

2 April 2020

Eyeopener

PMI plummeted more than ever

Market sentiment deteriorated again
Polish PMI fell more than ever
EURUSD down
Zloty and Polish bonds weaker
Today US data

On Wednesday markets returned to declines and worsening of moods – stock market indices in developed markets fell 3-4% on average (only Japanese Nikkei fell more) and 2-4% in emerging markets, while in CEE slightly less i.e. 1-2%. After a short rebound, crude oil price started declining: WTI down by 1% and Brent 5% yesterday. EM currencies were depreciating against the dollar and the zloty was no exception. Gold reacted in an atypical way and got cheaper to \$1585. Manufacturing PMI indicators were released yesterday, among other in Japan, South Korea, Switzerland, euro zone, Germany, and in Poland. In most cases the readings surprised to the downside or were in line with pessimistic forecasts. US ISM manufacturing and ADP report surprised positively.

Polish manufacturing PMI fell in March to 42.4 (our forecast 44.5, market consensus 45.2), posting the most considerable monthly decline in the history of the survey (1998). Three sub-indicators: production, new orders and employment recorded highest-ever monthly collapse, reflecting a sudden stop in economic activity after the country lockdown in mid-March. Despite a sharp drop in new orders, companies were struggling with lengthening delivery times, which confirms that the sector was hit by both a demand-side and supply-side shock at the same time. The survey confirms that the economy is heading towards a recession, at least in 2Q20. The pace of revival will be conditioned on the evolution of the disease and the length of the resulting restrictions imposed on activity.

According to GUS, in 2019 **the general government deficit** was 0.7% GDP, the second lowest reading in the last years. Public debt was 46% GDP, at the lowest level since 2007. This year we expect the deficit to grow to 6% GDP and debt to 52% GDP

EURUSD opened around the closing level from the previous day, 1.10, and most of the day remained above it, around 1.103. Dropping equities caused however a rise of demand for the dollar and in the second part of the day the exchange rate fell to 1.093. In the short term we expect the dollar to gain more.

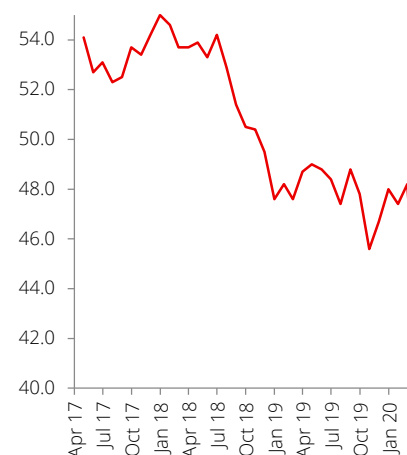
EURPLN has had one of the worst days in recent history and again started to climb higher at a decent pace. After opening at around 4.56 on Wednesday, during the day the pair went up to 4.59 and tests important technical levels, we wrote about yesterday. Today in the morning EURPLN opened slightly below 4.60. In the coming days we expect further weakening of the Polish currency. Implied volatilities on the option market still remain very cheap which means that markets have not yet fully believed in the possibility of a significant weakening of the PLN. USDPLN reached 4.20 while CHFPLN 4.34.

In case of **other CEE currencies**, the forint underperformed again as EURHUF tried to break 370 and closed at 363.3. The Hungarian currency is losing more than its CEE peers. This might be due to the recent changes in law that allow PM Orban to govern the country by issuing decrees and the much worse-than-expected March manufacturing PMI reading (29.1 vs consensus 47.0). EURCZK also climbed after the poor PMI reading (41.3 vs 41.8 expected) but to a smaller extent – it closed at 27.45. The ruble basket held fairly stable near 82.0 despite falling oil price. USDRUB rose slightly to 78.8 mainly owing to stronger dollar.

On the Polish **fixed income market** the swaps were relatively stable versus the previous day (changes +/- 1bp) and 10Y remained unchanged at 1.05%. POLGBs yields however slightly increased – the whole curve moved higher parallelly by 2-3bp, 10Y tenor closed at 1.71%. On core market yields, the German 2Y, increased a bit to -0.66%, by 3bp. However, the long-end yields declined – for example the Germany 30Y yields moved back down to 0.0%, by 4bp. The US 10Y closed at 0.59% declining 10bp in one day. The PL asset swap widened to 66bp, by 3bp, while the spread vs Bund as well by 3bp. The FRA markets were relatively stable and still price in 50bp cuts by the end of the year.

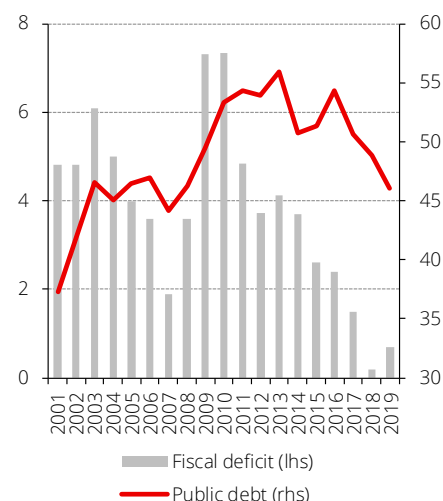
Today there are important data in the US m.in initial jobless claims, durable goods orders and factory orders.

Polish PMI manufacturing, pts



Source: Markit, Santander

Polish general government debt and deficit, % of GDP



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.5892	CZKPLN	0.1671
USDPLN	4.1920	HUFPLN*	1.2645
EURUSD	1.0948	RUBPLN	0.0540
CHFPLN	4.3351	NOKPLN	0.4080
GBPPLN	5.2034	DKKPLN	0.6147
USDCNY	7.1017	SEKPLN	0.4187

*for 100HUF

Last session in the FX market 01/04/2020

	min	max	open	close	fixing
EURPLN	4.553	4.594	4.560	4.594	4.5694
USDPLN	4.124	4.206	4.156	4.204	4.1701
EURUSD	1.092	1.104	1.097	1.093	-

Interest rate market 01/04/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2L)	0.88	1	5.03.2020	OK0722	1.225
DS0725 (5L)	1.31	4	5.03.2020	PS1024	1.431
DS1029 (10L)	1.70	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	0.69	0	0.67	1	-0.30	1
2L	0.74	-1	0.48	0	-0.31	1
3L	0.75	-1	0.45	0	-0.30	1
4L	0.80	0	0.46	0	-0.27	1
5L	0.86	-1	0.49	0	-0.24	0
8L	0.99	-1	0.61	0	-0.12	-1
10L	1.06	-1	0.68	0	-0.04	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.88	-1
T/N	0.89	-2
SW	1.01	0
2W	1.02	0
1M	1.14	0
3M	1.17	0
6M	1.18	-1
9M	1.80	0
1Y	1.23	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.79	0
3x6	0.62	0
6x9	0.49	-1
9x12	0.46	-1
3x9	0.72	0
6x12	0.61	2

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.14	2
France	40	2	0.47	0
Hungary			3.18	1
Spain	102	2	1.16	0
Italy	177	6	1.93	-3
Portugal	99	4	1.34	0
Ireland	44	1	0.62	0
Germany	23	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

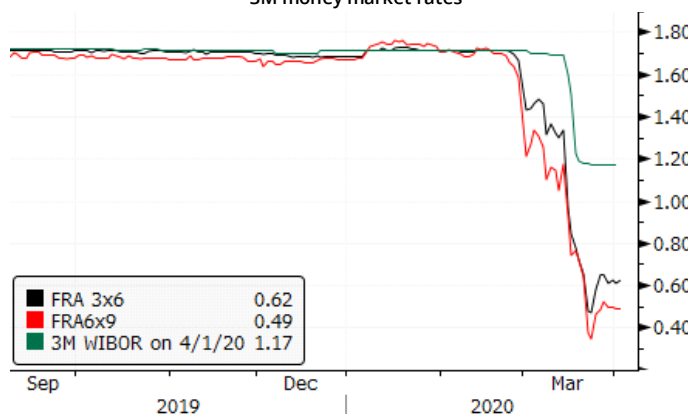
Zloty exchange rate



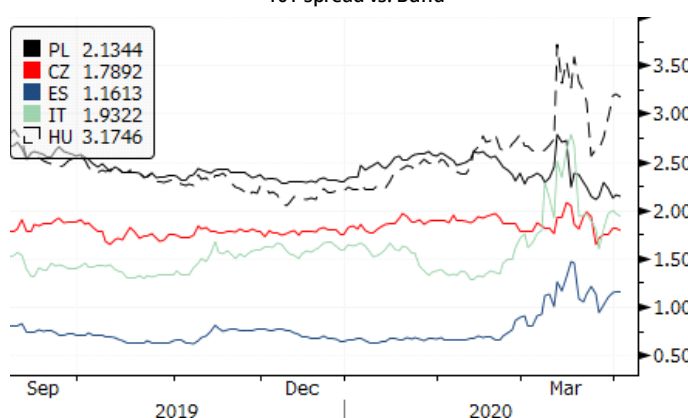
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	ACTUAL VALUE	LAST VALUE*
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	42.4	48.2
09:55	DE	Germany Manufacturing PMI	Mar	pts	45.5		45.5	45.7
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	44.6		44.5	44.8
11:00	EZ	Unemployment Rate	Feb	%	7.4		7.3	7.4
14:15	US	ADP report	Mar	k	-150.0		-27.0	179.0
16:00	US	ISM manufacturing	Mar	pts	44.5		49.1	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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