

25 March 2021

Eyeopener

Record high sentiment in European industry

Stock markets up after stronger-than-expected March PMIs
 Supply shortages problem grew in March in the Eurozone and Poland
 Dollar stronger, core market yields stable
 EURPLN sets a new March high
 Domestic bonds weaker despite no move on core markets
 Today announcement of new restrictions in Poland, US unemployment data

On Wednesday equity markets went up after solid PMI readings in many countries. In Japan manufacturing PMI rose to 52.0 and in services, while still below 50, moved up by 2pp. PMIs rose significantly in the UK (manufacturing 57.9, services 56.8), in Germany (manufacturing 66.6, services 50.8 – return above 50) and France (manufacturing 58.8, services 47.8). In the USA, the PMI indexes also went up, but to a lesser degree (industry to 59 pts and services to 60 pts). Meanwhile, US durable goods orders for February were much worse than expected. As a result at the end of session the US stock market lost steam and started declining. Dollar strengthened again – in March its total gain is already 1.8%, and on Wednesday it added 0.1%. Yield of 10Y Bund (-0.35%) and UST (1.63%) did not change. This morning the yesterday positive German data were supplemented by surprisingly strong consumer sentiment reading, with improvement seen in attitude towards major purchases, among other components.

What is important, the **PMI for Eurozone manufacturing** and its component of current output reached all-time high levels, while the index of the services sector is the highest in half a year. The record result of the Eurozone was pulled up so high because of the sentiment in German industry, which signalled strong new demand from Asia, China in particular, Europe and the USA (leading to a new record of new export orders subindex). Given the tight trade links of Poland and Germany this information should ease worries about the last worse-than-expected print of Polish industrial output. PMI reports stressed the very high cost pressure based on supply shortages and limited transportation capacity, which made companies push higher their prices.

The full set of business climate indicators for Poland showed, among others, that in March the **problem with shortage of materials and resources in Polish manufacturing** strengthened further. The ratio of firms seeing the shortages as a major obstacle for their business in the past was higher only during the cyclical peak in 2007. It did not however prevent the improvement in March of the indicators of both current and expected production, but did have its impact on the indicator of expected prices.

In two days **EURUSD** went down by 1.1%, but the move was less significant on Wednesday. The fx pair even unsuccessfully tried twice to return above the freshly broken 1.185 level (1.183 at the end of the day), i.e. the 200-day moving average.

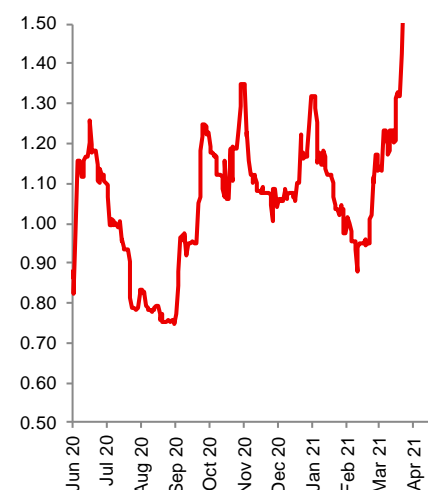
EURPLN went further up on Wednesday. Even though the move seemed modest (+0.35%), the rate went beyond the March peak, which was also equal to October peak (4.628). Thus, there are currently no technical barriers for the pair to go further up. This translated into prices of currency options – cost of hedging against further zloty weakening jumped to the highest level since the pandemic started.

As to the **other CEE currencies**, EURHUF declined by 0.3% to 365.0 after relatively hawkish NBH meeting a day before (where the bank signalled that actions would be undertaken to slow the forint depreciation). It is most likely that the NBH will hike its 1-week deposit rate (currently at 0.75%), announced every Thursday. If today there is no hike, the market may seem disappointed and EURHUF may rebound higher a bit. EURCZK gained another 0.2% (close at 26.25) while the CNB has not changed rates (0.25%). USDRUB barely changed over the day (76.3) however counting from the US president Joe Biden's negative comment on Russia in the past week, the USDRUB has risen by 5.1% already. We expect further weakening of the CEE currencies in the near term.

On the Polish **fixed income market** the IRS curve moved up by 1bp (5Y at 1.12%, 10Y at 1.69%). Government bonds lost before today's auction and their yields increased by a similar amount (5Y at 0.85%, 10Y at 1.51%). The spread vs Bund widened to 187bp. Today Ministry of Finance at its **outright auction** will issue PLN 4-6bn worth of bonds (OK0423, PS1026 DS1030, WZ1131, WZ1126).

Today at 1100CET a press conference is scheduled at which the PM a health minister will announce additional pandemic restrictions.

Hedging against weak PLN is most expensive since the Pandemic began (EURPLN 3mth 25 Delta Risk Reversal, %)



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6268	CZKPLN	0.1759
USDPLN	3.9162	HUFPLN*	1.2568
EURUSD	1.1815	RUBPLN	0.0515
CHFPLN	4.1824	NOKPLN	0.4559
GBPPLN	5.3562	DKKPLN	0.6221
USDCNY	6.5335	SEKPLN	0.4545

*for 100HUF

Last session in the FX market						24.03.2021
	min	max	open	close	fixing	
EURPLN	4.612	4.635	4.619	4.623	4.627	
USDPLN	3.898	3.922	3.901	3.910	3.910	
EURUSD	1.181	1.185	1.184	1.182	-	

Interest rate market 24.03.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.11	3
DS0725 (5Y)	0.88	6
DS1030 (10Y)	1.51	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.23	0	0.21	0	-0.54	0
2L	0.41	-1	0.26	0	-0.51	0
3L	0.65	0	0.43	0	-0.48	-1
4L	0.91	2	0.67	-2	-0.42	-1
5L	1.12	0	0.90	-1	-0.36	-1
8L	1.51	0	1.43	0	-0.14	-1
10L	1.69	0	1.62	-1	0.01	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.11	1
T/N	0.10	0
SW	0.10	0
2W	0.16	0
1M	0.19	0
3M	0.21	0
6M	0.25	0
1Y	0.25	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.21	0
3x6	0.21	-1
6x9	0.21	0
9x12	0.27	0
3x9	0.27	1
6x12	0.30	2

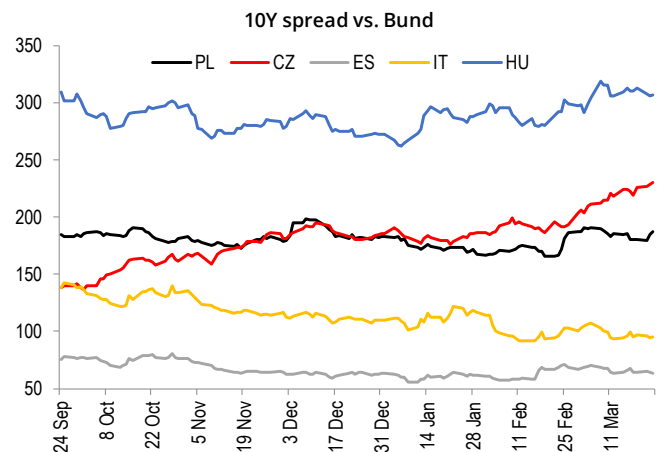
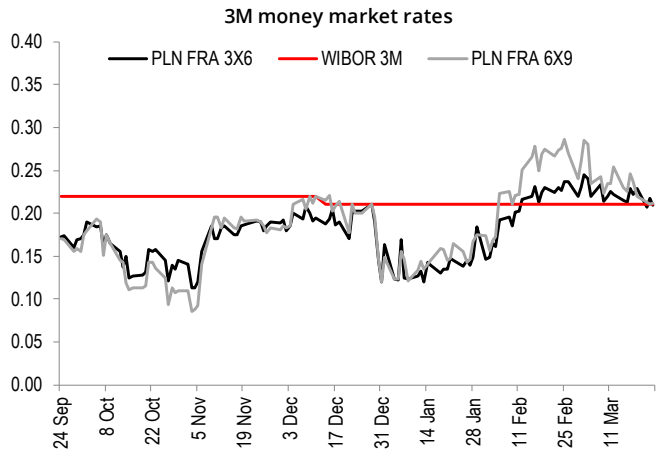
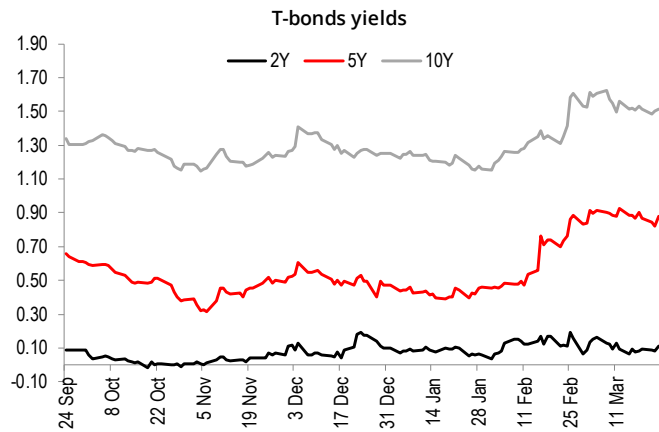
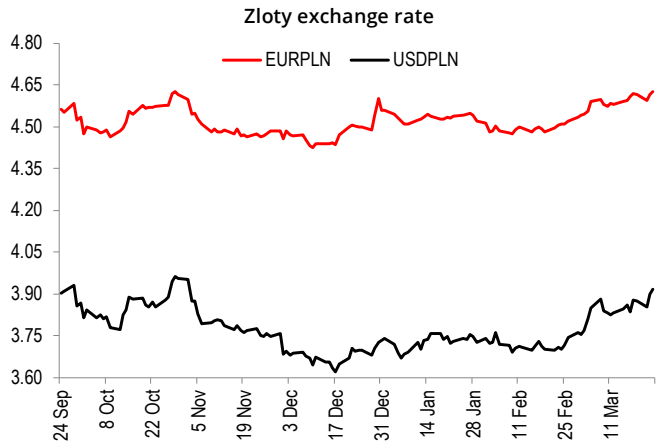
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	187	3
France	8	0	24	0
Hungary	64	0	307	0
Spain	33	0	64	0
Italy	44	-4	95	0
Portugal	24	0	52	0
Ireland	10	0	35	0
Germany	8	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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (19 March)								
10:00	PL	Construction Output	Feb	% y/y	-9.5	-11.6	-16.9	-10.0
10:00	PL	Retail Sales Real	Feb	% y/y	-2.5	-4.5	-2.7	-6.0
MONDAY (22 March)								
14:00	PL	Money Supply M3	Feb	% y/y	16.3	16.4	16.3	16.8
15:00	US	Existing Home Sales	Feb	% m/m	-3.0		-6.6	0.6
TUESDAY (23 March)								
10:00	PL	Unemployment Rate	Feb	%	6.5	6.6	6.5	6.5
14:00	HU	Central Bank Rate Decision	Mar.21	%	0.6		0.6	0.6
15:00	US	New Home Sales	Feb	% m/m	-5.7		-18.2	4.3
WEDNESDAY (24 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	60.7		66.6	60.7
09:30	DE	Markit Germany Services PMI	Mar	pts	46.4		50.8	45.7
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	57.6		62.4	57.9
10:00	EZ	Eurozone Services PMI	Mar	pts	45.7		48.8	45.7
13:30	US	Durable Goods Orders	Feb	% m/m	0.5		-1.1	3.4
14:30	CZ	Central Bank Rate Decision	Mar.21		0.25		0.25	0.25
THURSDAY (25 March)								
13:30	US	GDP Annualized	4Q	% Q/Q	4.1		-	4.1
13:30	US	Initial Jobless Claims		k			-	770
FRIDAY (26 March)								
10:00	DE	IFO Business Climate	Mar	pts	93.1		-	92.4
13:30	US	Personal Spending	Feb	% m/m	-0.2		-	2.4
13:30	US	Personal Income	Feb	% m/m	-7.0		-	10.0
13:30	US	PCE Deflator SA	Feb	% m/m	0.3		-	0.3
15:00	US	Michigan index	Mar	pts	83.5		-	83.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

** estimate after CPI data

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