

22 April 2020

# Eyeopener

## Manufacturing on a brake

Industrial output fell, bottom still ahead  
 Zloty slightly weaker, EURUSD did not change much  
 Bond yields lower after MoF cancelled debt auction  
 Today, retail sales in Poland, consumer confidence in the euro zone

On Tuesday sentiment on stock exchanges worsened again – major global stock indexes were falling 2-4%, and the main cause was most likely another day of significant oil price drop – this time the June WTI contract fell by >40% – which may signal a much deeper global recession than equities are currently pricing in. Industrial metals excluding nickel were losing value, even copper which so far was resilient. Core market bond yields dropped: 10Y Treasuries to 0.54%, all EM currencies depreciated, especially in oil exporting countries (ruble, peso). German ZEW index surprised positively in April, with its expectations component indicating that investors think the situation will improve within the next six months. US house sales for March dropped by 8.5% m/m in March, more than expected and the quickest since 2015.

**Industrial output** fell in March by 2.3% y/y vs -3.3% market expectations and our +1.4% forecast, down from +4.9% y/y in February. In seasonally adjusted terms, industrial output shrank by 4.8% y/y vs +3.2% previously. Polish industry has clearly been hit by the economic distortion caused by the pandemic – with some industries came to a standstill while some saw improved demand. The March data have not shown the full scale of the shock yet as the lockdown was introduced in the middle of the month and we predict that the output decline may exceed 10% y/y in the following months.

March **producers price index** (PPI) fell 0.5% y/y vs market expectations of -0.4% y/y and our estimates of a deeper fall to (-0.9% y/y). It is one of the weakest readings in almost four years. Strong negative contributions came from refining oil (-16.7% y/y) and iron ore mining (-6.7% y/y). Positive contributions of producer prices were significant in pharmaceutical industry (0.8% y/y) and food industry (0.9% y/y). The falling prices in manufacturing were accompanied by relatively high increases of y/y prices in the areas of water management (5.9% y/y, highest since 2011) and utilities.

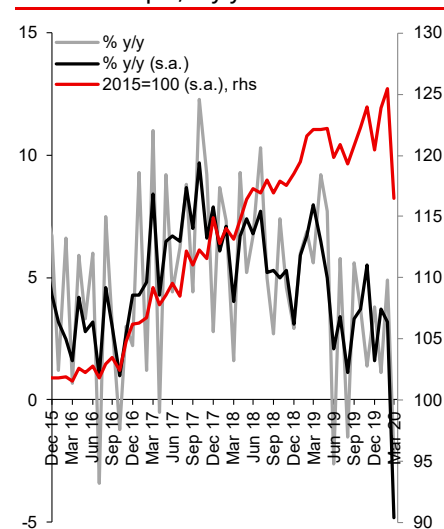
**EURUSD** was quite stable for another day: having opened at 1.086 it fell to 1.082 and returned to the opening level at the end of the day. The direction for the fx pair may be determined by the PMIs due for release in the second part of the week.

**EURPLN** has been observing reduced volatility lately, but it did not prevent it from rising to 4.54. A drop below 4.50, which would mean that a larger correction is coming or at least a consolidation, did not happen. We take such behaviour as a signal that the exchange rate may still be rising in the coming days, to 4.565 and possibly further, to test 4.60 again.

In case of **other CEE currencies**, EURHUF repeated pattern observed during the previous sessions: it opened at 352.5, then rose to 356 and closed at 354. EURCZK continued its march towards 28.0 (our 2Q target) as yesterday it climbed to 27.5 from 27.4 (+0.3%). Currencies of oil exporting countries are under pressure amid plunge of the oil price – the ruble basket rose 2.3% and sole USDRUB by 2.5% to 77.3. We expect the up trend to continue and the exchange rate might reach 80.0 in the coming days.

On the **domestic interest rate market** IRS curve shifted 4-5bp lower and bond curve by even 10bp after the Ministry of Finance cancelled the bond auction planned for April 27. If the auction was organized, we estimate that the Ministry would offer debt for PLN12-14bn that could be easily purchased given the over PLN10bn redemptions this month and looming release of cPLN40bn from the reduction of mandatory reserves at the end of April. We suspect that this decision could be related to planned bond issuances by the PFR (Polish Development Fund) – even PLN30bn in the coming weeks. Core yield curves also moved down: German by 2bp and US by 3-6bp amid concerns about the global growth after a sharp drop of oil price.

Industrial output, % y/y



Source: GUS, Santander

### Economic Analysis Department

al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Łuziński +48 22 534 18 85  
 Wojciech Mazurkiewicz +48 22 534 18 86  
 Grzegorz Ogonek +48 22 534 19 23  
 Marcin Sulewski, CFA +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.5302	CZKPLN	0.1646
USDPLN	4.1704	HUFPLN*	1.2812
EURUSD	1.0863	RUBPLN	0.0539
CHFPLN	4.3022	NOKPLN	0.3925
GBPPLN	5.1339	DKKPLN	0.6074
USDCNY	7.0803	SEKPLN	0.4136

\*for 100HUF

### Last session in the FX market 4/21/2020

	min	max	open	close	fixing
EURPLN	4.518	4.537	4.525	4.536	4.528
USDPLN	4.163	4.192	4.177	4.180	4.178
EURUSD	1.081	1.088	1.083	1.085	-

### Interest rate market 4/21/2020

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Series	Average yield
PS0422 (2Y)	0.62	-4	5.03.2020	OK0722	1.225
PS1024 (5Y)	0.96	-12	5.03.2020	PS1024	1.431
DS1029 (10Y)	1.34	-12	5.03.2020	DS1029	1.725

#### IRS on the interbank market\*\*

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.39	-2	0.54	-2	-0.27	3
2L	0.43	-3	0.41	-2	-0.22	3
3L	0.47	-3	0.38	-2	-0.23	3
4L	0.52	-3	0.40	-2	-0.23	1
5L	0.57	-3	0.43	-2	-0.21	1
8L	0.73	-5	0.57	-3	-0.12	0
10L	0.82	-4	0.62	-6	-0.05	0

#### WIBOR rates

Term	%	Change (bps)
O/N	0.49	-3
T/N	0.50	-2
SW	0.53	-2
2W	0.58	0
1M	0.65	0
3M	0.70	0
6M	0.71	0
1Y	0.76	0

#### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	0.58	-2
3x6	0.29	-3
6x9	0.28	-2
9x12	0.25	-5
3x9	0.32	-5
6x12	0.33	-2

#### Measures of fiscal risk

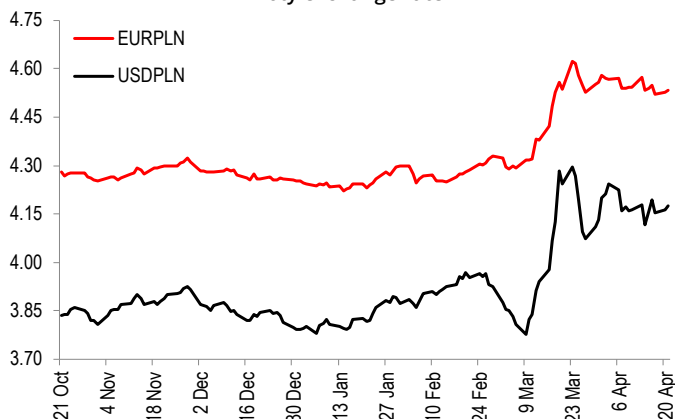
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	59	0	182	-8
France	30	1	56	4
Hungary	78	0	307	9
Spain	138	6	149	15
Italy	203	14	265	26
Portugal	100	5	166	16
Ireland	39	0	73	4
Germany	21	0	-	-

\* 10Y treasury bonds over 10Y Bunds

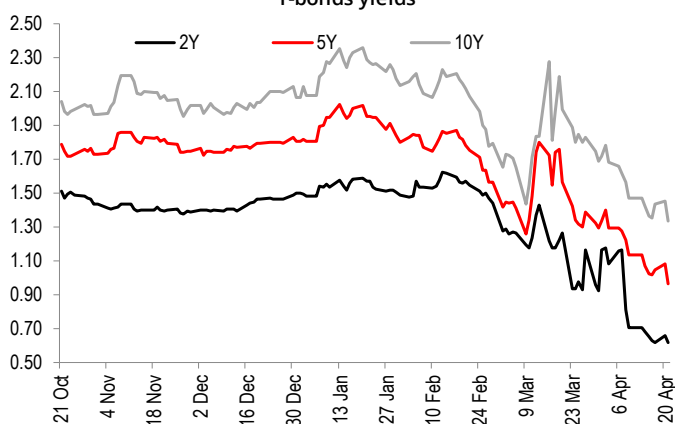
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

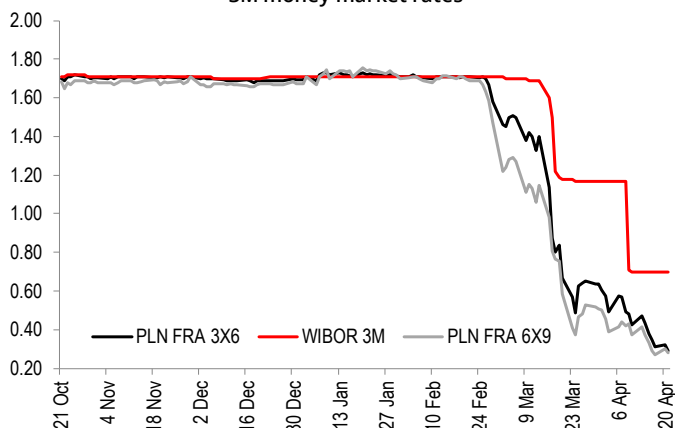
## Zloty exchange rate



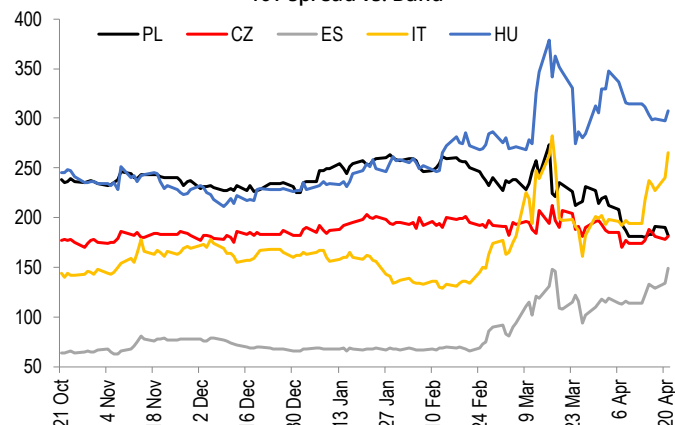
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic Calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	SANTANDER	REALIZED	LAST VALUE
MONDAY (20 April)								
08:00	DE	PPI	Mar	% y/y	-0.8	-	-0.8	-0.4
10:00	PL	Average Gross Wages	Mar	% y/y	6.6	7.0	6.3	7.7
10:00	PL	Employment	Mar	% y/y	0.8	0.8	0.3	1.1
TUESDAY (21 April)								
11:00	DE	ZEW Expectations	Apr		-42.0	-	28.2	-49.5
10:00	PL	Sold Industrial Output	Mar	% y/y	-3.3	1.4	-2.3	4.8
10:00	PL	PPI	Mar	%y/y	-0.4	-0.9	-0.5	0.2
16:00	US	Existing Home Sales	Mar	Mio	5.25	-	5.27	5.76
WEDNESDAY (22 April)								
16:00	EZ	Consumer Confidence	Apr	pts	-19.8			-11.6
10:00	PL	Retail Sales, constant prices	Mar	% y/y	-5.1	-4,2		9.6
13:00	US	MBA Mortgage Applications	Apr 17 <sup>th</sup>	%				7.3
THURSDAY (23 April)								
10:00	EZ	PMI manufacturing	Apr	pts	38.5	-		44.5
09:30	DE	PMI manufacturing	Apr	pts	-	-		45.4
08:00	DE	GfK Consumer Confidence	May		-1.8	-		2.7
14:00	PL	Minutes						
10:00	PL	Construction Output	Mar	% y/y	2.5	-0.5		5.5
14:00	PL	M3 Money Supply	Mar	% y/y	9.6	10.0		9.4
14:30	US	Initial Jobless Claims	week	k	4500	-		5245
16:00	US	New Home Sales	Mar	K	661	-		765
15:45	US	PMI manufacturing	Apr	Pts				48.5
FRIDAY (24 April)								
10:00	DE	IFO Business Climate	Apr		80.0	-		86.1
10:00	PL	Unemployment Rate	Mar	%	5.6	5.5		5.5
14:30	US	Durable Goods Order	Mar	%	-11.0	-		1.2
16:00	US	University of Michigan Sentiment	Apr	pts	69	-		71

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

\*\*estimate after CPI inflation data

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.