

25 January 2022

Eyeopener

PLN weaker despite rising rate hike expectations

Stock indices in red, an attempt to break out of the risk-off mode in the USA
 Stronger USD, weaker CEE currencies
 Bonds gained in Germany, lost significantly in Poland on higher expected rate hikes
 Today German Ifo index, interest rate decision in Hungary

On Monday the global financial market saw a typical risk off mood: equity indices were falling (European c.2.5%, US c.1.5%), gold price was up, industrial metals and energy commodities were going down (Brent -1% to US\$87 p/b), EM currencies were also depreciating, including the zloty, and core market bond yields declined (10Y UST -3bp to 1.73%, Bund -4bp to -0.1%). The sentiment has changed partly during the US session: US equity markets started trimming earlier losses and 10Y UST yield rebounded to 1.77%. The rebound did not affect CEE currencies, though, which have only stabilised at the end of the day. Also, today's Asian session saw further significant declines of stock prices. January's flash PMIs in the euro zone, Germany, France and UK were a mixed bag. Only the German data was clearly better than expected – both manufacturing and services indicators went up (to 60.5 pts and 52.2 pts, respectively by 3.5 pts and 4.2 pts). In France and the Eurozone manufacturing improved but services deteriorated and in the UK both sectors disappointed. US flash PMI report showed much lower output in manufacturing, and generally weakening demand and strengthening disruption in supply chains and labour shortage.

Polish retail sales in constant prices rose by 8.0% y/y in December against market consensus at 9.2% and our estimate of 8.9%. The previous reading was surprisingly strong at 12.1% y/y and it might be that some of the seasonal December shopping was done already in November (e.g. for fears of prices going higher the more one waits with purchases due to exceptionally strong inflation or not getting some goods later due to supply shortages). However seasonally-adjusted data showed a collapse by 3.4% m/m, more than reversing the solid 2.5% m/m rise from November. As a result y/y SA growth went down to 8.0% y/y from 11.6%, comparable to 8.3% seen in October. The December result, while lower than expected, seems still quite strong given the continuing decline of consumer sentiment on the back of very high and broad-based inflation. Online sales were up 3.2% m/m in December following +35.3% in November. While the pace at which CPI was going up in 2H21 was striking and may have shocked consumers, we believe that the strong income position should prevent a slowdown in private consumption at the start of 2022 (we see private consumption in 4Q21 and 1Q22 at 9-10% y/y).

Eryk Łon was the first MPC member to comment on monetary policy after the Friday evening's hawkish message by NBP governor Adam Glapiński. Łon said that keeping interest rates at a moderate level should allow to maintain decent economic activity and protect jobs.

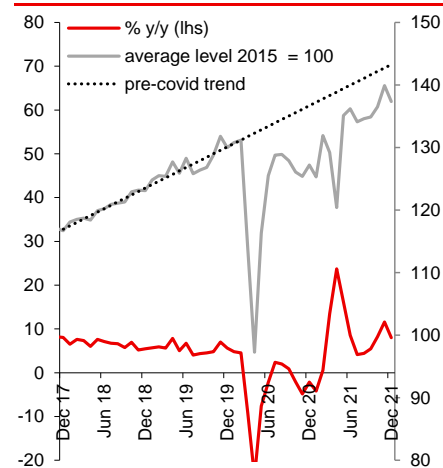
EURPLN moved up by 0.8% to 4.5650. Although it seemed for a while that surprisingly hawkish remark by NBP governor Adam Glapiński on Friday evening would manage to keep the zloty stronger, the Monday behaviour of EURPLN was under strong influence of the global mood. There is a 200-day moving average at 4.57 level hence the exchange rate might consolidate there for a while awaiting the outcome of the Wednesday FOMC meeting.

EURUSD fell on Monday by 0.5% to 1.1300 and broke through recent local minima. Even though the pair managed to rebound somewhat in the evening, in our view it now has a potential to decline to 1.1200.

Other CEE currencies noticeably weakened. EURHUF got to 360.0, up 0.5%, yesterday only to open at 361.0 today in the morning. January Hungarian consumer confidence and business confidence indicators further improved. EURCZK also moved up during the day (0.6% to 24.50) as well as overnight (24.55). In Czech Republic, similarly to Hungary, both consumer and business sentiment indicators improved. USDRUB moved up significantly by 2.5% reaching 79.0. The USDRUB option prices kept increasing in a dynamic fashion: 1-month implied volatility already trades at 21.0.

On the **interest rate market** in Poland the bond yields and IRS rates jumped on Monday - by 12-24bp in case of bonds and by 10bp (long end) to 30bp (short end) on the IRS curve thanks to Friday's words of NBP president Adam Glapiński. FRA rates also went up in a similar scale, with the highest FRA6x9 at 4.46%.

Retail sales, in constant prices, SA



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5687	CZKPLN	0.1856
USDPLN	4.0381	HUFPLN*	1.2539
EURUSD	1.1310	RUBPLN	0.0514
CHFPLN	4.4063	NOKPLN	0.4478
GBPPLN	5.4400	DKKPLN	0.6136
USDCNY	6.3283	SEKPLN	0.4346

*for 100HUF

Last session in the FX market 24.01.2022

	min	max	open	close	fixing
EURPLN	4.521	4.575	4.524	4.574	4.536
USDPLN	3.990	4.046	3.996	4.044	4.005
EURUSD	1.129	1.134	1.132	1.131	-

Interest rate market 24.01.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.12	15
DS0726 (5Y)	3.98	20
DS0432 (10Y)	3.97	12

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.01	31	0.70	-2	-0.47	0
2L	4.10	28	1.14	-4	-0.25	-1
3L	4.05	25	1.40	-3	-0.08	-1
4L	3.99	21	1.53	-2	0.02	-1
5L	3.95	18	1.60	-3	0.09	-2
8L	3.84	9	1.76	0	0.26	-2
10L	3.83	9	1.81	0	0.36	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.98	4
T/N	2.15	-1
SW	2.28	0
2W	2.30	0
1M	2.52	5
3M	2.89	4
6M	3.26	3
1Y	3.50	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.42	29
3x6	4.17	43
6x9	4.38	39
9x12	4.34	36
3x9	4.46	47
6x12	4.55	43

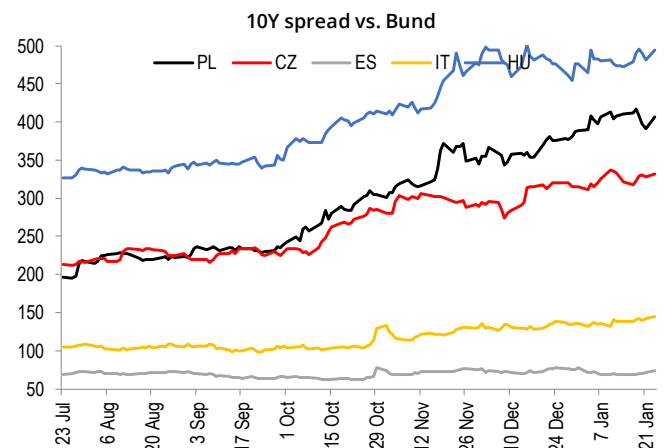
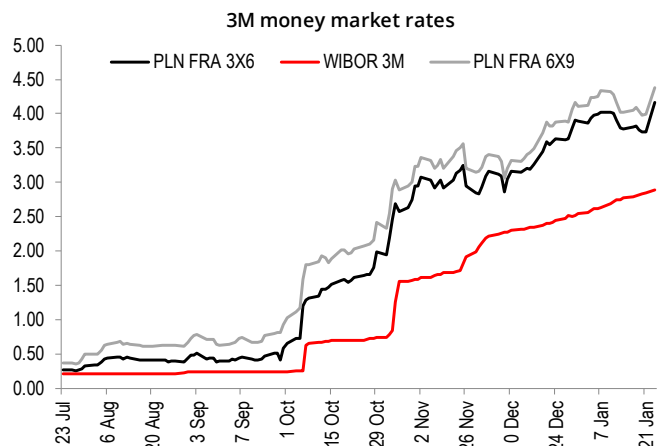
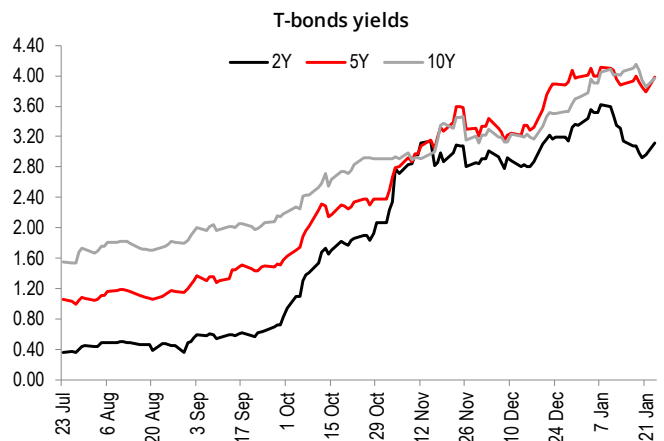
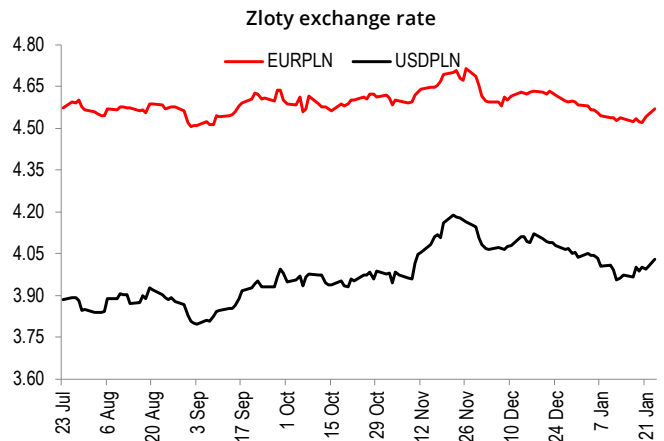
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	43	0	407	16
France	9	0	41	2
Hungary	52	0	494	12
Spain	33	0	74	3
Italy	52	1	145	3
Portugal	22	0	66	3
Ireland	10	0	50	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		
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	57.0		60.5	57.4
09:30	DE	Markit Germany Services PMI	Jan	pts	48.0		52.2	48.7
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	57.5		59.0	58.0
10:00	EZ	Eurozone Services PMI	Jan	pts	52.0		51.2	53.1
10:00	PL	Retail Sales Real	Dec	% y/y	9.6	8.9	8.0	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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