

24 January 2022

Eyeopener

Glapiński wants more hikes than market expects

Stock indices keep falling

10Y UST and Bund yield down, dollar stable

EURPLN moved up, NBP head's words on rate hikes may prevent the rise for now

Domestic bonds stronger and IRS rates flat on Friday

Today Polish retail sales, flash PMIs in Germany and Eurozone

On Friday the stock markets were in red (Europe down by 2%, USA by more than 1%), while 10Y UST yield declined somewhat (by 3bp to 1.77%), and Bund took cue (by 5bp to -0.07%). The dollar was stable (EURUSD at 1.1350), gold prices were around \$1840/oz, while Brent price was stable at 87.7\$. December data on retail sales in the United Kingdom disappointed, giving the Bank of England and argument to make a pause in February and refrain from hiking rates. ECB's Christine Lagarde said that the bank needs to remain open to changes in inflation outlook – new forecasts will be available in 2 months and they will be different than the current ones. She added that the ECB will not hesitate to act, if specific conditions are met. Another ECB representative, Olli Rehn said that factors driving inflation higher will recede in 2022, but the inflation rate will remain at 2% (ECB target) in 2022 and 2023. Bank of Japan's Kuroda Haruhiko said the the BoJ will continue with extremely accommodative monetary policy in contrast to other central banks. He added that Japan does not face accelerating inflation, while monetary policy was doing a good job in supporting the economy. Today we will get to see PMIs for January – the data already release for Australia and Japan showed a major pandemic-driven deterioration of moods in services and still good condition of industry.

NBP Governor Adam Glapiński in a comment for Bloomberg on Friday evening after the European market close said that interest rates should be increased by more than it is currently being priced by the market, also the interest rate hiking cycle should be longer. In his opinion, the reason for a change of his views were the strong macroeconomic data for the Polish economy published on Friday – especially the industrial production and wages. Earlier, after the January MPC decision, Governor Glapiński was of the opinion that the main rate should increase to at least 3.0% (currently 2.25%), and perhaps as high as 4.0% if the macroeconomic outlook improves.

The **set of December macro indicators** was a mix of positive and negative surprises, but in our view points to high economic activity. Industrial and housing market data were very good, wages grew more than expected. Some weakness was seen in construction output, employment and business sentiment. PPI inflation continued to soar and approached 15% y/y.

We still do not know the retail sales data for December, but the production numbers overall confirm that the end of 2021 was strong in terms of economic activity and we would not be surprised to see GDP growth in 4Q21 somewhere near 7% y/y. More in the [Economic Comment](#).

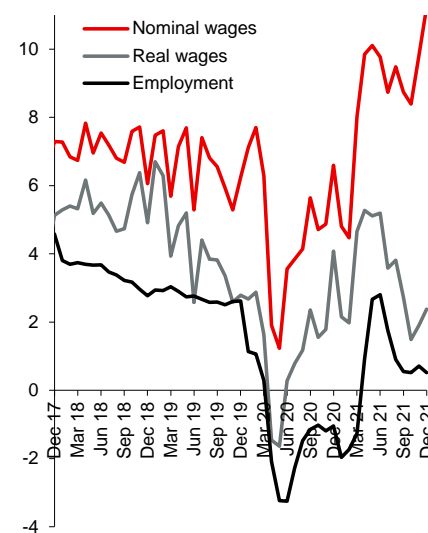
EURUSD on Friday slightly rebounded from the local trough 1.1300 and closed the week at 1.1350, c.0.6% lower than on previous Friday and only 0.2% lower than at the end of 2021. During the weekend, the rate retreated to the middle of Friday's fluctuations range.

EURPLN soared on Friday to 4.53 and in our view the next days may see a correction of the downward trend that has been observed since Christmas Eve (and started at 4.63). In the coming week we expect the rate to increase to 4.57 (200-day moving average) due to the rising global risk aversion, new wave of Covid-19 and the geopolitical risk (growing tension around Ukraine), as well as the possibly more hawkish tone from FOMC this Wednesday The Friday's comment from Adam Glapiński may be a temporary support for the zloty.

As for the **other CEE currencies**, EURHUF increased by 0.6% to 358.6 and broke from below through the 200-day moving average, this opens a prospect of further increases towards 361.0. We expect that on Tuesday the MNB (Central Bank of Hungary) will increase interest rate to 2.70% from the current 2.40% and 2 days later on Thursday the 1-week deposit rate to 4.30% from 4.00%. EURCZK has increased by 0.6% to 24.38. The USDRUB exchange rate remained on Friday near 76.60 for most of the day but increased toward 77.0 at the Friday close.

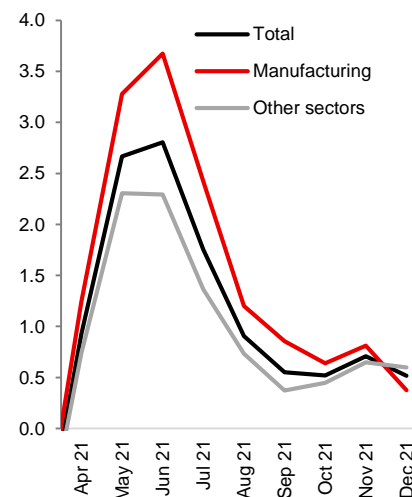
On the Polish **fixed income market** the bond yield curve dropped by 5-6bp (10Y at 3.85%) however the IRS curve has not changed by much (10Y at 3.77%). We think that in the short term the bond yields might follow the falling (due to a risk-off mode on global markets) core market yields. However the latest macroeconomic data from Poland (including the elevated PPI and wages data) point to the fact that the inflation problem in Poland is far from being solved, as a result after the correction we expect the 10Y yields to return to above 4.00%.

Corporate wages and employment, % y/y



Source: GUS, Santander

Employment growth, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5233	CZKPLN	0.1851
USDPLN	3.9944	HUFPLN*	1.2651
EURUSD	1.1322	RUBPLN	0.0518
CHFPLN	4.3698	NOKPLN	0.4479
GBPPLN	5.4078	DKKPLN	0.6075
USDCNY	6.3313	SEKPLN	0.4337

*for 100HUF

Last session in the FX market 21.01.2022

	min	max	open	close	fixing
EURPLN	4.517	4.549	4.529	4.538	4.530
USDPLN	3.985	4.010	3.997	4.000	3.995
EURUSD	1.132	1.136	1.132	1.135	-

Interest rate market 21.01.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.96	4
DS0726 (5Y)	3.78	-7
DS0432 (10Y)	3.85	-9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.70	2	0.72	-2	-0.47	0
2L	3.82	-1	1.18	-2	-0.24	-1
3L	3.81	-2	1.43	-4	-0.07	-1
4L	3.78	-3	1.56	-4	0.03	-2
5L	3.77	-2	1.64	-3	0.10	-2
8L	3.75	-2	1.76	-4	0.27	-2
10L	3.75	-3	1.81	-4	0.38	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.94	-3
T/N	2.16	0
SW	2.28	0
2W	2.30	0
1M	2.47	3
3M	2.85	2
6M	3.23	1
1Y	3.48	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.13	-3
3x6	3.74	1
6x9	3.99	1
9x12	3.98	0
3x9	3.99	-4
6x12	4.12	-3

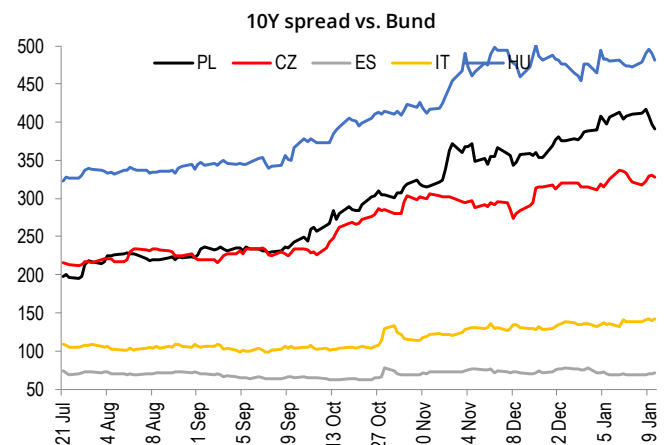
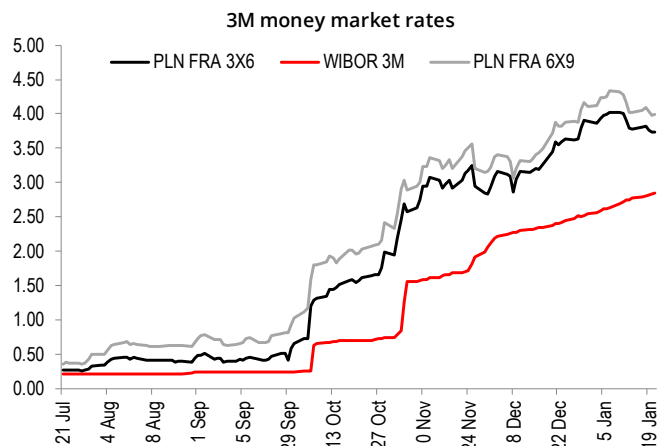
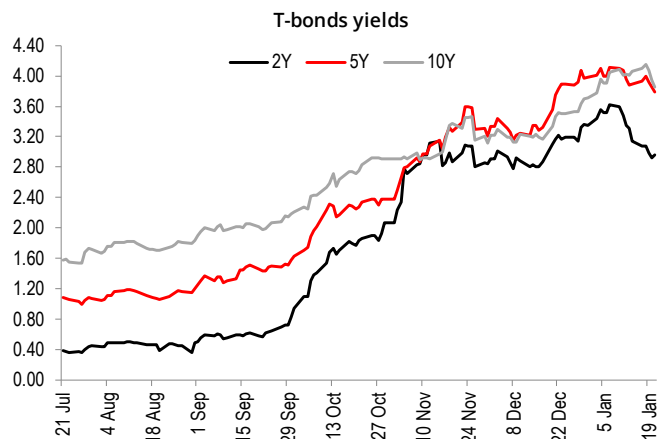
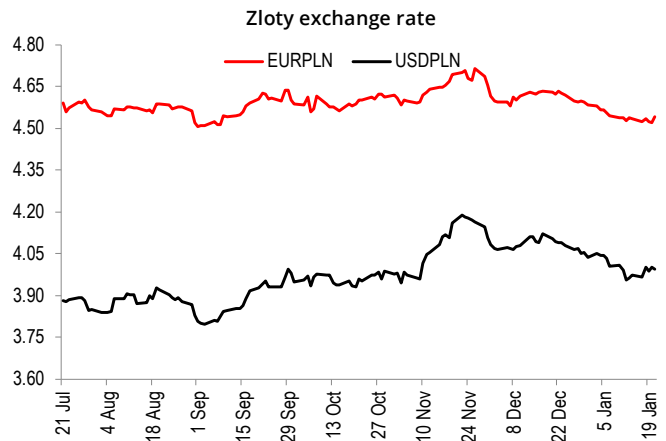
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	43	0	391	-6
France	9	0	39	0
Hungary	52	0	482	-8
Spain	33	0	71	1
Italy	49	0	142	2
Portugal	22	0	63	1
Ireland	10	0	49	0
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 (21 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	0.7	0.7	0.5	0.7
10:00	PL	Sold Industrial Output	Dec	% y/y	13.1	14.9	16.7	15.2
10:00	PL	Construction Output	Dec	% y/y	9.8	9.8	3.1	12.7
10:00	PL	PPI	Dec	% y/y	13.5	13.0	14.2	13.6
10:00	PL	Average Gross Wages	Dec	% y/y	9.1	9.1	11.2	9.8
MONDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	57.3		-	57.4
09:30	DE	Markit Germany Services PMI	Jan	pts	48.1		-	48.7
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	58.2		-	58.0
10:00	EZ	Eurozone Services PMI	Jan	pts	52.5		-	53.1
10:00	PL	Retail Sales Real	Dec	% y/y	9.2	8.9	-	12.1
TUESDAY (25 January)								
10:00	DE	IFO Business Climate	Jan	pts	94.4		-	94.7
14:00	HU	Central Bank Rate Decision	Jan/22	%	2.7		-	2.4
16:00	US	Consumer Conference Board	Jan	pts	112.0		-	115.8
WEDNESDAY (26 January)								
10:00	PL	Unemployment Rate	Dec	%	5.4	5.4	-	5.4
14:00	PL	Money Supply M3	Dec	% y/y	9.3	10.1	-	10.1
16:00	US	New Home Sales	Dec	% m/m	3.5		-	12.4
20:00	US	FOMC decision	Jan/22		0.25		-	0.25
THURSDAY (27 January)								
	DE	Retail Sales	Dec	% m/m	-1.4		-	0.6
14:30	US	Durable Goods Orders	Dec	% m/m	-0.4		-	2.6
14:30	US	GDP Annualized	4Q	% Q/Q	5.7		-	2.3
14:30	US	Initial Jobless Claims		k			-	286.0
16:00	US	Pending Home Sales	Dec	% m/m	-0.3		-	-2.2
FRIDAY (28 January)								
10:00	DE	GDP WDA	4Q	% y/y	1.8		-	2.5
11:00	EZ	ESI	Jan	pct.			-	115.3
14:30	US	Personal Spending	Dec	% m/m	-0.5		-	0.6
14:30	US	Personal Income	Dec	% m/m	0.5		-	0.4
14:30	US	PCE Deflator SA	Dec	% m/m	0.5		-	0.6
16:00	US	Michigan index	Jan	pts	68.8		-	68.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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