

24 March 2020

Eyeopener

Fed unlimited bond buying programme

Further measures supporting economies
Zloty and other CEE currencies under pressure
Domestic bond market gains after core markets
Today March preliminary PMI in Europe and rate decision in Hungary

Monday saw new information about actions undertaken by policymakers to support economies, struggling with restrictions aimed at fighting the coronavirus. Germany approved the program worth €750bn (including €500bn in guarantees for endangered firms, €150bn in stimulus package), which may lift the public debt by €350bn. Fed once again attempted to cap market worries, by announcing the unlimited purchases of bonds. Moreover, Fed launched new programmes worth \$300bn, aiming at support capital transmission to firms and consumers (e.g. purchase of corporate bonds and lending to companies). The positive impact of those measures on equity markets was short-lived, but main stock indices and crude oil price managed to hold slightly above their local lows. The debt market gained on the outlook of unlimited Fed purchases. Although the new wave of risk aversion has not appeared yesterday, part of EM currencies (including CEE) lost yesterday.

In 4Q19 companies employing 50 and more people recorded a rise in revenues by 3.5% y/y and costs by 2.6% y/y, which translated into improving margins in y/y terms (yet it was lower than in the remaining quarters of 2019) and rising gross financial results. Investment data showed a strong deceleration to 3.6% y/y from 11.3% y/y in 3Q19. Investment in manufacturing slowed down to 5.8% y/y from 12.7% y/y in 3Q19. Investment in machinery and equipment shrank by 4.8% y/y versus a +12.6% y/y rise in 3Q19. Interestingly, Eurostat data on total investment in machinery, equipment and weapons systems showed an acceleration in 4Q19 to 8.0% y/y from 5.6% y/y. While these statistics do not necessarily need to be fully compliant, the big discrepancy suggests there was either a machinery investment boom in small companies (less probable) or a rise of government spending in this category (more probable).

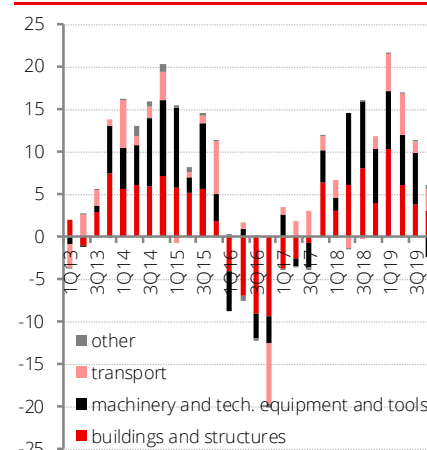
Several MPC members spoke yesterday. The most dovish one, Eryk Łon, said he supports further rate cuts and an introduction of non-standard tools that other central banks are using – loans to SMEs and equity purchases. Jerzy Kropiwnicki said it is worth to consider bond purchases by NBP on the primary market if one of the states of emergency included in the constitution is declared. Kamil Zubelewicz thinks that the delivered rate cut weakened the zloty and the central bank should focus now on protecting the domestic currency instead of offering a short-term support for the economy.

EURUSD temporarily rose yesterday to 1.08 from c1.07 after the announcement by Fed of additional monetary stimulus for the US economy. After the Thursday's strong drop, the exchange rate is most of the time seen above 1.07. Today we will see flash March PMIs for euro zone industry and services. We believe the services indexes can provide a more reliable picture of the state of the economy (as the industrial ones have a flaw of rising on supply chain disruptions).

EURPLN jumped by more than 2% to 4.63 and it broke its previous week's high. USDPLN rose above 4.30. The other CEE currencies followed suit – mainly the forint and koruna, the ruble did not lose much. EURHUF, EURCZK and USDRUB remained below their last week's peaks. Today the Hungarian central bank will hold a meeting. Recently, bank officials said that restarting the mortgage bonds repurchase program could be considered and today the decision could be announced.

On the **domestic interest rate market** yields plummeted by 10-25bp, the most on the front end, the less on the long end. IRS continued the down move by 10-20bp to their fresh all-time-lows. Yesterday, first the Ministry of Finance switched cPLN11bn of eight floating coupon series bonds into fixed coupon ones taking the excess of the former from the market. Later in the day, the central bank organized the second bond purchase auction when he bought mainly fixed coupon bonds for PLN5.6bn (at the previous auction the bank bought debt for PLN2.7bn).

Investments of companies employing more than 50 people, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5963	CZKPLN	0.1659
USDPLN	4.2421	HUFPLN*	1.3123
EURUSD	1.0835	RUBPLN	0.0540
CHFPLN	4.3425	NOKPLN	0.3764
GBPPLN	4.9483	DKKPLN	0.6155
USDCNY	7.0734	SEKPLN	0.4156

*for 100HUF

Last session in the FX market 23/03/2020

	min	max	open	close	fixing
EURPLN	4.496	4.634	4.509	4.611	4.5571
USDPLN	4.176	4.308	4.192	4.290	4.2654
EURUSD	1.064	1.083	1.070	1.075	-

Interest rate market 23/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	0.84	-15	5.03.2020	OK0722	1.225
DS0725 (5L)	1.39	-14	5.03.2020	PS1024	1.431
DS1029 (10L)	1.87	-10	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	0.61	-16	0.62	-1	-0.32	0
2L	0.61	-16	0.48	-2	-0.30	-1
3L	0.63	-17	0.46	-4	-0.26	-4
4L	0.69	-18	0.48	-4	-0.21	-5
5L	0.77	-17	0.50	-5	-0.15	-6
8L	0.91	-16	0.62	-9	-0.03	-2
10L	0.98	-15	0.66	-10	0.07	-9

WIBOR rates

Term	%	Change (bps)
O/N	0.85	-16
T/N	0.91	-10
SW	1.03	-5
2W	1.04	-3
1M	1.15	-1
3M	1.18	0
6M	1.20	0
9M	1.80	0
1Y	1.23	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.70	-12
3x6	0.50	-18
6x9	0.38	-26
9x12	0.34	-24
3x9	0.55	-15
6x12	0.38	-27

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.25	-4
France	42	3	0.48	5
Hungary			3.12	-12
Spain	124	10	1.14	6
Italy	185	6	2.09	18
Portugal	119	6	1.35	7
Ireland	48	2	0.62	5
Germany	22	2	-	-

* 10Y treasury bonds over 10Y Bunds

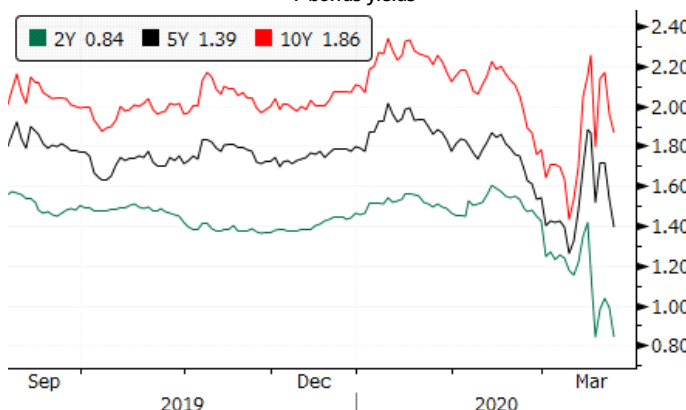
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

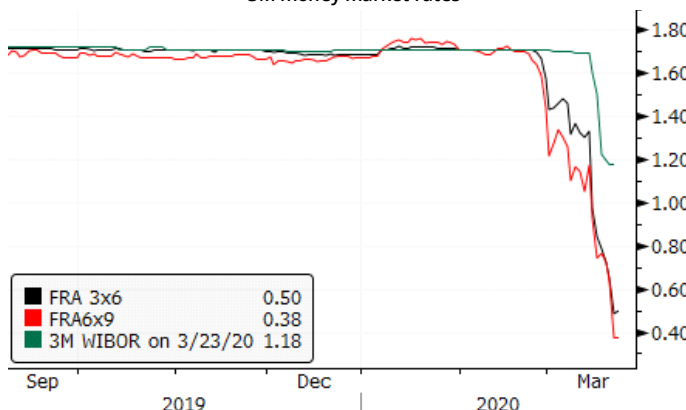
Zloty exchange rate



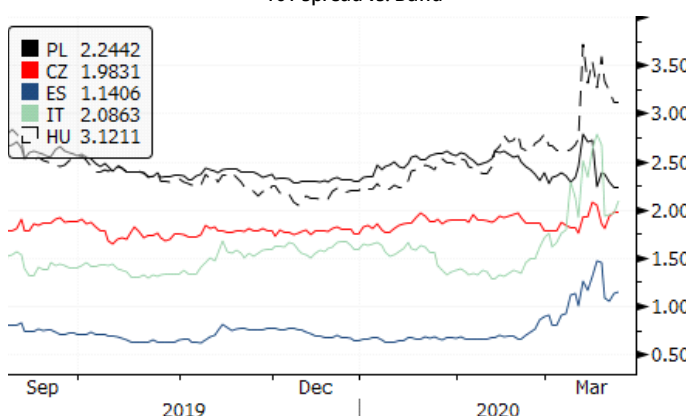
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET	MARKET				SANTANDER	VALUE	VALUE*	
FRIDAY (20 March)								
10:00	PL	Construction Output	Feb	% y/y	0.9	0.9	5.6	6.5
10:00	PL	Retail Sales Real	Feb	% y/y	4.4	4.1	7.3	3.4
15:00	US	Existing Home Sales	Feb	% m/m	1.1	-	6.5	-2.0
MONDAY (23 March)								
11:00	PL	Bond switch auction						
14:00	PL	Money supply	Feb	% y/y	8.7	9.1	9.4	9.3
TUESDAY (24 March)								
9:30	DE	Flash PMI – manufacturing	Mar	pts	40.0	-		48.0
9:30	DE	Flash PMI – services	Mar	pts	43.5	-		52.5
10:00	EZ	Flash PMI – manufacturing	Mar	pts	40.0	-		49.2
10:00	EZ	Flash PMI – services	Mar	pts	40.0	-		52.6
14:00	HU	Central bank decision		%	0.90	-		0.90
15:00	US	New home sales	Feb	% m/m	-1.8	-		7.9
WEDNESDAY (25 March)								
10:00	DE	Ifo index	Mar	pts	-	-		87.7
13:30	US	Durable goods orders	Feb	% m/m	-1.0	-		-0.2
THURSDAY (26 March)								
13:00	CZ	Central bank decision		%	-	-		1.25
13:30	US	Initial jobless claims	week	k	750	-		281
13:30	US	GDP 3rd estimate	4Q	% y/y	2.1	-		2.1
FRIDAY (27 March)								
	PL	Fitch rating review						
13:30	US	Personal incomes	Feb	% m/m	0.4	-		0.6
13:30	US	Personal spending	Feb	% m/m	0.3	-		0.2
15:00	US	Michigan index	Mar	% m/m	93.3	-		95.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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