of England copied the Fed and cut rates at an extraordinary meeting by 50bp, to 0.25%. What is more, the British industrial output for January was worse than expected and the pound weakened. In the USA February inflation and wages were above expectations. The Italian government boosted again the economic support package against coronavirus consequences – to cEUR25bn in total. The money will be used for support of people losing jobs, increase of SME guarantee fund for enterprises with revenues down by at least 25% and several moratoria on credit repayments for companies and households. Some aid for pensioners is also considered.

**The Polish government decided to close all schools, universities and preschools until 25 March.** The same applies to cultural institutions like museums, cinemas and theatres. Research for developed economies suggests that school closure is usually negative for GDP growth (estimates vary between -0.1% and -0.6% impact on annual GDP after a 4-week closure), as some workers are forced to stay home. The scale of impact probably varies for different countries, e.g. depending on the ability to work remotely (it is relatively low in Poland, which could increase the effect), labour participation, especially for women (relatively low in Poland, potentially lowering the effect), the share of schooling age children in population.

The head of Polish Development Fund (PFR) Paweł Borys said that **this year's budget amendment may be justified** given building risks for global economy, and that the expenditure rule "should be examined". In his view, in such circumstances it is key to increase spending on investment, labour market protection and support for entrepreneurs. In our view, as Europe is entering a deep slowdown or even recession, a moderate increase of fiscal deficit would be neither unique nor controversial. Development minister Jadwiga Emilewicz informed today that introduction of the sugar tax will be postponed till year-end due to the virus spread.

**MPC's Rafał Sura** said that if the July NBP projection shows weakening of GDP growth below 3%, then a discussion on rate cuts should be started. According to the March NBP projection the 2020 GDP growth is to be 3.2%. Sura stressed that the stabilisation of interest rate is the optimal scenario, but less optimistic variants also have to be taken under consideration now. The MPC member refrained from stating what size of rate cuts he would prefer.

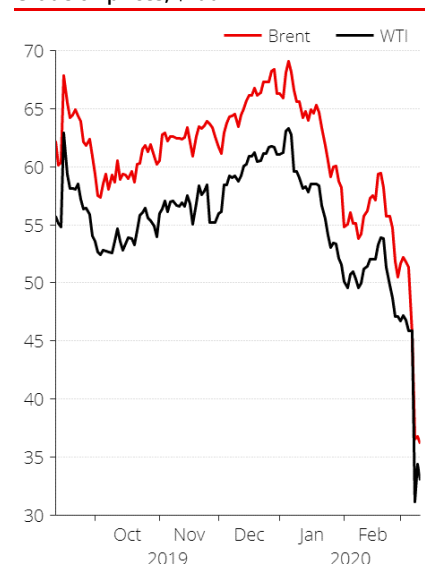
**EURUSD** was moving in a horizontal trend on Wednesday, prior to today's ECB decision on interest rate. EURUSD opened at 1.130 and reached a daily maximum at 1.136 and then was moving between these two marks to eventually end the day at 1.133. After an overnight decline the pair is at 1.130 again.

**EURPLN** opened at 4.318, recorded a temporary drop to 4.308 and was near the opening level at the end of the day amid low volatility in Europe as investors awaited the ECB decision. Today since early morning, the zloty is under pressure and EURPLN is already above 4.33. We do not expect the exchange rate to go firmly below 4.30, it should rather near 4.35 with the risk of a further rise towards 4.40.

**Other CEE currencies:** EURHUF opened yesterday at 335.5 and was going down for most of the day, but before the end of the day it weakened to 336.1 at close, 0.1% up on the day. NBH minutes from February 25 meeting (unanimous decision to leave rates at 0.9%) showed that the central bank may decide on the measures needed to hit the inflation target after seeing the March inflation projection. This information might have supported expectations of a more hawkish policy by NBH (the next meeting on March 24) but the coronavirus threat has changed the picture. EURCZK, as we forecasted, continued to go up and reached 25.8, however the closing level was slightly lower (25.72, +0.4% on the day). Oil price had a positive start, but closed 4% lower, sending USDRUB up by 1.5% to 72.4.

On the **Polish fixed income market** both IRS and bond yields increased, especially on the long end – 10Y tenors up 12bp to 1.23% (IRS) and 16bp to 1.70% (bonds). 10Y asset swap widened by 5bp to 47bp. Core market yields saw decent increases in the US Treasuries e.g. 10Y up to 0.77% from 0.59%, a 18bp move. The German 10Y bonds yields moved higher only a bit however – by 4bp to -0.44%. As a result the 10Y PL-DE spread widened by 12bp to 246bp. The FRA 9x12 has not changed at 1.0%, while FRA 21x24 gained 12bp to 0.85%.

Crude oil prices, \$/bbl



Source: Refinitiv Datastream

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## FX market

### Today's opening

EURPLN	4.3359	CZKPLN	0.1672
USDPLN	3.8322	HUFPLN*	1.2854
EURUSD	1.1315	RUBPLN	0.0518
CHFPLN	4.1058	NOKPLN	0.3912
GBPPLN	4.9117	DKKPLN	0.5803
USDCNY	6.9823	SEKPLN	0.4017

\*for 100HUF

### Last session in the FX market 11/03/2020

	min	max	open	close	fixing
EURPLN	4.306	4.327	4.326	4.319	4.3167
USDPLN	3.794	3.836	3.823	3.827	3.8186
EURUSD	1.126	1.137	1.132	1.129	-

## Interest rate market 11/03/2020

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

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	1.21	6	5.03.2020	OK0722	1.225
PS1024 (5L)	1.48	16	5.03.2020	PS1024	1.431
DS1029 (10L)	1.69	16	5.03.2020	DS1029	1.725

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

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.32	-1	0.50	-5	-0.49	-1
2L	1.22	4	0.47	-5	-0.51	-2
3L	1.16	5	0.51	-5	-0.49	-2
4L	1.16	7	0.57	-3	-0.46	-2
5L	1.17	9	0.62	-2	-0.42	-2
8L	1.20	11	0.72	2	-0.32	-1
10L	1.24	12	0.76	3	-0.26	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.53	0
T/N	1.54	1
SW	1.55	0
2W	1.58	0
1M	1.62	0
3M	1.69	0
6M	1.75	0
9M	1.80	0
1Y	1.79	0

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

Term	%	Change (bps)
1x4	1.56	-3
3x6	1.34	-2
6x9	1.14	-2
9x12	1.01	-1
3x9	1.42	-2
6x12	1.19	-2

### Measures of fiscal risk

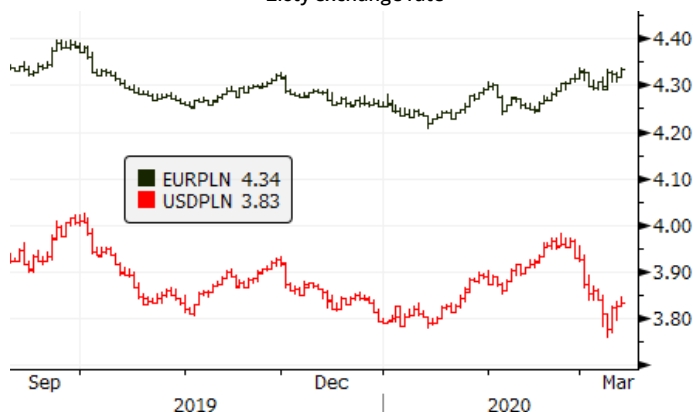
Residuals of fixed effects				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.48	20
France	32	-1	0.45	2
Hungary			2.76	2
Spain	85	-4	1.03	3
Italy	218	-13	2.02	10
Portugal	85	-4	1.17	2
Ireland	34	-1	0.62	2
Germany	17	0	-	-

\* 10Y treasury bonds over 10Y Bunds

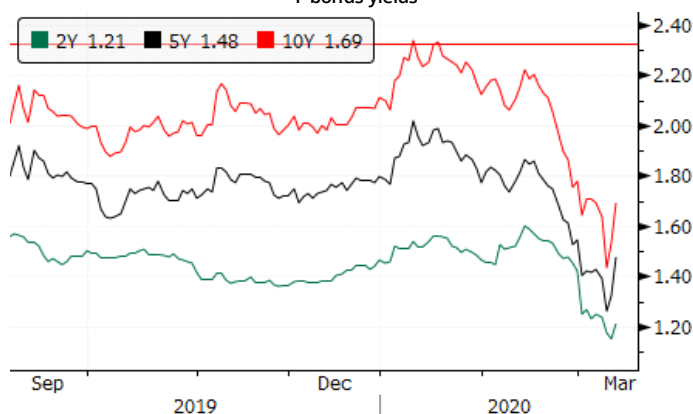
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

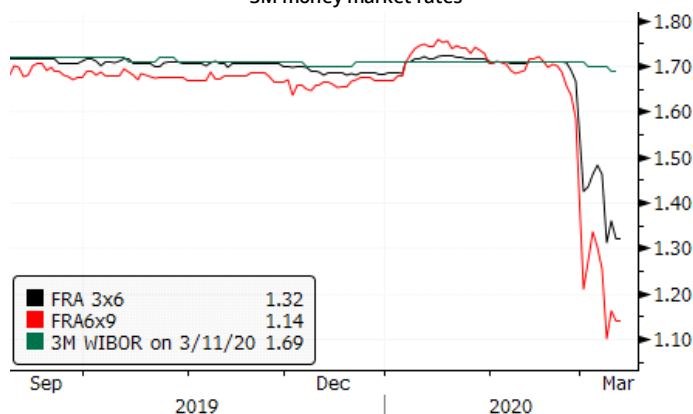
### Zloty exchange rate



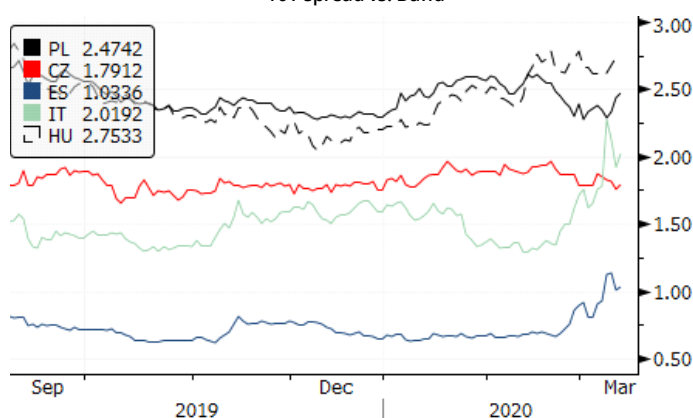
### T-bonds yields



### 3M money market rates



### 10Y spread vs. Bund



## Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (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	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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