

26 March 2020

Eyeopener

Polishing the shield

Limited optimism after US Congress agrees on a bill
 EURPLN moderately lower, EURUSD only slightly higher
 POLGBs higher, IRS higher
 Today another bond buying auction, abroad data in the US and CNB rate decision

The US investors embraced the Congress-backed USD2trn rescue package with a lot of optimism and this translated into more sanguine moods in Europe yesterday. However, the optimism was waning over the day, helping bonds to trim their losses. CEE currencies remained relatively stable. German Ifo fell in March to the lowest level since July 2009. US data – durable goods orders – were better than expected, but these numbers refer to February, i.e. still come from before the coronavirus spread. Lower optimism was clearly visible in commodity prices – oil and copper prices were stable (WTI at \$23.5/bbl).

The government accepted overnight the draft of the **fiscal support package**, called the anti-crisis shield with some changes vs the initial announcements. The most important change is that the state will cover all social security contributions of microfirms and entrepreneurs for three months. The cost of this item was assessed at PLN14bn, which makes the whole package worth 10% rather than the previously estimated 9% of GDP. The parliament is to vote on the package on Friday.

EURUSD stayed yesterday around 1.08 and the volatility was smaller than on Tuesday. In a broader context, EURUSD stabilised after the drop, with the February low (at c.1.078) serving as a technical resistance level, blocking the potential of the FX rate for a larger rebound yesterday. However on Thursday morning EURUSD opened at 1.091 and may rise some more during the day.

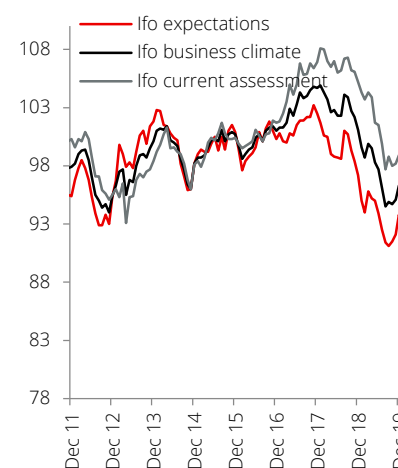
EURPLN moved away from its multi-year peak of 4.63 yesterday and fell temporarily to 4.56. USDPLN fell below 4.27, CHFPLN remained above 4.30 and GBPPLN slumped below 4.95 from its daily high at 5.05. Similarly to stock markets abroad, which remain only slightly above their multi-year lows, the EURPLN still remains just below its highest level since 2009. As we wrote yesterday, it looks like only the more persistent and clear improvement of global sentiment could help zloty to trim most of its recent losses.

As regards **other CEE currencies**, EURCZK was hovering between previous days' low (26.95) and high (27.90), remaining closer to the local peak. EURHUF and USDRUB fell temporarily, but at the end of the day ruble managed to keep most of the improvement while forint was slightly weaker than at the opening. Yesterday the central bank in Hungary offered to commercial banks the first tranche of secured loans between one and five weeks, with fixed interest rate 0.9% and unlimited value. Banks decided to borrow HUF43bn (USD132m). Today the Czech central bank will decide about interest rates; markets expect another interest rate cut by 50bp, to 1.25% and possibly a launch of asset purchases.

On the **domestic interest rate market** On the domestic interest rate market IRS rebounded by c10bp while bonds gained (but the 10Y where the yield rose 5bp). The 10Y Bund yields rose slightly while Treasuries fell somewhat. NBP announced it will hold another debt repurchase auction today. Moreover, on March 30 the central bank will release schedule of operations planned for April. In the recent days, Polish bonds outperformed Bund and so the 10Y PL-DE bond yield spread fell below 220b, its lowest since late 2015.

Today, the Czech central bank will decide about the interest rates, the market expects further cut by 50bp to 1.25% and perhaps start of the asset purchase program. In the US, like every week, initial jobless claims will be published and the market expects a major rise as an effect of the slowdown triggered by the coronavirus. Third out of five manufacturing indexes will be released, this time by Kansas City Fed.

German IFO indices



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5889	CZKPLN	0.1664
USDPLN	4.1987	HUFPLN*	1.2931
EURUSD	1.0923	RUBPLN	0.0534
CHFPLN	4.3141	NOKPLN	0.3902
GBPPLN	5.0029	DKKPLN	0.6141
USDCNY	7.0923	SEKPLN	0.4153

*for 100HUF

Last session in the FX market 3/25/2020

	min	max	open	close	fixing
EURPLN	4.562	4.601	4.592	4.566	4.5779
USDPLN	4.207	4.255	4.248	4.211	4.222
EURUSD	1.078	1.086	1.082	1.085	-

Interest rate market 3/25/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.98	4	5.03.2020	OK0722	1.225
PS1024 (5Y)	1.32	-2	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.85	5	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	0.70	10	0.65	2	-0.37	2
2L	0.72	11	0.52	1	-0.27	0
3L	0.73	11	0.52	1	-0.24	0
4L	0.78	11	0.56	0	-0.19	1
5L	0.85	11	0.61	2	-0.13	2
8L	1.00	12	0.75	4	0.13	13
10L	1.08	12	0.79	4	0.21	15

WIBOR rates

Term	%	Change (bps)
O/N	0.79	-1
T/N	0.80	-3
SW	1.01	-1
2W	1.04	0
1M	1.14	0
3M	1.17	0
6M	1.20	0
9M	1.80	0
1Y	1.23	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.81	4
3x6	0.63	14
6x9	0.47	9
9x12	0.40	6
3x9	0.60	8
6x12	0.51	11

Measures of fiscal risk

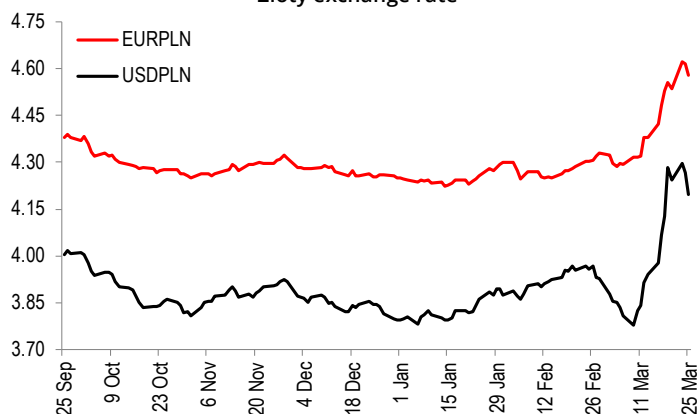
Measures of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	58	1	214	2
France	28	-3	49	-2
Hungary	77	0	286	12
Spain	101	-15	116	-6
Italy	122	-9	187	-5
Portugal	70	-5	130	-7
Ireland	36	-6	63	-2
Germany	18	0	-	-

* 10Y treasury bonds over 10Y Bunds

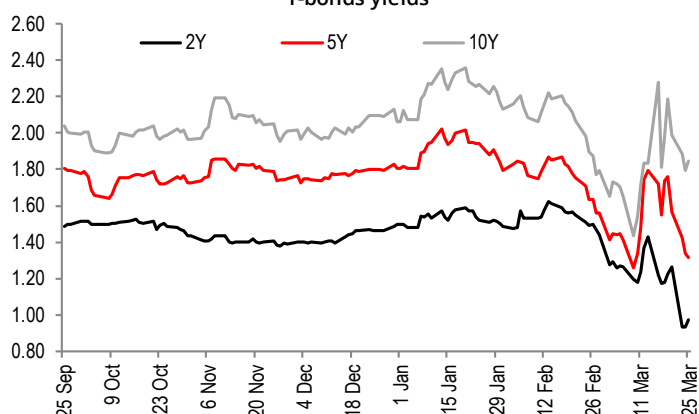
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

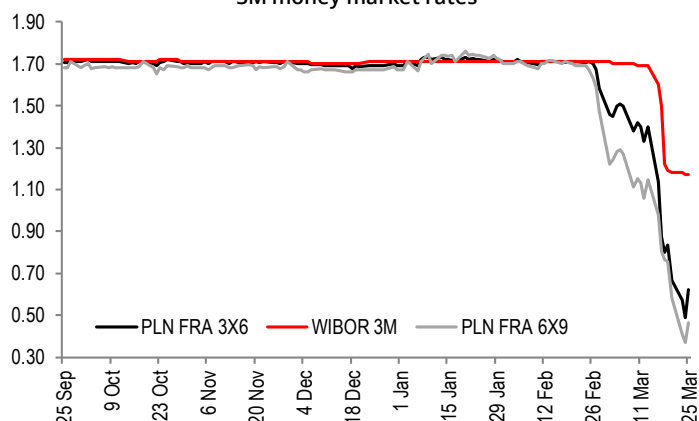
Zloty exchange rate



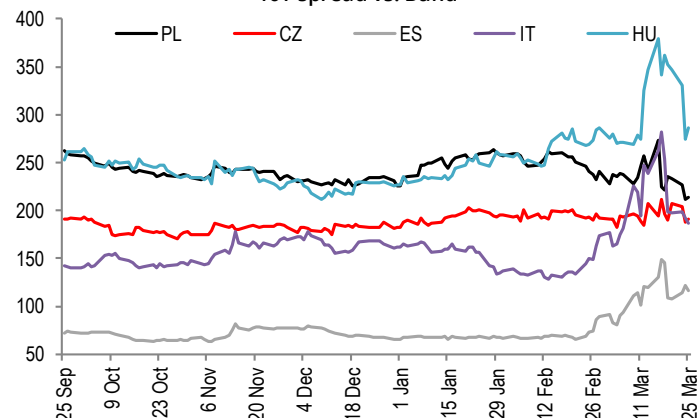
T-bonds yields



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	-	45.7	48.0
9:30	DE	Flash PMI – services	Mar	pts	43.5	-	34.5	52.5
10:00	EZ	Flash PMI – manufacturing	Mar	pts	40.0	-	44.8	49.2
10:00	EZ	Flash PMI – services	Mar	pts	40.0	-	28.4	52.6
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
15:00	US	New home sales	Feb	% m/m	-1.8	-	-4.4	10.5
WEDNESDAY (25 March)								
10:00	DE	Ifo index	Mar	pts	-	-	86.1	87.7
13:30	US	Durable goods orders	Feb	% m/m	-1.0	-	1.2	0.1
THURSDAY (26 March)								
13:00	CZ	Central bank decision		%	1.25	-		1.75
13:30	US	Initial jobless claims	week	k	1640	-		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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