

Eyeopener

Markets quieter ahead of the Fed

Equity indices stabilised awaiting the FOMC communication
 USD stronger, PLN the weakest among EM FX
 UST yield a tad lower, stable Bund
 Today FOMC meeting, Polish unemployment rate and money supply

Tuesday was a volatile day for the stock markets: after some initial declines, the European equities rebounded in the second part of the session and ended the day in black. The dollar gained, but yield did not go further up (UST 10Y -3bp to 1.74%, Bund unchanged at -0.09%), gold price went strongly up (to 1850\$/oz). In Germany we got to see the Ifo index: business climate improved to 95.7pts from 94.7pts (1.2pts above forecasts), expectations index climbed to 95.2pts from 92.6pts (2.2pts above forecasts). The ECB chief economist Philip Lane said that after the pandemic the euro zone inflation will stabilise around the inflation target of 2%, allowing to resign from ultra-dovish monetary policy. In the USA consumer confidence (Conference Board index) deteriorated due to lower expectations about US economic outlook. Housing prices (Case Shiller for 20 biggest cities in the USA) remained high and even rose above expectations (18.3% y/y vs 18.0% y/y).

Eugeniusz Gatnar (who has just ended his term of office in the MPC) said that interest rates must be increased further to avoid the wage-price spiral and he saw the target NBP rate slightly above 3.0%, which could slow the economic growth to c.4%. In his view, the tax cuts introduced by the government imply a risk of higher inflation. **Lukasz Hardt** (who ends his tenure on Feb 20) said that in his view, but also according to the NBP research analysis, inflation sensitivity to the exchange rate has increased in recent years, but the key impact on CPI have the local factors. **Ludwik Kotecki**, the just-appointed MPC member, said that high inflation in Poland is the by-product of the rising economic imbalance (economic growth well above the potential, very high wage growth), but also the pro-inflationary fiscal policy. Because of the former, the MPC must aim to "contain the demand pressure". He thinks that inflation may exceed 10% y/y and current monetary tightening is still insignificant. **Grażyna Ancyparowicz and Jerzy Żyżyński** wrote the article in Rzeczpospolita daily, arguing against reckless monetary policy tightening and calling for a cautious approach as regards impact of interest rates on the economy.

Detailed outcome of the **business sentiment survey** showed that the outstandingly strong deterioration in January manufacturing confidence (6th largest drop in the history of the survey spanning over 260 monthly observations) was attributable to much lower index of expected production, expected financial and economic corporate conditions as well as uncertainty related to the flow of new orders (both from Poland and from abroad). At the same time, another significant increase was seen in the index of expected prices in manufacturing (new ATH record in the survey). Prices indices were on the rise also in all other sectors. The expected employment indexes were diverse, they significantly declined in construction, transport and inventories, but improved in wholesale trade. More corporates pointed towards problems with finding employees as well as purchasing components, as well as towards increasing costs of both.

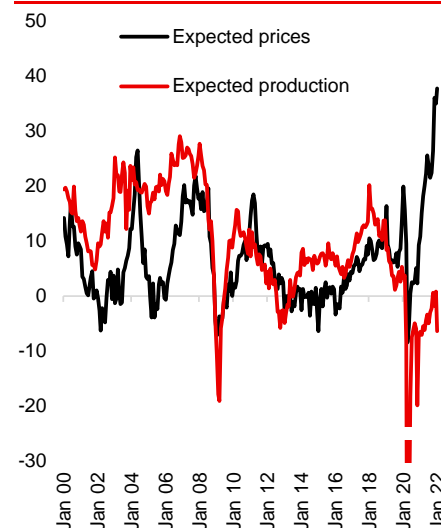
EURUSD declined by 0.5% to 1.1275 and prior to the FOMC meeting the pair closed at the lowest level this year. We are expecting EURUSD to reach 1.1000 at the end of 1Q22.

EURPLN climbed by 0.6% to 4.5920 (+1.4% in 2 days). PLN was the worst performing EM currency on Tuesday. This could have been due to information that the European Court of Justice is going to make a verdict on EU funds conditionality on 16 February. Such a verdict can formally open the way to freeze funds for Poland (apart from Recovery Fund, which is frozen until the government introduces necessary changes in the judicial system).

Other CEE currencies. MNB (Hungarian Central Bank) increase rates by 50bp to 2.90% and surprised the market which was rather looking for a more nuanced hike of 30bp. The statement said that the next steps will likely be larger as well. The target level of the main rate is supposed to reach the level of the 1-week deposit rate over the course of 1H22 (currently at 4.00%, likely to increase to 4.30% already this week). Governor Barnabas Virag said that the CPI inflation likely peaked in December and will decline, however slower than initially expected. On the other hand the core inflation will keep increasing and will reach 7.0% in a few month's time. EURHUF fell by 0.7% to 359.40 retracing three quarters of the Monday's increase. EURCZK fell 0.3% to 24.55. USDRUB initially fell to 78.50 however rebounded in the latter part of the day and closed unchanged at 79.20.

On the **interest rate market**, Polish rates and yields were stable on Tuesday: 2Y yield at 3.14%, 10Y at 3.91%, 2Y IRS at 4.14%, 10Y IRS at 3.88%. 10Y ASW is at 3bp and the Bund spread stays close to 400bp. At the 27 January auction MinFin will offer PLN3-6bn of bonds.

Business tendency survey: manufacturing



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5818	CZKPLN	0.1869
USDPLN	4.0545	HUFPLN*	1.2648
EURUSD	1.1293	RUBPLN	0.0514
CHFPLN	4.4143	NOKPLN	0.4539
GBPPLN	5.4769	DKKPLN	0.6156
USDCNY	6.3206	SEKPLN	0.4376

*for 100HUF

Last session in the FX market						25.01.2022
	min	max	open	close	fixing	
EURPLN	4.560	4.595	4.564	4.589	4.582	
USDPLN	4.032	4.077	4.036	4.067	4.059	
EURUSD	1.126	1.132	1.131	1.128	-	

Interest rate market 25.01.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.12	0
DS0726 (5Y)	3.88	-10
DS0432 (10Y)	3.94	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.00	-1	0.72	2	-0.47	-1
2L	4.11	1	1.16	2	-0.24	1
3L	4.07	1	1.39	-1	-0.08	0
4L	4.01	2	1.53	0	0.03	1
5L	3.97	1	1.62	2	0.10	2
8L	3.87	3	1.76	1	0.28	3
10L	3.87	4	1.82	1	0.39	3

WIBOR rates

Term	%	Change (bps)
O/N	2.03	5
T/N	2.14	-1
SW	2.29	1
2W	2.31	1
1M	2.53	1
3M	2.91	2
6M	3.29	3
1Y	3.52	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.39	-3
3x6	4.13	-4
6x9	4.36	-2
9x12	4.35	1
3x9	4.36	-10
6x12	4.54	-2

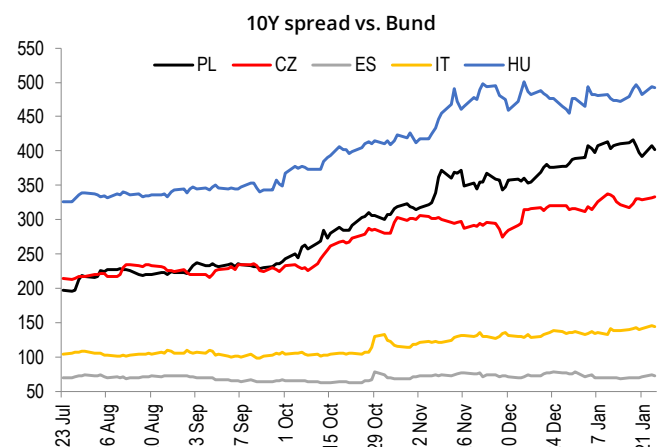
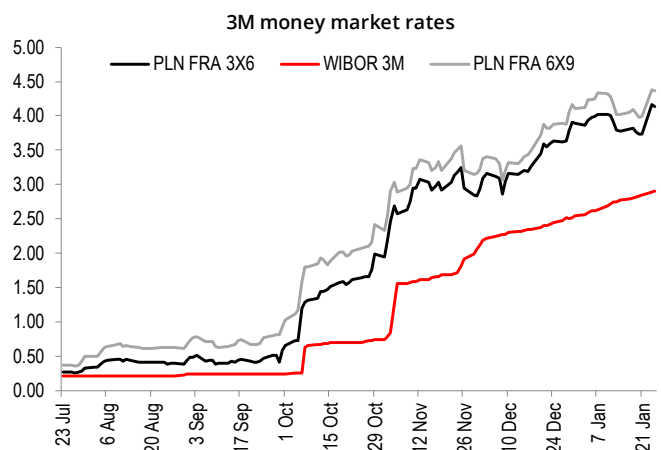
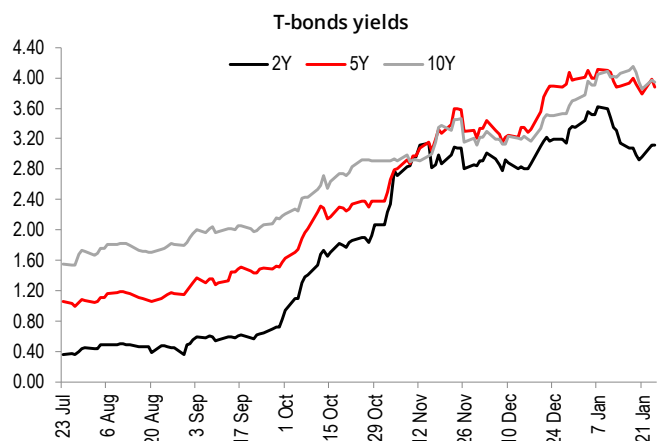
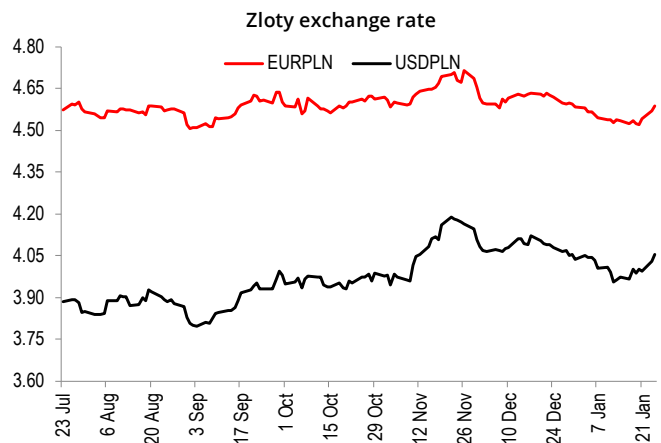
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	43	0	402	-5
France	9	0	41	0
Hungary	51	0	492	-2
Spain	33	0	73	-1
Italy	51	-1	144	-1
Portugal	23	1	66	0
Ireland	10	0	50	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	57.0		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	94.5		95.7	94.7
14:00	HU	Central Bank Rate Decision	Jan/22	%	2.7		2.9	2.4
16:00	US	Consumer Conference Board	Jan	pts	112.0		113.8	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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