

23 December 2021

Eyeopener

Merry Christmas!

Zero VAT on food to help combat inflation from February
 EURUSD up, but without a directional signal, CZK stronger after 100bp rate hike
 Domestic IRS and FRA rates a bit lower, bond yield curve's hump is growing
 Today Statistical Bulletin in Poland, in the USA final Michigan and PCE data

This is the last Eyeopener this year, we will resume publication on 3 January 2022. Merry Christmas and Best Wishes for 2022!

Wednesday session saw increases in main stock indices, stable core market yields and the move of EURUSD to above 1.13. The third and final US 3Q21 GDP reading surprised to the upside (2.3% q/q SAAR vs 2.1% estimates). The private consumption was upgraded (to 2.0% q/q vs 1.7% q/q expected). Consumer confidence data also surprised to the upside - despite the pandemic and the elevated inflation the December reading of Conference Board index increased by 5pts vs expected 1pt, on top of that the November reading was revised higher.

Finance Minister Tadeusz Kościński said that EC will allow Poland to introduce the zero VAT food rate from February for 6 months, but the information is not official. The directive which would allow for such VAT changes will be in force before the mid-2022 hence formally the EC could sue a country implementing the zero VAT rate earlier, for breaching the EU law. In our opinion, the implementation of the zero VAT could help move CPI to below 7% y/y in March, however later on it should rebound to around 8% y/y where it will remain till September, after which towards the end of 2022 will fall to c.6.5% y/y. At the same time the EC yesterday informed about starting the EU law infringement procedure vs Poland in light of the Polish Constitutional Court judgements (incl. on primacy of the local law over the EU law).

NBP Governor Adam Glapiński said that further interest rate increases might be needed in order to prevent the elevated inflation to become permanent. He did not tell what the target interest rates would be. **MPC member Cezary Kochalski** sees noticeable likelihood of another rate hike and is going to support such a motion at the January MPC meeting if it would reduce the risk of permanently higher inflation.

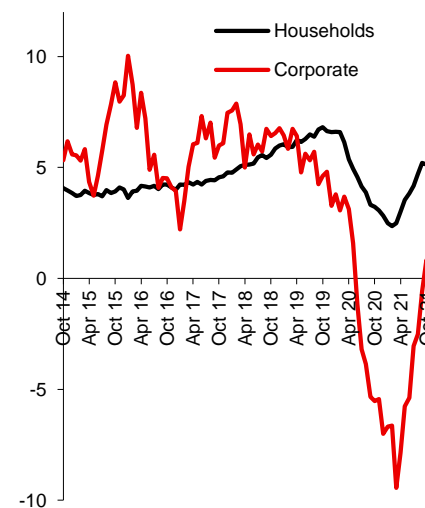
Polish **consumer sentiment** kept deteriorating in December. The current situation index dropped to -27.3pts while in 3Q it stayed above the long-term average of -14.3 pts. The expectations index dropped to -19.8pts having spent 7 months above the long-term average of -18.4 pts. The largest drop was recorded in assessment of current economic situation in general and in consumer attitude towards major purchases (now the weakest in a year). The assessment of own financial situation is now the weakest in 7 years despite the fact that unemployment rate is very low, wages are growing at close to 10% y/y and the measure of job security is already relatively high and even improved in December. This rise of pessimism should be attributed to high inflation and fears that it will reduce households' purchasing power (the index of expected ability to save money in the next 12M hit the lowest value since the initial month of the pandemic). The sound November retail sales reading seems to contradict the results of the consumer survey, signalling that the comfortable income situation protects consumers from the need to cut expenditures due to quickly rising prices. Such negative adjustment may occur later on but we think private consumption in will still be very strong 4Q21 and 1Q22.

M3 money supply increased in November by 10.1% y/y, above expectations. The households' deposits increased by 1.3% m/m, corporate deposits by 3.5% m/m while non-monetary financial institutions' deposits by 3.0% m/m. Credit growth (after adjusting for FX movements) stood at 3.4% y/y (vs 3.2% y/y previously). The loans for households increased by 5.3% y/y, while corporate credit growth eased to +0.1% y/y from +0.8% y/y.

EURUSD moved to 1.1330 from 1.1275. Only a breach of 1.1350 level could be regarded as an attempt to end the December horizontal range currently in place. **EURPLN** moved up to 4.6330 and was the worst performer in the **CEE3**. In Czech Republic, the CNB hiked rates by 100bp to 3.75% surprising the market (expectations were of 75bp hike), the total hikes in the cycle stand at 350bp already. CNB Governor Jiri Rusnok said that the main rate needs to be increased significantly above 4% in 2022. As a result EURCZK fell to 25.1. In Hungary, PM Viktor Orban announced a mortgage rates freeze but at the levels last seen in October which is roughly 2.0pp below the current Bubor 3M level. The daily EURHUF range was 367.0-369.0, close at 368.3). The Brent oil increased to \$75 from \$74 hence USDRUB fell to 73.50.

On the Polish **fixed income market**, the small move of yields up vs the previous sessions was the highest in the belly (which BTW is highest part of the curve currently), by around 5bp. The whole IRS curve moved down 5bp while the FRA contracts up to 1 year ahead fell 5bp.

Credit growth, %y/y, corrected for FX changes



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.6301	CZKPLN	0.1843
USDPLN	4.0909	HUFPLN*	1.2433
EURUSD	1.1318	RUBPLN	0.0559
CHFPLN	4.4411	NOKPLN	0.4607
GBPPLN	5.4719	DKKPLN	0.6225
USDCNY	6.3693	SEKPLN	0.4484

*for 100HUF

Last session in the FX market 22.12.2021

	min	max	open	close	fixing
EURPLN	4.613	4.637	4.621	4.629	4.624
USDPLN	4.082	4.108	4.099	4.087	4.098
EURUSD	1.126	1.134	1.127	1.132	-

Interest rate market 22.12.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.21	4
DS0726 (5Y)	3.83	8
DS0432 (10Y)	3.51	5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.44	-4	0.52	2	-0.51	1
2L	3.67	-5	0.90	1	-0.34	1
3L	3.65	-4	1.13	1	-0.21	2
4L	3.60	-4	1.25	-1	-0.12	3
5L	3.56	-3	1.31	0	-0.06	3
8L	3.42	-1	1.44	-2	0.09	2
10L	3.39	-1	1.51	-3	0.20	2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	3
T/N	1.54	1
SW	1.78	-1
2W	1.80	0
1M	1.96	1
3M	2.40	0
6M	2.67	3
1Y	2.95	6

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.03	-2
3x6	3.56	-4
6x9	3.83	-6
9x12	3.79	-5
3x9	3.88	-6
6x12	4.09	0

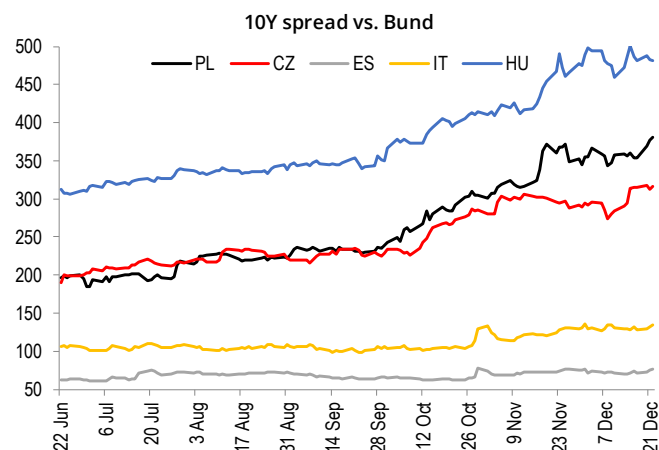
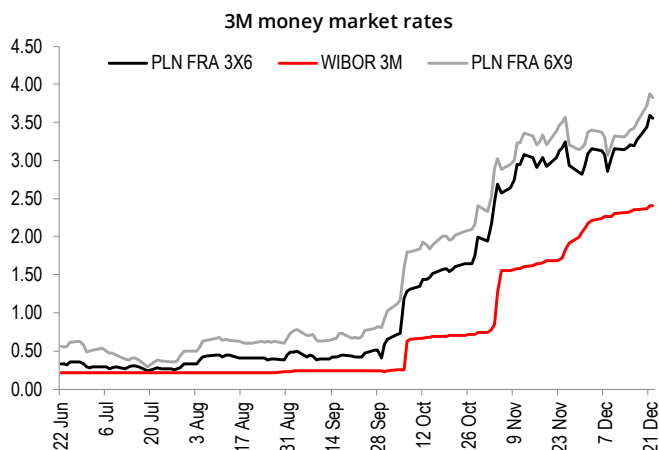
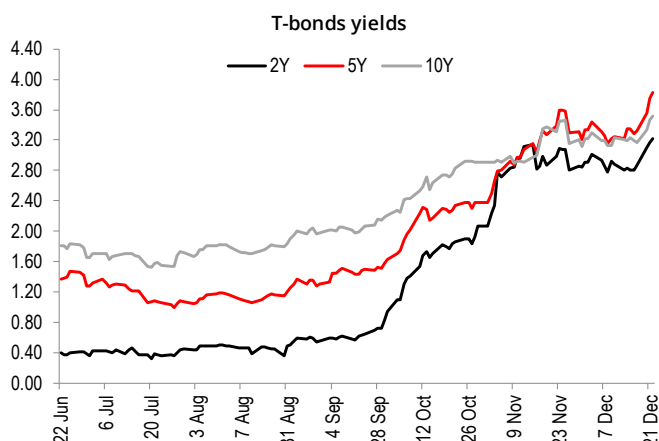
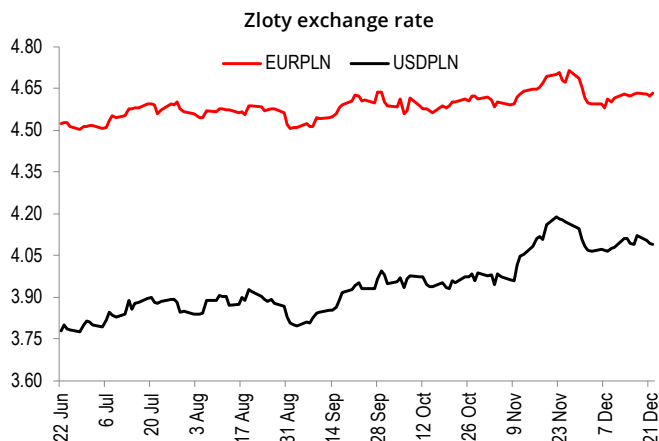
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	381	4
France	9	0	37	1
Hungary	49	-2	481	-2
Spain	35	0	77	1
Italy	51	0	135	3
Portugal	23	0	66	1
Ireland	11	0	46	3
Germany	7	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 (17 December)								
10:00	DE	IFO Business Climate	Dec	pts	95.3		94.7	96.5
10:00	PL	Employment in corporate sector	Nov	% y/y	0.5	0.5	0.7	0.5
10:00	PL	Average Gross Wages	Nov	% y/y	8.9	8.8	9.8	8.4
11:00	EZ	HICP	Nov	% y/y	4.9		4.9	4.1
MONDAY (20 December)								
10:00	PL	Sold Industrial Output	Nov	% y/y	8.8	7.2	15.2	7.8
10:00	PL	PPI	Nov	% y/y	12.9	13.3	13.2	12.0
TUESDAY (21 December)								
10:00	PL	Construction Output	Nov	% y/y	6.0	5.4	12.7	4.2
10:00	PL	Retail Sales Real	Nov	% y/y	8.2	9.1	12.1	6.9
WEDNESDAY (22 December)								
14:00	PL	Money Supply M3	Nov	% y/y	9.0	9.3	-	8.6
14:30	US	GDP Annualized	3Q	% Q/Q	2.1		2.3	2.1
14:30	CZ	Central Bank Rate Decision	Dec/21		3.5		3.75	2.75
16:00	US	Consumer Conference Board	Dec	pts	110.6		115.8	111.9
16:00	US	Existing Home Sales	Nov	% m/m	2.8		1.9	0.8
THURSDAY (23 December)								
10:00	PL	Unemployment Rate	Nov	%	5.4	5.4	-	5.5
14:30	US	Durable Goods Orders	Nov	% m/m	2.0		-	-0.4
14:30	US	Initial Jobless Claims	Dec/21	k			-	206.0
14:30	US	Personal Spending	Nov	% m/m	0.5		-	1.3
14:30	US	Personal Income	Nov	% m/m	0.5		-	0.5
14:30	US	PCE Deflator SA	Nov	% m/m	0.6		-	0.6
16:00	US	Michigan index	Dec	pts	70.4		-	70.4
16:00	US	New Home Sales	Nov	% m/m	3.2		-	0.4
MONDAY (27 December)								
	DE	Retail Sales	Nov	% m/m			-	-0.3
16:00	US	Pending Home Sales	Nov	% m/m			-	7.5

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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