17 March 2020

Eyeopener

QE vadis NBP?

Market panic mode still on
NBP signals asset purchases, recommends rate cut, today technical MPC meeting
Zloty and CEE peers see large losses
Today US and German data; Polish government to announce rescue package

The second in a row emergency FOMC meeting that brought interest rates reduction to zero and a restart of the asset purchase program failed to improve the global market mood persistently. Bank of Korea cut interest rates by 50bp to their all-time-low at 0.75% and the ECB's Robert Holzmann said that the euro zone central bank could take further action if needed to ease the impact of the coronavirus. This, however, did not prevent stock indexes from reaching their fresh multi-year or multi-month lows (in the US, stocks plummeted by more than 10%, in Europe and Asia the sell-off was less pronounced) and EM currencies from depreciation, while EURUSD was quite stable. Interestingly, core bonds lost along the falling stock indexes. Statement after the G7 teleconference underlined the willingness for a united research in fighting the virus but no coordinated stimulus was announced. EU finance ministers agreed for measures accounting for c1% of GDP – providing liquidity, state guarantees and postponing tax obligations. The EIB is to provide €40bn for loans for companies and health-related expenditures.

Core inflation excluding food and energy prices rose to 3.6% y/y in February from 3.1% y/y January, hitting the highest mark since April 2002. We are expecting core inflation to go down in the months to come, towards 2.5% y/y. The coronavirus epidemic and looming deep economic slowdown are likely to hit services prices and reduce sharply inflationary pressure. Food prices may jump higher temporarily, but it should not be a lasting effect.

Current account showed a surplus of €2.3bn in January, somewhat below our expectations (€3.0bn). Both exports and imports rose by 3.0% y/y. 12-month current account surplus remained unchanged at 1.1% of GDP. Note that this is pre-coronavirus number and in our view the following months are likely to bring a major deceleration in foreign trade.

MPC's Grażyna Ancyparowicz said yesterday she would not vote for a rate cut, until she sees a new projection with a severe slowdown. She thinks MPC should wait for the fiscal response first. The votes of Glapiński, Łon, Sura, Żyżyński and Kochalski would suffice to pass a cut. We see a growing chance that a 50bp cut will be delivered even today, at a technical MPC meeting.

On Monday late afternoon the **NBP board** supported the central bank governor Glapiński's call for a rate cut and recommended also that the MPC cuts reserve requirement rate by 50bp. The NBP announced also a set of measures to support the economy. The **central bank said it will start Polish sovereign bond purchases** at the secondary market (Polish QE program), conduct repo operation to provide liquidity for the banking sector and introduce a facility similar to the ECB's TLTRO enabling banks to refinance loans for corporations. The central bank supported the idea of lowering the systemic risk buffer – according to the NBP, a reduction of the buffer to 0% from 3% would free up to PLN30bn of capital. The Financial Stability Committee supported this motion.

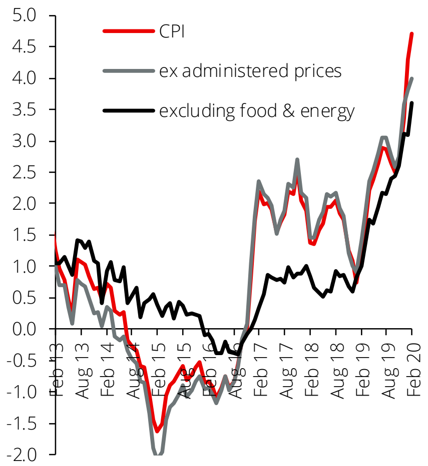
EURUSD remained above the local minimum at 1.105. Yesterday the pair temporarily increased above 1.12. The volatility was somewhat higher than on Friday but smaller than on Thursday.

Yesterday **EURPLN** followed the global risk aversion pattern and, as we had indicated, broke through the level 4.40. The currency pair traded above 4.42 reaching the highest level since end of 2016. Overnight the upward move continued and the pair breached 4.45. USDPLN gained for a fifth consecutive session and reached 3.98 during the day. CHFPLN started to stabilize only after reaching the 4.20 level.

As to **other CEE currencies** the behaviour of EURHUF and EURCZK looked similarly to EURPLN. Corona and forint significantly lost vs euro reaching, respectively, 27.308 (highest since 2015) and slightly above 345 (new all-time high). Despite the fall in the oil prices, USDRUB remained within a range which has been holding since the previous Monday 70.45-75.40

On Polish **fixed income market** the IRS yields declined by around 20-30bp, with the biggest moves on the short end of the curve, on growing expectations of a rate cut by MPC. Bond yields declined on the front end by 20bp, 5Y by significantly less, while those of 10Y increased by 10bp. As a result the 10Y PL-DE spread increased above 270bp, the highest since September 2019. Today Ministry of Finance will announce the supply on the Thursday switch auction, if it will not be called off altogether.

Core inflation, % y/y



Source: NBP, Santander

Foreign trade turnover, % y/y

Source: NBP, 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 Luziński +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 16/03/2020

	min	max	open	close	fixing
EURPLN	4.369	4.446	4.375	4.442	#N/D!
USDPLN	3.903	3.988	3.947	3.980	#N/D!
EURUSD	1.105	1.124	1.107	1.116	-

Interest rate market 16/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	1.18	-24	5.03.2020	OK0722	1.225
DS0725 (5L)	1.87	-2	5.03.2020	PS1024	1.431
DS1029 (10L)	2.25	10	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.11	-21	0.50	-5	-0.39	1
2L	1.08	-28	0.45	-8	-0.39	7
3L	1.09	-29	0.51	-10	-0.37	8
4L	1.16	-27	0.57	-13	-0.32	9
5L	1.26	-21	0.63	-16	-0.27	10
8L	1.36	-17	0.74	-18	-0.16	14
10L	1.42	-17	0.78	-19	-0.09	15

WIBOR rates

Term	%	Change (bps)
O/N	1.52	-4
T/N	1.52	-4
SW	1.54	-2
2W	1.56	-3
1M	1.58	-5
3M	1.60	-9
6M	1.63	-11
9M	1.80	0
1Y	1.66	-12

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.15	-41
3x6	0.97	-33
6x9	0.93	-24
9x12	0.81	-25
3x9	1.04	-37
6x12	0.93	-28

Measures of fiscal risk

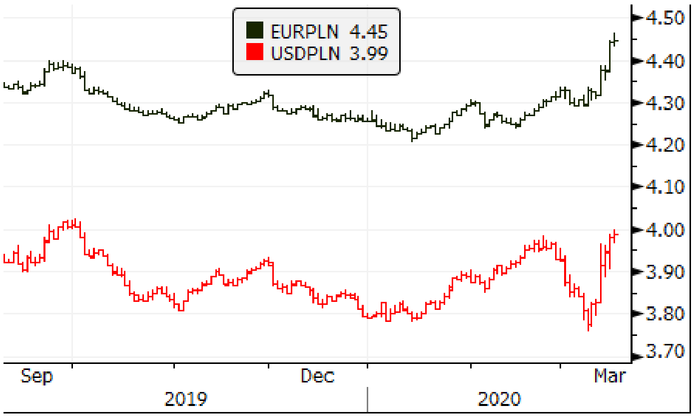
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland			2.70	8
France	38	6	0.67	5
Hungary			3.52	29
Spain	100	33	1.34	4
Italy	233	31	2.61	36
Portugal	103	34	1.55	3
Ireland	42	7	0.73	10
Germany	21	2	-	-

* 10Y treasury bonds over 10Y Bunds

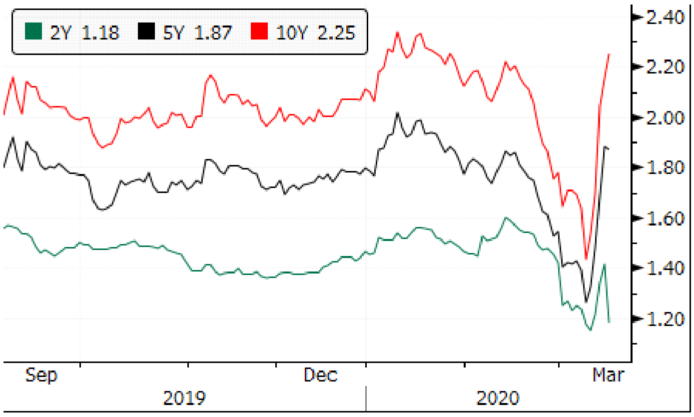
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

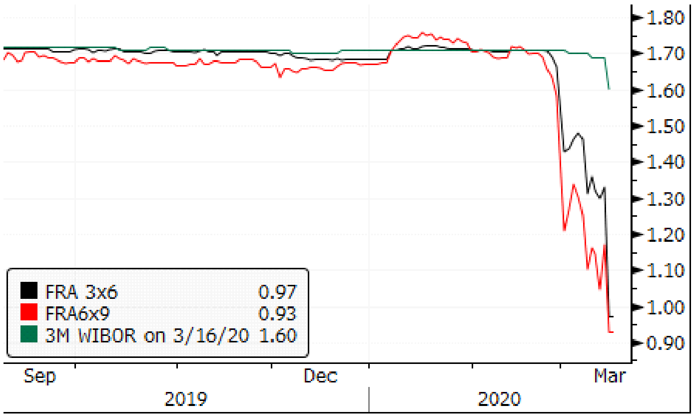
Zloty exchange rate



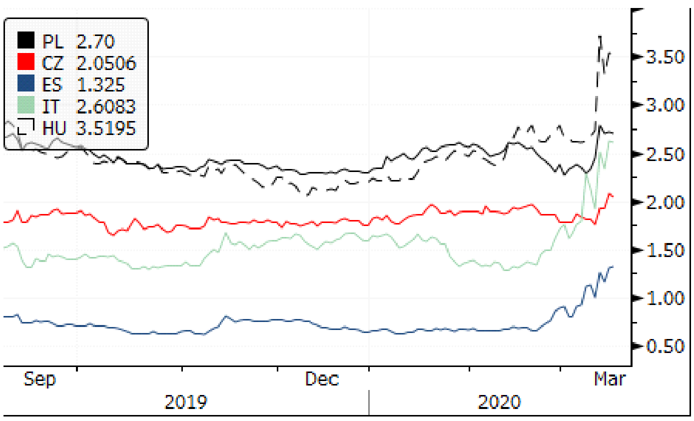
T-bonds yields



3M money market rates



10Y spread vs. Bund



Santander

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (13 March)					
08:00	DE	HICP	Feb	% m/m	0.6	-	0.6	0.6
10:00	**PL**	**CPI**	**Feb**	**% y/y**	**4.4**	**4.4**	**4.7**	**4.3**
15:00	US	Michigan index	Mar	pts	95.0	-	95.9	101.0
			MONDAY (16 March)					
14:00	**PL**	**CPI Core**	**Feb**	**% y/y**	**3.4**	**3.4**	**3.6**	**3.1**
14:00	**PL**	**Current Account Balance**	**Jan**	**€mn**	**3 043**	**3 042**	**2 265**	**990**
14:00	**PL**	**Trade Balance**	**Jan**	**€mn**	**-**	**973**	**330**	**224**
14:00	**PL**	**Exports**	**Jan**	**€mn**	**-**	**19 640**	**19 267**	**17 220**
14:00	**PL**	**Imports**	**Jan**	**€mn**	**-**	**18 667**	**18 937**	**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*