

18 March 2020

Eyeopener

NBP cuts rates

Another attempt to stabilise sentiment
NBP rates down, other instruments launched
EURPLN temporarily close to 4.50
Domestic yields fell sharply
Today Polish labour market data, euro zone inflation

On Tuesday the global stock exchanges tried to stabilize yet again in recent weeks after deep price decreases. As in the previous cases, relatively good mood at the beginning of the session worsened towards the market close. The economic data did not help markets either. It is worth noting however that main equity indices managed to stay above Monday minimum which can be regarded as a success. March German ZEW index fell much more than expected and this both for current situation as well as expectations component. US February retail sales data were worse than expected but industrial production beat estimates. The FOMC meeting, previously scheduled for Wednesday evening, was called off, while in the afternoon the Fed announced that in order to support USD liquidity it will purchase short term corporate bonds papers within the CPFF programme (created in 2008 in the context of the financial crisis). Yesterday two more central banks joined the easing crowd - the Turkish central bank (which cut the main rate by 100bp to 9.75%) as well as the Polish MPC.

Polish **NBP cut main reference rate by 50bp to 1.00%**, lombard rate by 100bp to 1.5% and left deposit rate on hold at 0.5% at the working meeting. The reserve requirement was lowered from 3.5% to 0.5% and the interest on mandatory reserves was raised from 0.5%. Also, the non-standard monetary easing (QE, TLTRO, liquidity provision) was confirmed, although without technical details. **We think that after the emergency move, the MPC will be reluctant to cut interest rates further.** The central bank would rather wait to see the details and the first results of rescue package to be announced by the government (hopefully we will see some news today), and to assess the severity of economic growth deterioration in the coming months / quarters. For now, we assume that the official interest rates will remain on hold until the end of the year.

The coronavirus infection of the environment minister caused that the Cabinet Council (Councils of Ministers presided by the President), planned for yesterday, was rescheduled for today. The Council is to discuss government actions aimed at supporting the economy.

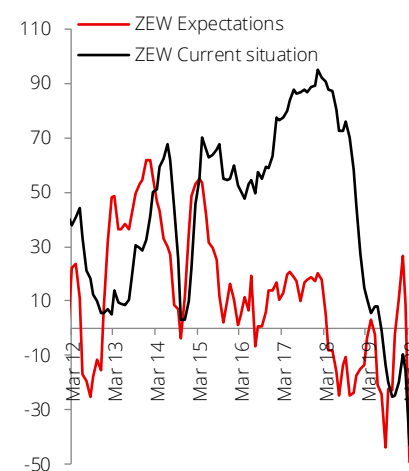
Yesterday **EURUSD** slumped from above 1.12 to 1.095. US and euro zone rates are so low that further cuts are unlikely. In our view now non-standard action will be preferred, as the Fed has already delivered on that front. We think that EURUSD movements will depend on investors' expectations which economy will be the first to rebound after the coronavirus-related slowdown: the USA or the euro zone. In our view the market will be betting on the USA so we would expect EURUSD to go down in the weeks to come.

EURPLN was on the rise since the beginning of the session awaiting the NBP rate cut. When it was finally announced, the zloty recovered slightly. Yesterday, EURPLN reached nearly 4.50 intraday and closed the day around 4.47. USDPLN jumped by cPLN0.10 to 4.08. In our view, trends on the equity market will be crucial for the zloty performance. Also, the governments stimulus measures that are expected to be announced today could have some impact as well.

In case of the **other CEE currencies**, EURCZK stabilized just below its previous day's peak at c27.39 and eased somewhat in the second part of the day. EURHUF recorded its fresh all-time-high at c348. The ruble remained stable as USDRUB remained within the 70,45-75,40 range

On the **domestic interest rate market**, IRS and bond yields plummeted by even 45bp for the 10Y benchmark. Polish debt gained despite Bund and UST yields rise. In the second part of the day, the Bund yield fell somewhat while the US 10Y bond yield jumped by more than 20bp. It appears that the main factors behind strengthening of the Polish bonds were the rate cut, announcement of the POLGBs purchase program by the central bank and cancellation of the tomorrow's switch auction.

ZEW index for Germany, pts



Source: Bloomberg, Santander

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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 17/03/2020

	min	max	open	close	fixing
EURPLN	4.433	4.497	4.442	4.470	4.4886
USDPLN	3.967	4.089	3.980	4.069	4.046
EURUSD	1.096	1.119	1.116	1.099	-

Interest rate market 17/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	0.84	-34	5.03.2020	OK0722	1.225
DS0725 (5L)	1.54	3	5.03.2020	PS1024	1.431
DS1029 (10L)	1.79	-46	5.03.2020	DS1029	1.725

IRS on the interbank market**

Risks on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.99	-13	0.58	8	-0.39	0
2L	0.93	-15	0.50	5	-0.38	1
3L	0.91	-18	0.54	3	-0.35	1
4L	0.96	-19	0.60	3	-0.30	1
5L	1.03	-24	0.66	3	-0.25	1
8L	1.13	-23	0.81	7	-0.12	1
10L	1.18	-24	0.86	9	-0.07	3

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-11
T/N	1.41	-11
SW	1.49	-5
2W	1.50	-6
1M	1.50	-8
3M	1.50	-10
6M	1.52	-11
9M	1.80	0
1Y	1.53	-13

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.00	-15
3x6	0.80	-17
6x9	0.74	-19
9x12	0.64	-18
3x9	0.81	-23
6x12	0.66	-27

Measures of fiscal risk

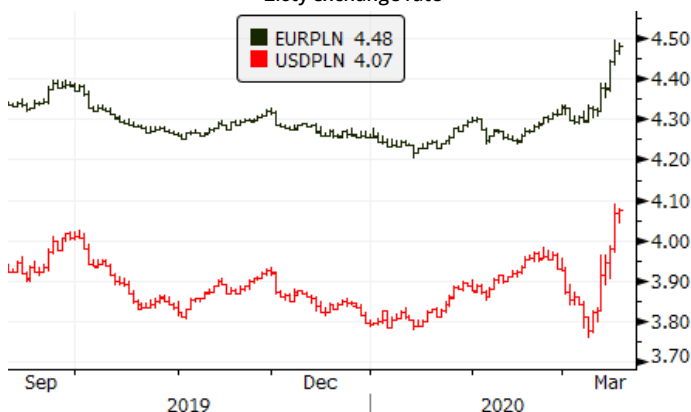
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.16	-53
France	44	8	0.67	1
Hungary			3.18	-9
Spain	132	19	1.45	-1
Italy	264	-1	2.68	-11
Portugal	137	19	1.67	-3
Ireland	49	9	0.70	-2
Germany	22	3	-	-

* 10Y treasury bonds over 10Y Bunds

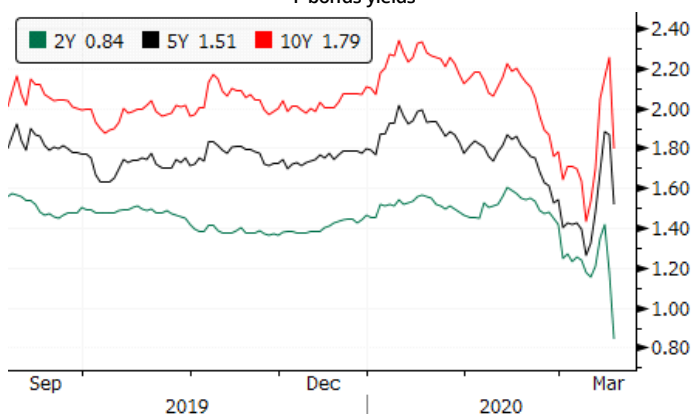
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

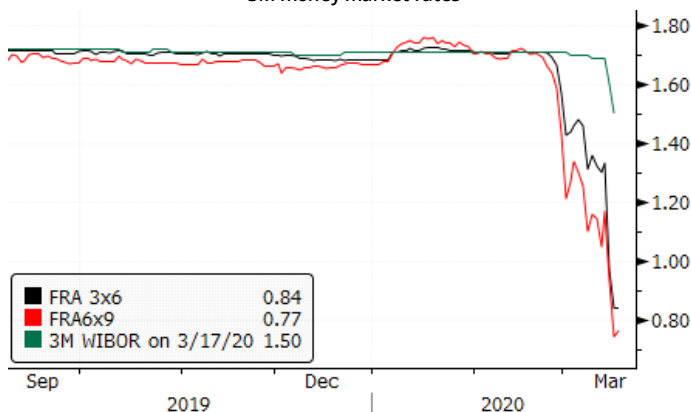
Zloty exchange rate



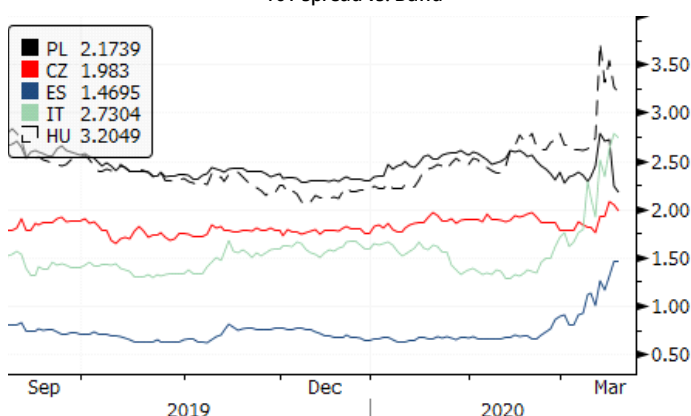
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	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)								
	PL	MPC decision – refi rate		%	-	-	1.0	1.50
11:00	DE	ZEW Survey Current Situation	Mar	pts	-25.0	-	-49.5	-15.7
13:30	US	Retail Sales Advance	Feb	% m/m	0.2	-	-0.5	0.3
14:15	US	Industrial Production	Feb	% m/m	0.4	-	0.6	-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
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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