

13 March 2020

# Eyeopener

## In search for liquidity

Selloff in equity markets, financial markets in disarray  
Zloty weaker, dollar stronger  
Bond yields much higher, credit spreads widening  
Today, inflation for February, rating review by Moody's

Thursday again saw a massive sell-off on the stock markets, accompanied by fire sales of other risky assets, like corporate bonds, EM currencies and debt as well as of gold, suggesting liquidity reasons behind these declines in indices – investors sell not necessarily the assets they would like to sell (because they are not liquid), but these that are liquid enough (but could be held longer). Liquidity problems were visible even at the most liquid market – US Treasuries, which encouraged the Fed to react.

**The ECB did not cut rates**, despite market expectations for such a move – the refi rate remained unchanged at 0.0% and the deposit rate at -0.5%. The QE programme was enhanced by EUR120bn until end of 2020, thus increasing current purchases of EUR20bn per month to EUR32bn per month. LTRO III conditions were loosened in June 2020 – June 2021 period, with possibility to borrow at rate 25 bp below the average ECB rate (-0.75% versus -0.50%). Economic forecasts for 2020-2022 were cut to 0.8% (-0.3 pp), 1.3% (-0.1 pp) and 1.4% (0.0 pp), respectively, while inflation forecasts remained unchanged at 1.1%, 1.4% and 1.6% with important downward risk due to falling oil prices. The ECB also underlined the need to use fiscal policy tools. Given market turmoil, in the afternoon the **Fed announced emergency liquidity support**, with intention to pump USD1trn into the financial system and to increase its bond purchases. This decision has slightly mitigated the market panic.

In January, **Polish exports** measured in EUR rose according to GUS by 0.5% y/y, in line with the gradual slowdown seen for over two years. Imports rose by 0.3% y/y and the trade balance recorded a surplus of EUR200mn. The results suggest worse tendencies in Polish foreign trade than our estimates based on the performance of industrial output and retail sales in January, among others. Bear in mind, the trade data come from the period before the epidemic, which has totally changed the economic outlook for this year.

**Cezary Kochalski**, who entered the MPC in December, in his first interview for PAP said, that in the current environment of high uncertainty, stabilisation of interest rates seem right and it is too early to decide on changes in monetary policy. Negative developments of the pandemic may weigh on GDP growth and decrease inflation, albeit the Polish economy is resilient compared to other countries of the region. Suggestions that a rate cut is needed could create unnecessary fears that the slowdown would be severe. MPC's **Eryk Lon** does not seem to share such a worry, as the most dovish member. He told PAP that a rate cut by 50bp would help businesses and credit owners and additional unconventional measures should also be considered (he named corporate bonds and SME-focused mutual funds units purchases. Governor Adam Glapiński said yesterday at a press conference that in negative scenario Poland may see a slowdown, but there is no risk of a recession.

**EURUSD** opened at 1.130 and traded around 1.135 before the ECB meeting. In the second half of the day started to decline significantly towards the 200d MA, as we have suggested yesterday. In the short term the pair should reside near the 1.11 level of the 200d MA.

**EURPLN** on Thursday was a 4th worst EM currency globally. Only Czech koruna, Russian ruble and Mexican peso fared worse. After opening at 4.32 already in early morning the pair traded above 4.33 and then during the day up to 4.372 on worsening market sentiment. Today on the EURPLN opened at 4.386 but is already 2 figures lower. EURPLN after rising that much is nearing the important level of 4.40, which has held three times in the recent past (H1 2018, H2 2019). This level may be tested in the coming days.

**Other CEE currencies:** EURHUF rebounded from 50- and 100-day moving averages and has been rising, along with other currency pairs. Thus, chances for forint appreciation have decreased and we think EURHUF may breach 340 in the near time. Significant weakening of the Czech koruna was probably the biggest surprise in CEE – by 2% only yesterday and by 6% since mid-February. Persistence of negative environment could push the rate to 27.0. USDRUB increased by 4%, to 74.9, erasing Wednesday's gain. We expect the ruble to weaken further.

On the **domestic interest rate market** yields jumped strongly, the sell-off that started since morning continued amid very thin liquidity and very wide spreads. At the end of the day, Polish 10Y bond yield was at 2.03% vs 1.70% at the opening – up by 33bp. The 10Y IRS rose by "only" 16bp to 1.39% while the respective Bund remained fairly unchanged at -0.45%. Thus, both asset swap and Bund spreads widened noticeably pointing to the higher credit risk not only for Poland but also for the European peripheries after the ECB did not cut rates, in contrast to the market expectations. The pace and scale of move do not bode well for the POLGBs and further rise of yield and spread vs Bund are very likely.

Foreign trade turnover, % y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.3880	CZKPLN	0.1671
USDPLN	3.9164	HUFPLN*	1.2951
EURUSD	1.1204	RUBPLN	0.0529
CHFPLN	4.1555	NOKPLN	0.3878
GBPPLN	4.9257	DKKPLN	0.5872
USDCNY	6.9848	SEKPLN	0.4030

\*for 100HUF

### Last session in the FX market 12/03/2020

	min	max	open	close	fixing
EURPLN	4.319	4.389	4.319	4.378	4.3451
USDPLN	3.822	3.966	3.827	3.914	3.8642
EURUSD	1.106	1.133	1.129	1.119	-

## Interest rate market 12/03/2020

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

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	1.34	13	5.03.2020	OK0722	1.225
DS0725 (5L)	1.68	21	5.03.2020	PS1024	1.431
DS1029 (10L)	2.04	35	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	1.27	-4	0.49	-1	-0.46	3
2L	1.25	3	0.45	-2	-0.51	-2
3L	1.24	8	0.49	-2	-0.49	-2
4L	1.27	11	0.56	-1	-0.46	-2
5L	1.31	14	0.61	0	-0.42	-2
8L	1.36	16	0.73	1	-0.32	-1
10L	1.40	16	0.77	1	-0.26	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.54	1
T/N	1.55	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	1.78	-1

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

Term	%	Change (bps)
1x4	1.55	-1
3x6	1.28	-7
6x9	1.05	-10
9x12	1.03	1
3x9	1.37	-5
6x12	1.12	-7

### Measures of fiscal risk

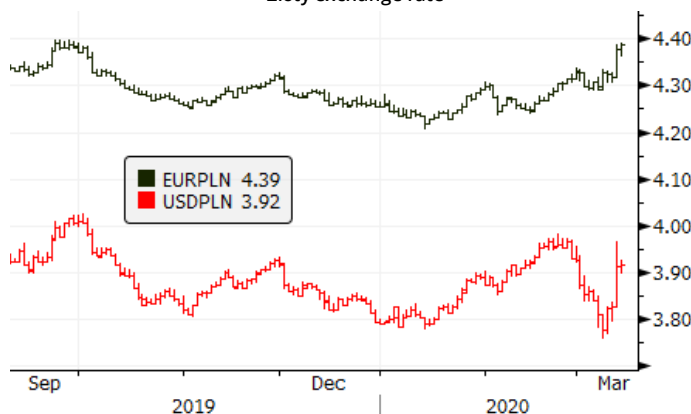
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.79 35
France	31 7	0.64 21
Hungary		3.71 98
Spain	81 22	1.25 25
Italy	206 53	2.51 59
Portugal	81 26	1.47 32
Ireland	33 6	0.79 19
Germany	17 2	- -

\* 10Y treasury bonds over 10Y Bunds

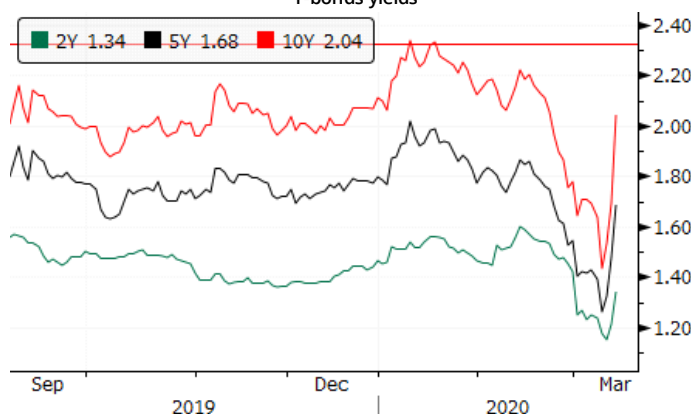
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

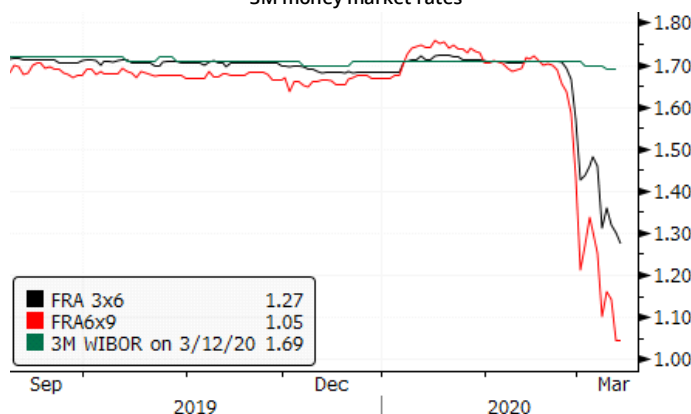
## Zloty exchange rate



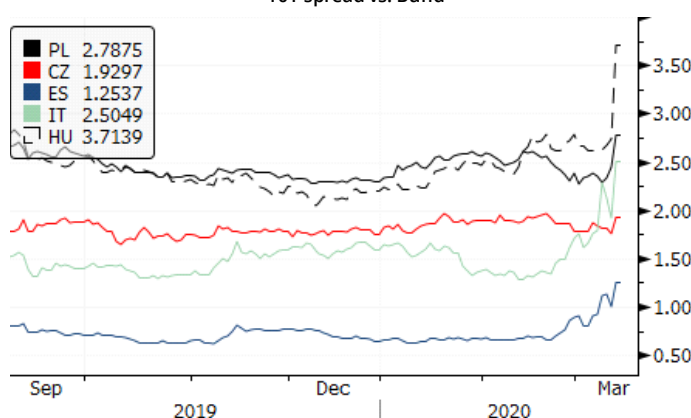
## T-bonds yields



## 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	0.1
THURSDAY (12 March)								
09:00	CZ	Industrial Production	Jan	% y/y	-1.5	-	-1.4	-0.9
11:00	EZ	Industrial Production SA	Jan	% m/m	1.5	-	2.3	-1.8
13:30	US	Initial Jobless Claims	week	k	220	-	211	215
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
FRIDAY (13 March)								
08:00	DE	HICP	Feb	% y/y	1.7	-	1.7	1.7
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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