

12 January 2022

Eyeopener

Government fighting higher CPI with lower VAT

Government presented new tools of the „Anti-inflation Shield“
 EURUSD up, 10Y UST yield down
 EURPLN at 4.54, bonds gain
 Today inflation in USA and Czech Republic, industrial output in the euro zone

On Tuesday equity markets in Europe slightly rebounded after the declines that lasted since the start of the year. However, some analysts were pointing to the Hindenburg formation on the S&P500 chart, which usually heralds significant declines ahead. Yield of 10Y UST fell to 1.77% (-3bp) and Bund remained unchanged (-0.04%). Gold price increased for the second day in a row (two-day change +0.7% to \$1806/oz). Brent oil price inched up to \$81.70. There were no major data releases abroad. US NFIB index of optimism among small and medium companies rose to 98.9 from 98.4 last month. ECB chief economist Philip Lane said it is very unlikely that the conditions for interest rate hikes are met in 2022. He saw inflation declining towards 2% target in 2023 and 2024 and the wage data do not suggest inflation acceleration. In turn, Mārtiņš Kazāks (president of Latvia's central bank) said that if the ECB sees inflation at the 2% level in the medium run, then it would "react accordingly".

Fed governor Jerome Powell said in a testimony before the US Senate that the Fed will prevent the elevated inflation from becoming entrenched. In his view the US economy is ready for interest rate hikes and the reduction of Fed's balance sheet but the central bankers are still considering the choice of most appropriate tools and this process may last for a few months. The speech was interpreted as less hawkish than earlier comments of other FOMC members and triggered a dollar weakening. Raphael Bostic (currently non-voting) said he expects 3 rate hikes in 2022 and the first one should take place already in March.

The formal approval of the two new MPC members nominated by the Senate which was to happen 11-13 January was postponed to 2-3 February for procedural reasons. The term of the members they are going to replace, E. Gatnar and J. Kropiwnicki expires on 25 January.

World Bank maintained Polish GDP growth forecast for 2022 at 4.7% with 3.4% seen for 2023. The forecasts are similar to ours.

The government announced a set of new tools of the "Anti-inflation Shield": VAT rate on basic food products cut from 5% to 0%, VAT on fuel down from 23% to 8%, further VAT cut on gas from 8% to 0%, further VAT cut on heat from the grid from 8% to 5%. The new tools will be active from February on. All tools will stay in force until the end of July (which means that the ones announced earlier will be extended). As a result, the inflation path may soon drop below 6% and remain there until July, only to jump back above 8% for a while. According to our estimates these new tools will lower CPI growth by 2.1pp on average in 2022 (yesterday NBP deputy governor Marta Kightley mentioned the same figure). We forecast that the cost of these new instruments (apart from the drop of budget revenues estimated by the government at PLN15bn) will be a longer stay of CPI markedly above 6% - until the end of summer 2023 instead of a clear decrease below 4% early next year. In the longer term government actions may prove counterproductive, as they strengthen consumer demand (by PLN25bn in total). The potential outcome may be that inflation and wage expectations fall, but we are not sure if this can be achieved by the new tools given that they are temporary.

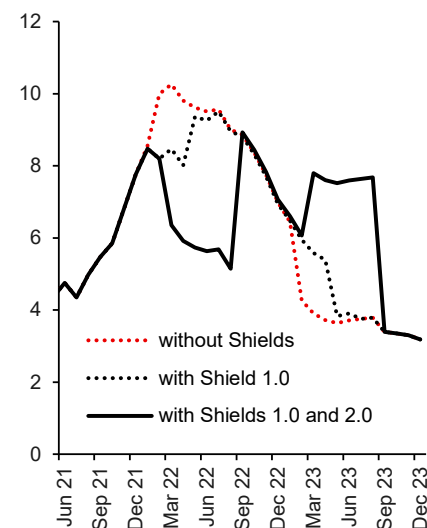
EURUSD on Tuesday was initially stable near 1.1330, however after the Powell's speech in the US Senate it increased towards 1.1370. Today US December CPI data might set a new trend for the dollar. In November the CPI stood at 6.8% y/y, today for the December one the market expects 7.0% y/y for headline CPI and 5.4% y/y for the core one.

EURPLN has not changed and most of the day remained near 4.54 (where it opens today as well). As for the other CEE currencies: EURHUF slightly declined towards 357.2 (-0.3%). EURCZK after many days of declines finally bounced back a little to 24.44 (+0.3%). USDRUB remained near 75.0.

On the Polish fixed income market, the FRA, IRS and bond yields gently decreased following the 10Y UST. The FRA contracts decreased by 5-10bp along the curve and the most elevated one (the FRA 6x9) declined to 4.28%. The IRS curve moved 5bp lower (5Y to 4.01%), similarly the bond curve, however more so at the front end of the curve 2Y by 10bp to 3.52%.

Ministry of Finance informed that on the 13 January switch auction will take place where the MF will buy back the bonds of series PS0422, OK0722, WS0922 and WZ1122 while will sell the bonds of the series OK0724, WZ1126, PS0527, WZ1131 and DS0432.

Our forecasts of CPI – with and without „Anti-inflation Shield“, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5414	CZKPLN	0.1856
USDPLN	3.9976	HUFPLN*	1.2576
EURUSD	1.1357	RUBPLN	0.0536
CHFPLN	4.3234	NOKPLN	0.4552
GBPPLN	5.4464	DKKPLN	0.6099
USDCNY	6.3645	SEKPLN	0.4422

*for 100HUF

Last session in the FX market						11/01/2022
	min	max	open	close	fixing	
EURPLN	4.536	4.546	4.544	4.539	4.545	
USDPLN	3.992	4.015	4.007	3.994	4.011	
EURUSD	1.131	1.137	1.134	1.136	-	

Interest rate market 11/01/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.48	-11
DS0726 (5Y)	4.07	-3
DS0432 (10Y)	4.01	-9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.85	-4	0.62	-2	-0.49	1
2L	4.07	-6	1.08	-2	-0.25	1
3L	4.09	-5	1.36	-2	-0.08	2
4L	4.07	-4	1.50	-2	0.03	2
5L	4.03	-3	1.59	-2	0.11	2
8L	3.93	-3	1.74	0	0.29	2
10L	3.95	-3	1.80	-3	0.40	1

WIBOR rates

Term	%	Change (bps)
O/N	1.94	-1
T/N	2.20	-1
SW	2.28	-1
2W	2.30	1
1M	2.36	1
3M	2.72	3
6M	3.07	3
1Y	3.37	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.18	3
3x6	4.01	0
6x9	4.28	-4
9x12	4.24	-6
3x9	4.31	-3
6x12	4.50	-2

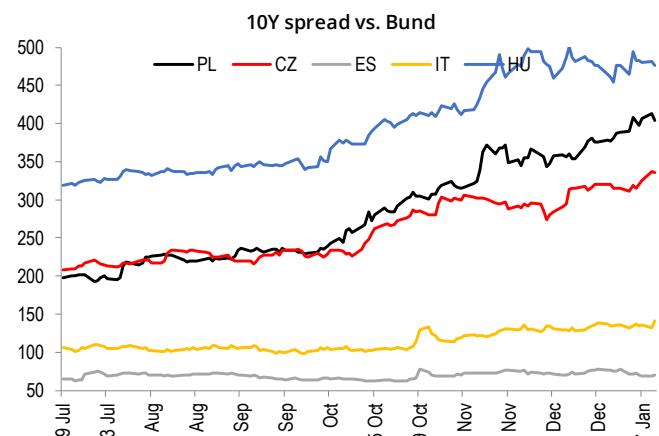
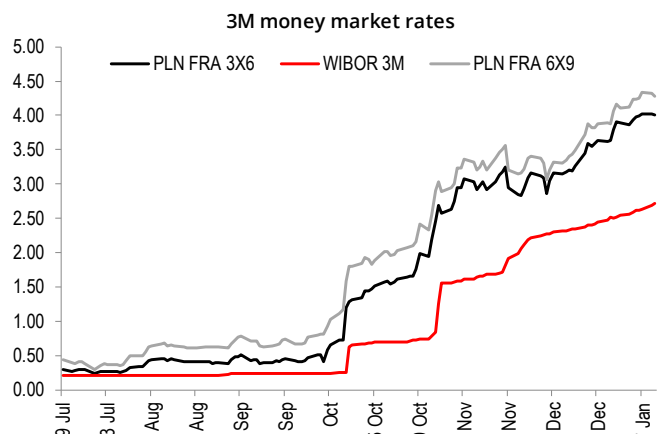
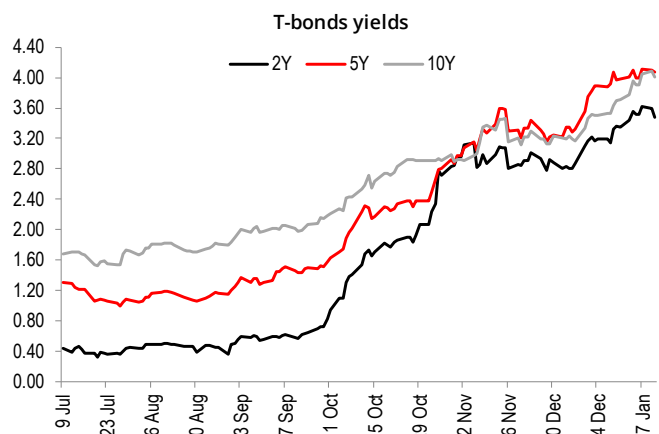
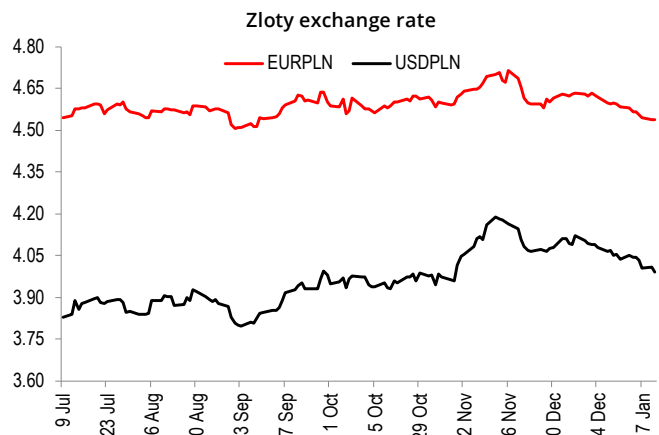
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	41	0	404	-9
France	9	0	33	1
Hungary	48	0	476	-5
Spain	32	0	70	1
Italy	49	-1	141	9
Portugal	22	0	64	2
Ireland	11	0	41	1
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		
THURSDAY (6 January)							
02:45	CN	Caixin China PMI Services	Dec	pts	51.7	53.1	52.1
08:00	DE	Factory Orders	Nov	% m/m	2.3	3.7	-6.9
14:00	DE	HICP	Dec	% m/m	0.2	0.3	0.3
14:30	US	Initial Jobless Claims	Jan.22	k	195	207	200
16:00	US	Durable Goods Orders	Nov	% m/m	2.5	2.6	2.5
16:00	US	ISM services	Dec	pts	67.0	62.0	69.1
16:00	US	Factory Orders	Nov	% m/m	1.5	1.6	1.2
FRIDAY (7 January)							
08:00	DE	Exports SA	Nov	% m/m	-0.2	1.7	4.2
08:00	DE	Industrial Production SA	Nov	% m/m	1.0	-0.2	2.8
09:00	CZ	GDP SA	3Q	% y/y	3.1	3.3	3.1
09:00	CZ	Industrial Production	Nov	% y/y	-0.6	1.6	-4.9
09:00	HU	Industrial Production SA	Nov	% y/y	-1.7	2.6	-3.4
10:00	PL	CPI	Dec	% y/y	8.3	8.3	8.6
11:00	EZ	Flash HICP	Dec	% y/y	4.8	5.0	4.9
11:00	EZ	Retail Sales	Nov	% m/m	-0.5	1.0	0.3
11:00	EZ	ESI	Dec	pct.	116.1	115.3	117.6
14:30	US	Change in Nonfarm Payrolls	Dec	k	424	199	249
14:30	US	Unemployment Rate	Dec	%	4.1	3.9	4.2
MONDAY (10 January)							
11:00	EZ	Unemployment Rate	Nov	%	7.2	7.2	7.3
WEDNESDAY (12 January)							
09:00	CZ	CPI	Dec	% y/y	0.0	-	6.0
11:00	EZ	Industrial Production SA	Nov	% m/m	-	-	1.1
14:30	US	CPI	Dec	% m/m	0.4	-	0.8
THURSDAY (13 January)							
14:00	PL	Current Account Balance	Nov	€mn	-1995.0	-	-1791.0
14:00	PL	Trade Balance	Nov	€mn	-589.0	-	-822.0
14:00	PL	Exports	Nov	€mn	26843.5	-	24982.0
14:00	PL	Imports	Nov	€mn	27607.0	-	25804.0
FRIDAY (14 January)							
09:00	HU	CPI	Dec	% y/y	-	-	7.4
10:00	PL	CPI	Dec	% y/y	-	8.5	7.8
14:30	US	Retail Sales Advance	Dec	% m/m	0.0	-	0.3
15:15	US	Industrial Production	Dec	% m/m	0.3	-	0.52
16:00	US	Michigan index	Jan	pts	70.3	-	70.6

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

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