

1 April 2020

Eyeopener

Today March PMIs

Further improvement of market sentiments
General government debt lowest since 2007
Zloty weaker, Polish bonds stable
Today PMI indices

On Tuesday stock markets were rising gently, but in most developed markets gains were not exceeding 1%. The reasons for rebound included March PMI data from China, which rose strongly after February's collapse. However, most investors treated Chinese "soft" indicators with a pinch of salt, thus the market reaction was slight. Equities in the CEE region were doing a bit better – 2-3% up. EM currencies showed mixed performance – currencies of commodity exporters (Russia, Mexico, South Africa) were gaining after the price of WTI crude oil rose 4% and copper by 2%. Other currencies, including the zloty, were depreciating slightly against dollar. Price of gold decreased 0.7% to \$1610/oz. Flash HICP reading for March in the euro zone was below already low expectations, suggesting deflationary pressure. In Hungary the February PPI was unchanged at 3.8% y/y, Czech 4Q GDP surprised positively, rising 2% y/y. US Conference Board index of consumer confidence was better than expected. US President Donald Trump suggested the need to launch another package supporting the economy, worth USD2trn. It would be focused on infrastructure spending.

According to the Ministry of Finance, **general government debt** was at 46.1% of GDP at the end of 2019 – the lowest since 2007. We expect a significant rise of the debt in 2020, above 52% of GDP. Deputy finance minister Piotr Nowak said that borrowing needs may prove PLN100bn higher than planned in the budget (PLN142bn).

NBP reviewed data on **current account** for 2019. The surplus of €5.9bn was reduced to €2.5bn, or from 1.1% of GDP to 0.5% of GDP. The primary income balance saw the largest revision, worsening by €4.2bn. Other C/A items were little changed. The financial account was mostly revised in the foreign direct investments part (investments in shares raised by €3.9bn).

EURUSD has been testing important technical levels, as we expected. Since 2 days the pair has consistently been trading lower and has declined 2% since Friday's peak at 1.116 and 1% lower on Tuesday alone closing below 1.10 at 1.099. In the coming days it will be important to watch whether the pair closes below 1.095. If this happens it might be interpreted as a harbinger of further EURUSD declines.

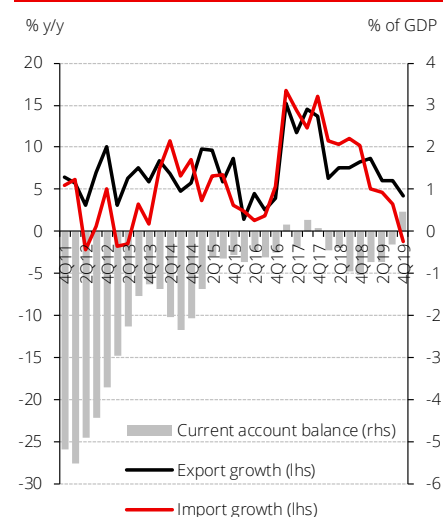
EURPLN with significant 1% daily amplitude is gradually climbing higher, yesterday by 0.2% to 4.557. The previously expected correction lower towards 4.50 or further down to 4.40 has not materialised so far and is unlikely to materialise soon, it seems, and this despite temporarily better global sentiment (equities and oil up). In the short term, it might be important to watch if the currency pair closes above the peak of the first sell-off wave from first part of March, that is 4.59. If this level breaks, EURPLN might move higher to next important technical levels of 4.60 and then 4.75.

As for the **other currencies** in the region, EURCZK moved a tad lower (by less than 0.2%) after the 4Q GDP came out higher than expected. USDRUB fell on more expensive oil. The forint performed the worst, EURHUF crossed 360 and by the end of the day increased by 0.8%, after PM Orban had secured a day earlier the ability to govern via decrees and there was no so-called sunset clause in the legislation, setting a time limit for these powers of the PM. Because of this we expect the forint to weaken in the coming days, with EURHUF possibly heading to 375.

On the **domestic interest rate** market IRS stayed fairly stable (10Y at c.1.06%) while the 10Y bond yield fell 6bp to 1.69% leading to narrowing of the respective asset swap spread to 63bp. On the core debt market, UST yields fell by 3bp to 0.69% while German bond yields rose with the Bund yield up by 3bp to -0.46%. This could be a signal for the upcoming days – the 30Y yield rose 5bp to 0.04%. **The Ministry of Finance** announced that at the tomorrow's auction it will offer OK0722, PS1024, WZ0525, DS1029 and WZ1129 bonds for the total nominal value of PLN4-7bn. Additionally, at the next April auction (on 23rd) the Ministry will offer the same bond series plus perhaps WS or IZ. The final bond supply for the second auction this month will be announced on April 21.

Today final euro zone, German and Poland manufacturing PMIs will be released. In the afternoon, we will see US ISM. Moreover, US and euro zone labour market data will be published.

C/A – quarterly data



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.5715	CZKPLN	0.1667
USDPLN	4.1595	HUFPLN*	1.2657
EURUSD	1.0991	RUBPLN	0.0527
CHFPLN	4.3198	NOKPLN	0.3977
GBPPLN	5.1351	DKKPLN	0.6124
USDCNY	7.0958	SEKPLN	0.4158

*for 100HUF

Last session in the FX market 31/03/2020

	min	max	open	close	fixing
EURPLN	4.531	4.576	4.546	4.560	4.5523
USDPLN	4.106	4.163	4.125	4.157	4.1466
EURUSD	1.093	1.106	1.102	1.097	-

Interest rate market 31/03/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	0.87	-2	5.03.2020	OK0722	1.225
DS0725 (5L)	1.27	-3	5.03.2020	PS1024	1.431
DS1029 (10L)	1.65	-7	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	0.69	1	0.66	-3	-0.32	0
2L	0.75	1	0.48	-2	-0.32	0
3L	0.76	1	0.45	-1	-0.31	1
4L	0.80	1	0.46	0	-0.27	1
5L	0.87	1	0.49	0	-0.23	1
8L	1.00	1	0.62	3	-0.11	2
10L	1.06	0	0.68	4	-0.02	2

WIBOR rates

Term	%	Change (bps)
O/N	0.89	0
T/N	0.91	1
SW	1.01	0
2W	1.02	0
1M	1.14	0
3M	1.17	0
6M	1.19	0
9M		0
1Y	1.23	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.79	2
3x6	0.62	2
6x9	0.50	0
9x12	0.47	2
3x9	0.72	2
6x12	0.59	2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.15	-4
France	40	-1	0.48	3
Hungary			3.25	7
Spain	101	1	1.16	1
Italy	179	-2	2.03	3
Portugal	99	-1	1.35	1
Ireland	45	-1	0.56	3
Germany	22	1	-	-

* 10Y treasury bonds over 10Y Bunds

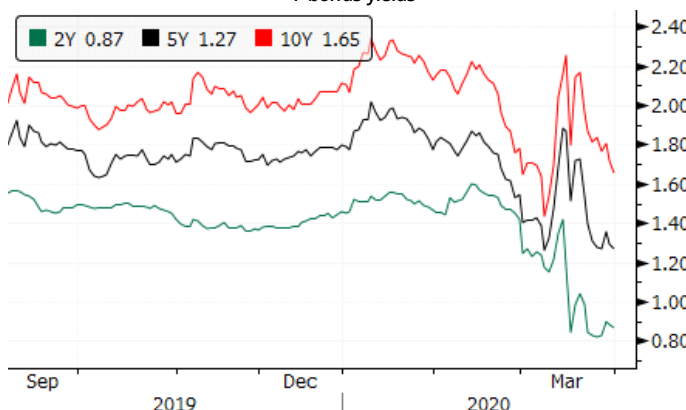
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

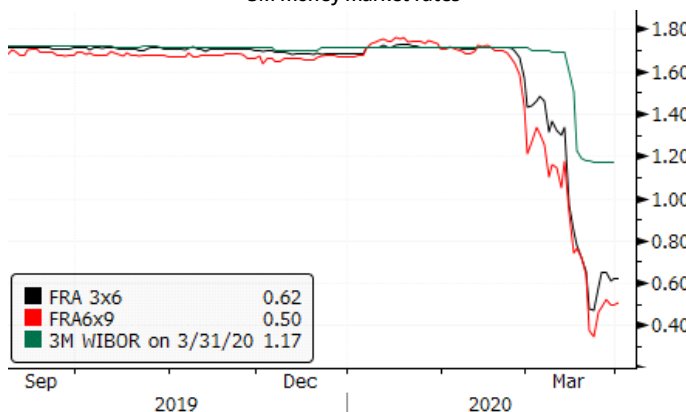
Zloty exchange rate



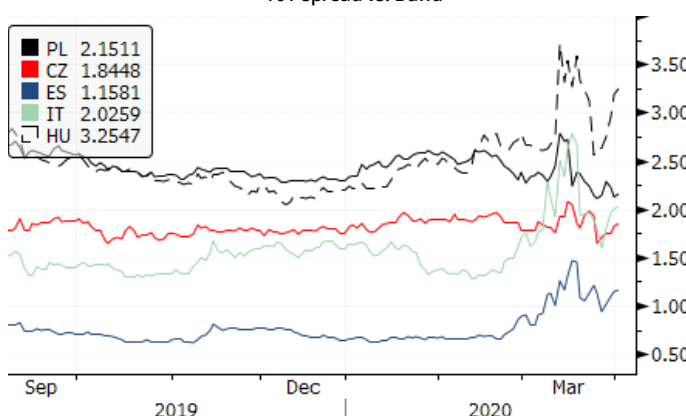
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME 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		2.0	1.8
11:00	EZ	Flash HICP	Mar	% y/y	0.8		0.7	1.2
16:00	US	Consumer Conference Board	Mar	pts	110.0		120.0	132.6
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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