

26 March 2021

Eyeopener

Growing weakness of PLN

Stock markets down

EURUSD lower again, highest EURPLN close in the pandemic

No attempts to go higher by core market yields, domestic yields down

Today Ifo index in Germany, Michigan consumer confidence index in the USA

On Thursday global equity indexes marched down, with most considerable declines seen among energy and industrial companies due to possible repercussions of the Suez Canal blockade. The dollar gained in a typical risk-off market reaction, while Bund yield declined by 2bp to -0.38%. UST yield did not change (1.61%) as investors were awaiting the upcoming auction of 7Y papers. The Swiss National Bank left interest rates unchanged (-0.75%). Consumer confidence in Germany improved further and surprised positively. US data were also positive, with a significantly lower number of jobless claims, upward revision of 4Q20 GDP by 0.2pp and manufacturing Kansas City Fed index up to a quite high level of 26.0 pts.

PM Mateusz Morawiecki announced **additional restrictions** which will be in force from 27 March to 9 April: closing of large construction and furniture stores, beauty salons and barbers, stricter regulations for people in churches and shops, closure of kindergartens and nurseries, and sports facilities for amateurs. As for family meetings during the upcoming Easter Holidays no hard restrictions were put in place, just an appeal to stay at home and work remotely. Judging by how it took the government to switch to easing restrictions during the previous waves of Covid-19, we think the current ones are likely to be extended after two weeks. The worsening Covid-19 situation in Poland creates a significant and growing risk for 2Q21 GDP growth.

After February the **central government budget** showed a surplus of PLN 0.9bn vs PLN 3.3bn deficit a year ago. In February 2021 alone, the balance worsened by PLN 5.8bn - consistent with the average from 2016-2020. The incomes in February grew by 1.7%/y with CIT up by 7.6%/y and PIT by 6.9%/y. VAT incomes grew by c.1.5%/y while those from excise tax fell by c.7.7%/y. Monthly budget income data are usually quite volatile, however decent CIT and PIT imply that the income picture in the economy looks pretty bright. Expenditures were 4.1%/y lower than a year ago, the subsidy to the social security fund was lower by 90% than in February 2020, which is a function of front-loading of the transfer to book more government expenditures in the previous year. We expect the general government deficit to stand at c.5.9% in 2021.

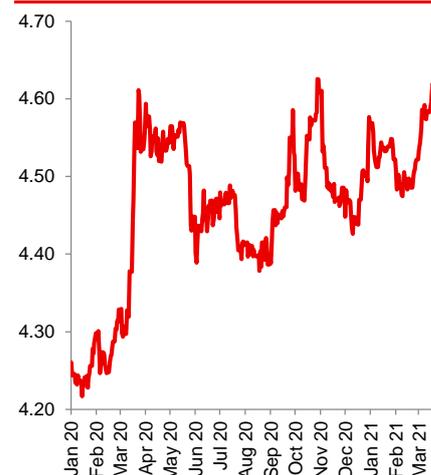
After breaking the 200-day moving average (1.185) on Wednesday, on Thursday **EURUSD** continued to go down by 0.2% to 1.178. The month-to-date decline of EURUSD amounts to 2.5% already and the pair is likely to head towards 1.160.

On Thursday **EURPLN** climbed by 0.5% and temporarily reached 4.65 for the first time since the massive GFC-related depreciation of the zloty in 2009. The yesterday closing level of EURPLN was the highest in the pandemic. Since the start of March the fx pair went up by 2.75% already. As we wrote yesterday, there are no technical levels nearby that could stop the pair's advance. In our view EURPLN is likely to reach 4.70 in the upcoming days. USDPLN climbed by 0.7% to 3.94 and by 5.4% since the start of March. Continuation of declines in EURUSD and rise in EURPLN mean that USDPLN could reach 4.00 soon.

In case of **other CEE currencies**, EURHUF decreased slightly to 364.4 and the drop since the start of the week reached 1.1% (0.2% only on Thursday). The move took place despite the fact that NBH did not hike the 1-week deposit rate (still at 0.75%). The downward momentum is running out, in our view, and soon EURHUF should start mounting, just like other EM currencies. EURCZK did not change (26.2). USDRUB also remained unchanged (76.5) but the session was quite volatile and the daily amplitude reached 1.3%.

On the Polish **interest rate market** the very strong bond auction took place, at which the Finance Ministry initially offered PLN4-6bn of bonds OK0423, PS1026 DS1030, WZ1131, WZ1126. The sale at the primary auction was PLN6bn and then at the auxiliary auction another PLN900m, so the total sale amounted to PLN6.9bn amid total demand of PLN11.8bn. After the tender the coverage of 2021 borrowing needs reached 58%, according to the Finance Ministry. After the auction yields of 10Y Polish bonds fell from 1.52% to 1.48%. Spread to Bund was 186bp. IRS fell even more and so the ASW spread became less negative.

EURPLN close - now the highest since the start of 2020.



Source: Bloomberg, Santander

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FX market

Today's opening			
EURPLN	4.6315	CZKPLN	0.1768
USDPLN	3.9333	HUFPLN*	1.2615
EURUSD	1.1776	RUBPLN	0.0520
CHFPLN	4.1800	NOKPLN	0.4566
GBPPLN	5.4035	DKKPLN	0.6226
USDCNY	6.5438	SEKPLN	0.4545

*for 100HUF

Last session in the FX market						25.03.2021
	min	max	open	close	fixing	
EURPLN	4.625	4.648	4.625	4.636	4.636	
USDPLN	3.913	3.947	3.914	3.942	3.925	
EURUSD	1.176	1.182	1.182	1.176	-	

Interest rate market 25.03.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.10	-1
DS0725 (5Y)	0.88	0
DS1030 (10Y)	1.48	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.21	-2	0.21	0	-0.54	0
2L	0.37	-4	0.26	-1	-0.51	0
3L	0.61	-4	0.43	0	-0.48	0
4L	0.84	-7	0.68	1	-0.43	-1
5L	1.05	-7	0.93	3	-0.36	0
8L	1.44	-8	1.43	0	-0.15	-1
10L	1.61	-8	1.65	3	-0.01	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.11	0
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	0.20	-1
3x6	0.20	-1
6x9	0.22	0
9x12	0.24	-3
3x9	0.24	-3
6x12	0.26	-4

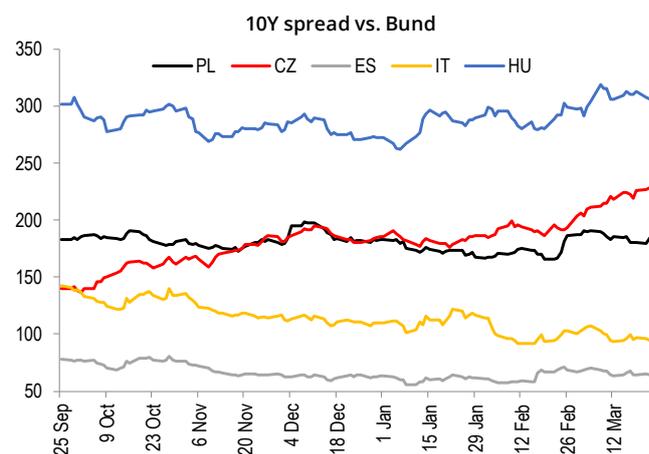
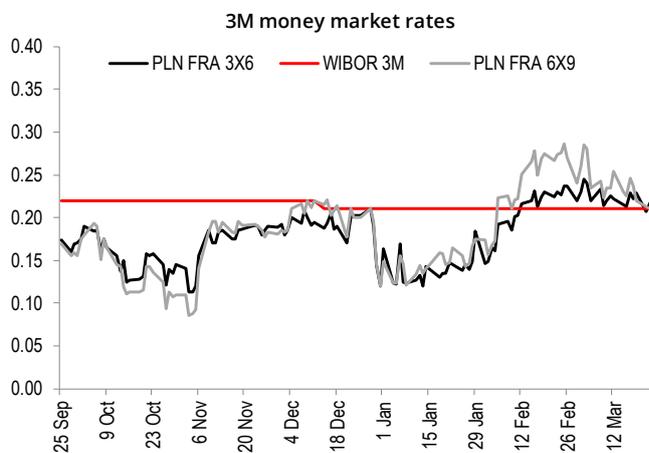
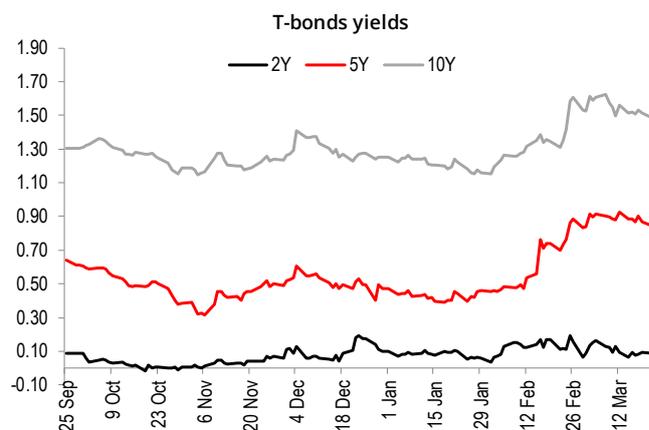
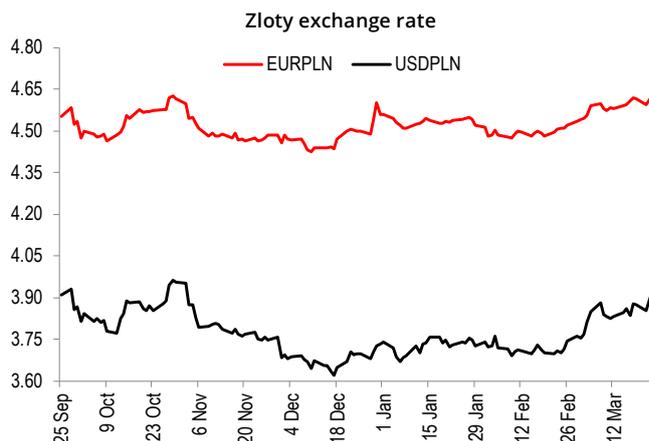
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	50	0	186	-1
France	8	0	25	0
Hungary	64	0	307	1
Spain	34	0	65	2
Italy	47	3	97	2
Portugal	24	0	54	2
Ireland	10	0	36	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		4.3	4.1
13:30	US	Initial Jobless Claims		k	730.0		684.0	781.0
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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