

16 March 2020

Eyeopener

Central banks in action

Central banks are trying to stabilise markets, so far to no avail
 NBP governor supports a rate cut
 Zloty is stabilising vs the euro, bonds are giving back some of the gains
 Today core inflation and C/A in Poland, tomorrow government rescue package

Friday 13th brought some relief for the risky assets after the strong sell-off on Thursday. Rebound on the stock markets, weakening of bonds and halt of EM depreciation was possible thanks to actions of central banks. On Thursday the Fed announced three tranches of loans worth US\$500bn each and an increase of bond purchases. This supported expectations that further actions will be announced on Wednesday's rate-setting meeting and interest rates will go down further. However, the Fed decided not to wait and cut rates on Sunday evening. Fed funds rate was trimmed to zero and the central bank announced new QE worth \$700bn. During the weekend, emergency rate cuts were applied by bank of New Zealand, on Friday the Norwegian central bank did the same, while the PBOC cut reserve requirement rate.

In February the **CPI** increased to 4.7% y/y from 4.3% in January (revised lower from 4.4%) – more details in our [Economic Comment](#). Despite the fact that inflation impulse has been higher than expected at the beginning of the year, the outlook for the coming months significantly changed due to coronavirus pandemic and its consequences.

As a result of **the Friday's decision taken by the Polish government**, since Sunday trespassing of the Polish border is limited and so is availability of many stores, services and restaurants. These actions are aimed at containing the spread of the coronavirus and are also likely to have a highly negative effect on the domestic economic activity. Inevitability of economic growth deceleration – supporting the scenario of lower inflation later in the year – has likely been the main reason why NBP governor said on Friday he will encourage the MPC to cut interest rates. Governor Glapiński is aware that looser monetary policy will neither spur demand nor economic activity but will at least reduce costs for the companies and households. Head of the MPC said that the main effort to limit the negative shock should come from the fiscal policy. The three most hawkish members of the Council, Łukasz Hardt, Eugeniusz Gatnar and Kamil Zubelewicz shared the latter opinion and said they will not support the motion to cut rates as in their view the state action has the biggest power to support companies. Jerzy Kropiwnicki also said he saw no ground to cut rates. Rafał Sura, Cezary Kochalski and Jerzy Żyżyński did not exclude the rate cut could be delivered and said there were grounds to ease monetary policy. Eryk Łon is likely to support a rate cut and so there should be five votes in favour of a cut (including Adam Glapiński). In our view, after the recent comments of the MPC members, **the question is not if but when the interest rates will be cut** – at the April 8 regular meeting or earlier (tomorrow the MPC holds a working meeting). We go for the April option. **We think rates will be cut by 50bp.**

The **Moody's rating agency decided not to update Polish rating** on Friday, its assessment still sits at A2 with stable outlook. Fitch plans to review Poland's rating on March 27th.

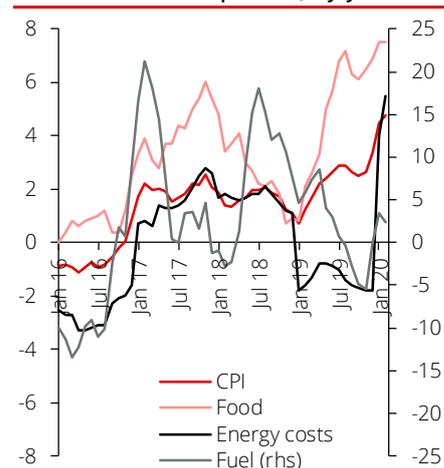
On Friday **EURUSD** declined to 1.11 from 1.12 however remained within Thursday daily range. The dollar gained even more, however the pause in the risk aversion limited the move. After the unexpected Fed rate cut on Sunday, the dollar weakened and EURUSD again moved towards 1.12.

EURPLN has been declining for the majority of the Friday session. After printing the session low at 4.35, at the end of the day the currency pair moved up to 4.38 only slightly below the Thursday's maximum. USDPLN has been increasing for the whole day due to strengthening dollar and closed at 3.96 vs 3.90 at the open. Today in the morning the zloty opens weaker, EURPLN above 4.39, USDPLN above 3.93. The fact that global market sentiment has not calmed down and the governor Glapinski's change of mind regarding the possible interest rates cut in Poland confirm our opinion that the 4.40 level will be thoroughly tested with the risk of EURPLN breaking higher.

As for **other CEE currencies**, trading looked similar to EURPLN. EURCZK and EURHUF went slightly above the Thursday peak and USDRUB dropped below the Thursday low. The global sentiment will be crucial for the performance of the regional currencies in the following days.

On the domestic **interest rate market**, bond yields rose by 5bp along the curve, while IRS rates were a tad lower. More weakness was seen on core markets: 10Y yield rose by 10bp in Germany, and by 13bp in the USA. This morning core market yields are going down after the central banks' interventionist rate cuts. The high risk aversion may keep Polish debt under strong pressure, though.

CPI and selected components, %/y



Source: GUS, Santander

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 Luzziński +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	4.3945	CZKPLN	0.1648
USDPLN	3.9275	HUFPLN*	1.2920
EURUSD	1.1190	RUBPLN	0.0527
CHFPLN	4.1638	NOKPLN	0.3871
GBPPLN	4.8553	DKKPLN	0.5880
USDCNY	7.0022	SEKPLN	0.4073

*for 100HUF

Last session in the FX market 13/03/2020

	min	max	open	close	fixing
EURPLN	4.352	4.389	4.378	4.377	#N/D!
USDPLN	3.886	3.963	3.914	3.944	#N/D!
EURUSD	1.106	1.123	1.119	1.111	-

Interest rate market 13/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	1.41	7	5.03.2020	OK0722	1.225
DS0725 (5L)	1.81	-7	5.03.2020	PS1024	1.431
DS1029 (10L)	2.09	-6	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.32	5	0.55	6	-0.40	6
2L	1.36	11	0.53	8	-0.39	7
3L	1.38	14	0.61	12	-0.37	8
4L	1.43	16	0.70	14	-0.32	9
5L	1.47	16	0.78	17	-0.27	10
8L	1.53	17	0.92	19	-0.16	14
10L	1.59	19	0.96	19	-0.09	15

WIBOR rates

Term	%	Change (bps)
O/N	1.56	2
T/N	1.56	1
SW	1.56	1
2W	1.59	1
1M	1.63	1
3M	1.69	0
6M	1.74	-1
9M	1.80	0
1Y	1.78	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.56	1
3x6	1.30	3
6x9	1.17	13
9x12	1.06	3
3x9	1.41	4
6x12	1.21	10

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	-4
France	38	0	0.65	9
Hungary			3.38	7
Spain	100	20	1.31	14
Italy	233	12	2.52	19
Portugal	103	17	1.50	14
Ireland	42	-4	0.81	10
Germany	21	-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



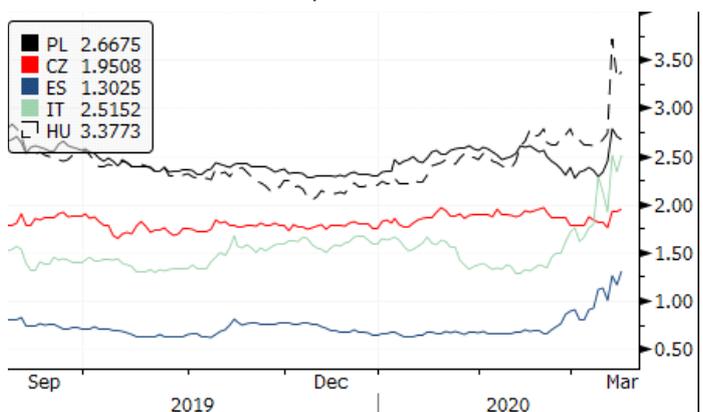
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
CET							
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	4.7
15:00	US	Michigan index	Mar	pts	95.0	-	95.9
MONDAY (16 March)							
14:00	PL	CPI Core	Feb	% y/y	3.4	3.4	3.1
14:00	PL	Current Account Balance	Jan	€mn	3 043	3 042	990
14:00	PL	Trade Balance	Jan	€mn	-	973	224
14:00	PL	Exports	Jan	€mn	-	19 640	17 220
14:00	PL	Imports	Jan	€mn	-	18 667	16 996
TUESDAY (17 March)							
11:00	DE	ZEW Survey Current Situation	Mar	pts	-25.0	-	-15.7
13:30	US	Retail Sales Advance	Feb	% m/m	0.2	-	0.3
14:15	US	Industrial Production	Feb	% m/m	0.4	-	-0.31
WEDNESDAY (18 March)							
10:00	PL	Employment in corporate sector	Feb	% y/y	1.0	1.0	1.1
10:00	PL	Average Gross Wages	Feb	% y/y	7.0	7.1	7.1
11:00	EZ	HICP	Feb	% y/y	1.2	-	1.2
13:30	US	Housing Starts	Feb	% m/m	-4.3	-	-3.6
19:00	US	FOMC decision		%	0.75	-	1.25
THURSDAY (19 March)							
10:00	PL	Sold Industrial Output	Feb	% y/y	2.1	2.4	1.1
10:00	PL	PPI	Feb	% y/y	0.3	0.3	0.8
13:30	US	Initial Jobless Claims	week	k	220	-	211
13:30	US	Index Philly Fed	Mar	pts	10.0	-	36.7
FRIDAY (20 March)							
10:00	PL	Construction Output	Feb	% y/y	0.9	0.9	6.5
10:00	PL	Retail Sales Real	Feb	% y/y	4.4	4.1	3.4
15:00	US	Existing Home Sales	Feb	% m/m	1.1	-	-1.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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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.