

31 March 2020

Eyeopener

GUS suspended releasing flash inflation

Improved sentiments at the start of the week
ESI strongly down
GUS suspended releasing flash inflation
Today HICP inflation in the euro zone

On Monday stock market indices after the initial declines trimmed all the losses and ended day with gains – S&P500 closed c.2% above Friday's close. In Europe indices in Italy and Spain were falling, EM stock markets were stable. Energy commodities were losing – WTI crude oil fell by 6% to \$20.2 and Brent oil by even 10%, to \$22.5 – which was unsupportive for EM currencies. The latter were all depreciating against dollar by 1.0-3.5%. 10Y bond yield spreads in euro zone peripheries started widening again vs German Bund – for Italy and Spain they returned above 200bp. As regards the economic data, in Europe the ESI indicator for March was better than expected, inflation in Germany in line with expectations, while in Spain below forecast. Another regional Fed's index of manufacturing activity fell significantly (-70.0), which does not bode well for headline manufacturing ISM, to be released on Wednesday.

The stats office decided to suspend publications of the flash inflation readings until further notice, due to problems with data collection during the lockdown. Thus, we will not see the March reading today.

Main **ESI index** for the Polish economy dropped in March to 95.3 pts from 99.2 in February and reached the lowest level since late 2013. A significant drop was recorded in industry, services, retail trade and construction, while the consumer confidence index went up. Indicators regarding current situation did not change much, but expectations components collapsed (expected output, prices, orders, employment). Most likely the next release will also see a large decline.

NBP informed that in April it will hold outright open market operations on 16th and 29th day of the month. Repo operations can also be performed if needed.

EURUSD, which had rapidly risen on Friday just before the close to 1.115, at night opened up in Asia around 1.112 and during the day was systematically declining, to reach 1.104 at the end of the European session. We expect high volatility of EURUSD in the coming days due to a rise of risk aversion, financing problems among enterprises and countries and the launch of many new programs of asset purchases by central banks.

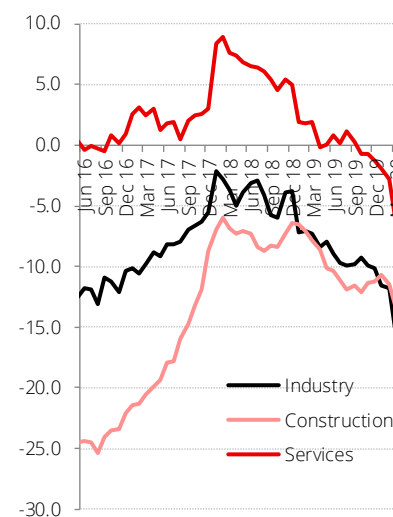
EURPLN, having opened around 4.53, was moving higher during the day due to a global sell-off of emerging market currencies on higher uncertainty among investors. The strength of the zloty depends recently on the behaviour of commodity prices and risk (observed via performance of main stock indexes) and this is where one should search for reasons of this rebound of EURPLN.

In case of the **other CEE currencies**, EURHUF was also on the rise (+0.8%) owing to, among others, the fact that the Hungarian Parliament gave PM Orban the right to rule the country by issuing decrees. EURCZK rose by only 0.1% to 27.4 during one of the calmest sessions as of recently. The ruble performed pretty well despite a further noticeable drop of the oil prices – the ruble basket remained roughly unchanged at 83.55 while USDRUB rose to 79.85 only due to stronger dollar. We expect the CEE currencies to remain under pressure in the coming weeks.

On **the domestic interest rate market** bond yields and IRS trended down amid stronger core bonds, the scale of POLGBs gain was roughly the same as Bunds, both on the front and long end. The 10Y German bond yield closed at -0.55bp (-6bp) and respective Polish bond at 1.76% (-9bp) and so the bond yield spread narrowed somewhat (to 231bp). IRS fell less than bond yields – the 10Y rates to 1.055 (-6bp) and so the asset swap spread also fell slightly (to 0.71%). FRAs were fairly stable and still price in 50bp rate cut in the next 1-2 years horizon. The data released by the Ministry of Finance showed that on March 26 the Ministry sold PLN10bn of bonds via private placement to the state-owned bank BGK (DS0726 and DS1029, PLN5bn of each). The same day, the central bank repurchased the similar amount of these series.

Today, euro zone flash HICP and US Conference Board consumer confidence index.

ESI business confidence indicators in main sectors, pts



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.5487	CZKPLN	0.1662
USDPLN	4.1372	HUFPLN*	1.2658
EURUSD	1.0994	RUBPLN	0.0523
CHFPLN	4.2961	NOKPLN	0.3943
GBPPLN	5.0891	DKKPLN	0.6092
USDCNY	7.0930	SEKPLN	0.4104

*for 100HUF

Last session in the FX market 25.03.2020

	min	max	open	close	fixing
EURPLN	4.510	4.564	4.539	4.550	4.540
USDPLN	4.079	4.142	4.099	4.130	4.093
EURUSD	1.101	1.111	1.108	1.102	-

Interest rate market 25.03.2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.96	-21	5.03.2020	OK0722	1.225
PS1024 (5Y)	1.32	-6	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.75	-8	5.03.2020	DS1029	1.725

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.68	-5	0.67	-2	-0.39	0
2L	0.74	-4	0.50	1	-0.32	1
3L	0.74	-5	0.47	3	-0.31	1
4L	0.79	-4	0.47	3	-0.28	1
5L	0.85	-4	0.54	7	-0.25	0
8L	0.98	-4	0.67	8	-0.12	0
10L	1.05	-6	0.72	11	-0.04	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.89	-1
T/N	0.90	-3
SW	1.01	0
2W	1.02	-1
1M	1.14	0
3M	1.17	0
6M	1.19	-1
9M	1.23	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.78	-1
3x6	0.64	-1
6x9	0.52	-1
9x12	0.44	-6
3x9	0.69	-2
6x12	0.57	1

Measures of fiscal risk

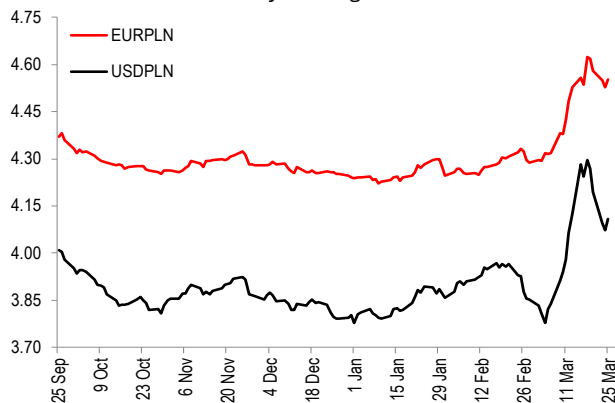
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	59	0	227	-4
France	26	0	44	2
Hungary	77	0	313	28
Spain	89	0	110	9
Italy	115	0	201	19
Portugal	61	0	120	9
Ireland	36	0	59	6
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

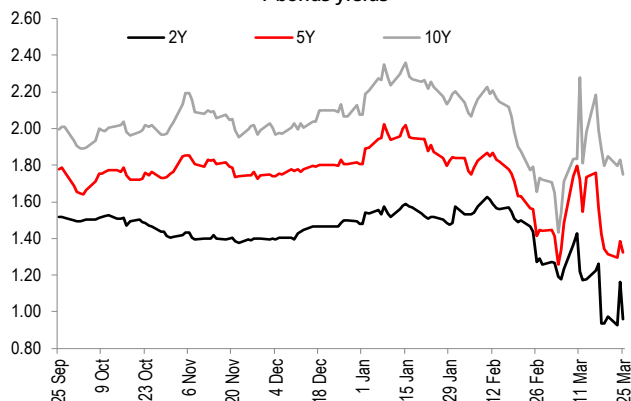
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

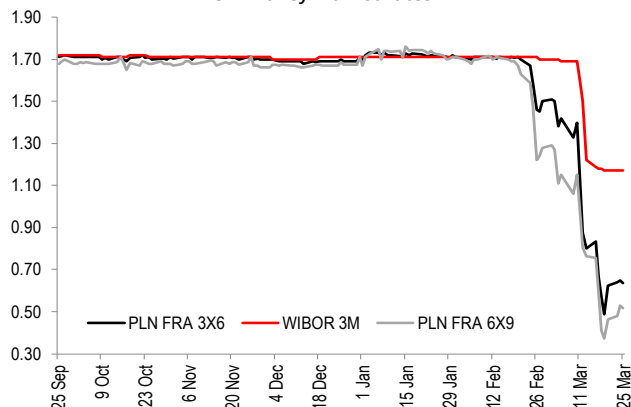
Zloty exchange rate



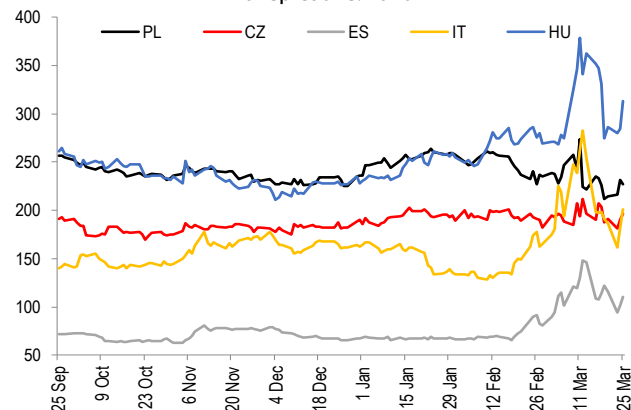
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (27 March)								
13:30	US	Personal Spending	Feb	% m/m	0.2		0.2	0.2
13:30	US	Personal Income	Feb	% m/m	0.4		0.6	0.6
13:30	US	PCE Deflator SA	Feb	% m/m	0.1		0.1	0.1
15:00	US	Michigan index	Mar	pts	90.0		89.1	95.9
MONDAY (30 March)								
11:00	EZ	ESI	Mar	pct.	91.6		94.5	103.4
14:00	DE	HICP	Mar	% m/m	0.1		0.1	0.6
16:00	US	Pending Home Sales	Feb	% m/m	-1.8		.4	5.3
TUESDAY (31 March)								
09:00	CZ	GDP SA	4Q	% y/y	1.8		-	1.8
11:00	EZ	Flash HICP	Mar	% y/y	0.8		-	1.2
16:00	US	Consumer Conference Board	Mar	pts	115.0		-	130.7
WEDNESDAY (1 April)								
09:00	PL	Poland Manufacturing PMI	Mar	pts	45.2	44.5	-	48.2
09:55	DE	Germany Manufacturing PMI	Mar	pts	45.5		-	45.7
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	44.6		-	44.8
11:00	EZ	Unemployment Rate	Feb	%	7.4		-	7.4
14:15	US	ADP report	Mar	k	-100.0		-	182.8
16:00	US	ISM manufacturing	Mar	pts	46.0		-	50.1
THURSDAY (2 April)								
14:30	US	Initial Jobless Claims	Mar.20	k	1700.0		-	3283.0
16:00	US	Durable Goods Orders	Feb	% m/m	0.0		-	1.2
16:00	US	Factory Orders	Feb	% m/m	-0.3		-	-0.5
FRIDAY (3 April)								
03:45	CN	Caixin China PMI Services	Mar	pts	39.5		-	26.5
09:55	DE	Markit Germany Services PMI	Mar	pts	34.3		-	34.5
10:00	EZ	Eurozone Services PMI	Mar	pts	28.2		-	28.4
11:00	EZ	Retail Sales	Feb	% m/m	0.2		-	0.6
14:30	US	Change in Nonfarm Payrolls	Mar	k	-61.0		-	273.0
14:30	US	Unemployment Rate	Mar	%	3.8		-	3.5
16:00	US	ISM services	Mar	pts	48.0		-	57.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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