

4 February 2022

Eyeopener

The ECB does not say no to hikes

Christine Lagarde did not rule out a hike this year
Deal on the Turów mine and president's idea to end conflict with the EU
EURPLN lower, EURUSD higher
Polish yields flat despite a strong rise in Germany
Today US labour market data, output in Hungary

Weak results of US tech giants triggered declines in US stock markets. European indices were also falling. US services ISM fell slightly less than expected. German services PMI rose in line with flash estimate, among others due to the first employment rise since October and the longest orders backlog since September. Euro zone reading was slightly below flash and 2pts lower than in December – it was attributed to the restrictions due to spreading Omicron variant. Today in the morning German industrial orders rose 2.8% m/m and were better than expected.

ECB did not change its monetary policy (interest rates unchanged, PEPP programme to end in March, but funds will be reinvested, APP purchases will rise in 2Q) but Christine Lagarde's speech was surprisingly hawkish and gave reason for a sharp euro appreciation. ECB governor said it is not certain whether elevated inflation can be treated as transitory, that all bank members were worried about rising prices and went into deeper analysis. She also said that interest rate hikes are possible only after asset purchases stop (ECB will discuss the pace in March) and – importantly – she did not repeat that interest rate hike is impossible this year.

Bank of England raised interest rates by 25bp, the main rate to 0.5%, as expected. The voting results showed that it was close to 50bp rate hike (which triggered pound appreciation after the decision). At the same time, the bank unanimously decided to stop reinvesting the maturing bonds, thus starting the process of balance sheet reduction.

President Andrzej Duda proposed a draft bill which, in his opinion, may help to end Poland's conflict with EU on the rule of law and unblock the recovery fund. The proposal dismantles the contested Disciplinary Chamber of the Supreme Court and replaces it by another chamber with randomly chosen judges. Also yesterday the Polish government signed agreement with the Czech Republic on the Turów coal mine, which is expected to result in a withdrawal of Czech lawsuit against Poland from the ECJ. Surprising announcement of both pieces of news suggested a sudden Poland's turnaround towards de-escalation of conflicts with Europe, which supported the zloty. While the agreement with Czechia should indeed stop a further build-up of penalties and unfavourable ECJ verdict in Turów case (yesterday the ECJ advocate general issued a negative opinion for Poland), as regards the President's proposal we think it is far too early to say that it increases chances for ending the rule of law conflict with the EC. First of all, the government seems to be distancing itself from the President's proposal (especially the eurosceptic coalition party Solidarna Polska), secondly the proposal does not solve in fact many of the European Commission's demands.

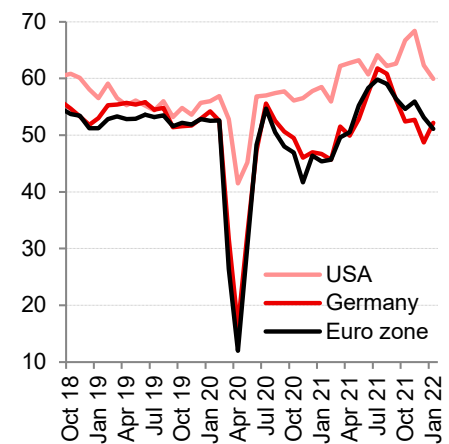
EURUSD climbed to 1.145, i.e. by 1.2% over one day thanks to a change in ECB communication to less dovish. Such a big move means that the pair escaped the downward trend valid for a better part of 2021. We think that the market may have overreacted and – similarly as after last speech of the Fed chair – after strong reaction the market will retreat towards starting levels.

EURPLN strongly reacted to information suggesting that one of negative risk factors can disappear. PLN gained to 4.52 per euro, but most of this move was reversed. USDPLN slid temporarily below 3.95.

Among other CEE currencies: the Czech koruna continued to strengthen at a pace seen over the last days, but soon EURCZK returned to 24.3 recorded at the start of the week. The Czech central bank raised rates by 75bp, the main one to 4.50%, in line with expectations, but the bank's governor Jiří Rusnok announced no more major rate hikes will be necessary. The GDP forecasts were lowered to 3% in 2022 and 3.4% in 2023 (from 3.5% and 3.8% in November, correspondingly). Inflation forecasts moved to 8.5% on average in 2022 and 2.3% in 2023 (from 5.6% and 2.1%). Interest rate forecasts assumes a switch to moderate cuts in 2H22. EURHUF and USDRUB were stable.

On the domestic interest rate market the Polish yield curve remained stable even despite a major sell-off on the core markets. The German curve went up by 10-13bp and 10Y Bund reached +0.14%. In the USA we got to see yields moving up by 5bp. PLN IRS curve moved by 8bp up during the ECB conference, but then this move was reversed.

Business sentiment in services (PMI, ISM)



Source: Bloomberg, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Marcin Luźniński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening			
EURPLN	4.5410	CZKPLN	0.1873
USDPLN	3.9630	HUFPLN*	1.2679
EURUSD	1.1458	RUBPLN	0.0521
CHFPLN	4.3157	NOKPLN	0.4532
GBPPLN	5.3874	DKKPLN	0.6097
USDCNY	6.3605	SEKPLN	0.4344

*for 100HUF

Last session in the FX market						03/02/2022
	min	max	open	close	fixing	
EURPLN	4.518	4.548	4.541	4.534	4.544	
USDPLN	3.954	4.028	4.016	3.968	4.027	
EURUSD	1.127	1.145	1.130	1.142	-	

Interest rate market 03/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.75	1
DS0726 (5Y)	4.08	-1
DS0432 (10Y)	4.00	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.31	2	0.88	3	-0.34	7
2L	4.53	5	1.35	6	0.04	13
3L	4.40	1	1.56	5	0.25	14
4L	4.32	2	1.66	7	0.35	13
5L	4.23	1	1.72	7	0.41	12
8L	4.07	2	1.84	7	0.51	9
10L	4.02	1	1.87	5	0.58	8

WIBOR rates

Term	%	Change (bps)
O/N	2.31	11
T/N	2.26	1
SW	2.46	7
2W	2.62	5
1M	2.70	4
3M	3.10	4
6M	3.56	4
1Y	3.79	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.58	2
3x6	4.46	4
6x9	4.70	0
9x12	4.73	1
3x9	4.70	0
6x12	4.92	-2

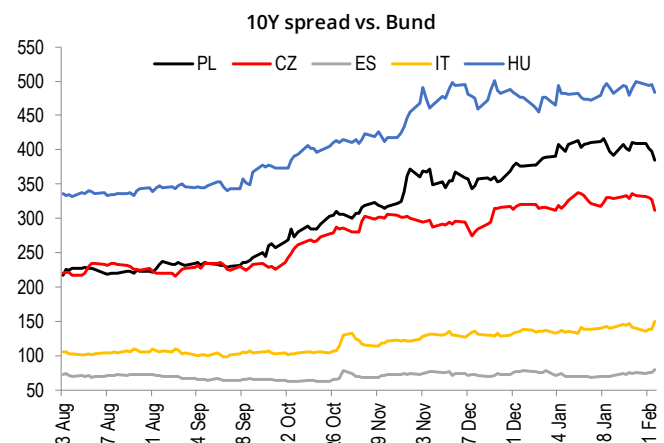
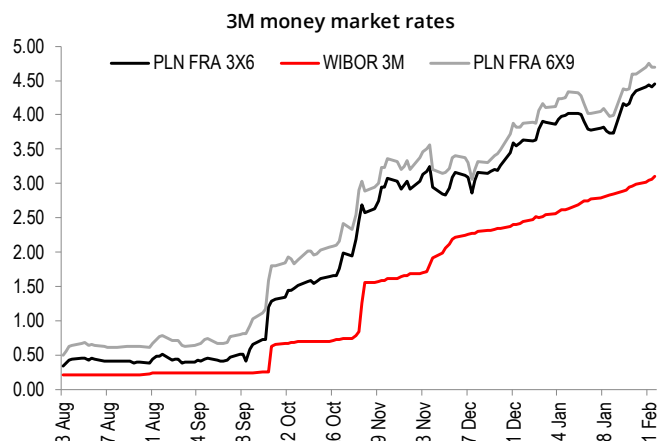
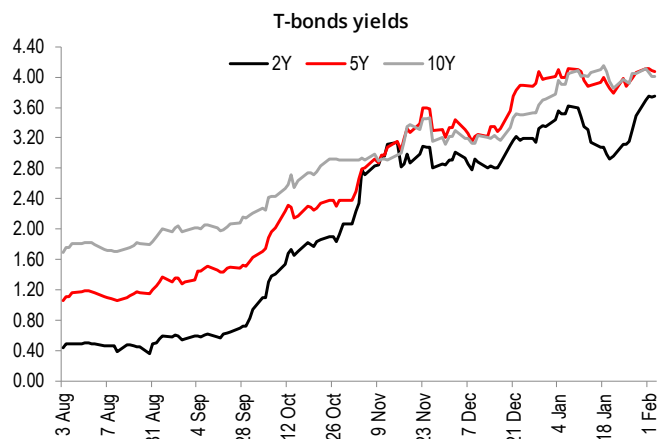
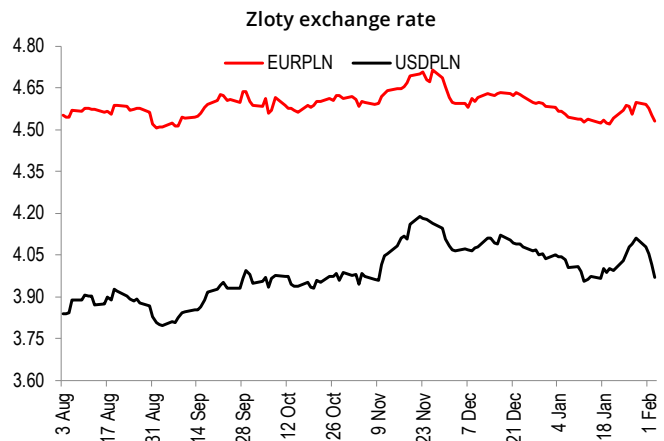
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	42	0	385	-13
France	9	0	44	2
Hungary	52	0	483	-12
Spain	35	1	80	5
Italy	50	4	150	11
Portugal	24	1	73	5
Ireland	10	0	52	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 (28 January)								
10:00	DE	GDP WDA	4Q	% y/y	1.8		1.4	2.5
11:00	EZ	ESI	Jan	pct.	114.5		112.7	115.3
14:30	US	Personal Spending	Dec	% m/m	-0.6		-0.6	0.6
14:30	US	Personal Income	Dec	% m/m	0.5		0.3	0.4
14:30	US	PCE Deflator SA	Dec	% m/m	0.4		0.4	0.6
16:00	US	Michigan index	Jan	pts	68.8		67.2	70.6
MONDAY (31 January)								
10:00	PL	GDP	2021	% y/y	5.5	5.8	5.7	-2.5
11:00	EZ	GDP SA	4Q	% y/y	4.6		4.6	3.9
14:00	DE	HICP	Jan	% m/m	0.0		0.9	0.3
TUESDAY (1 February)								
08:00	DE	Retail sales	Dec	% m/m	-1.4		-5.5	0.6
09:00	CZ	GDP SA	4Q	% y/y	2.9		3.6	3.3
09:00	PL	Poland Manufacturing PMI	Jan	pts	56.4	56.7	54.5	56.1
09:55	DE	Germany Manufacturing PMI	Jan	pts	60.5		59.8	57.4
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	59.0		58.7	58.0
11:00	EZ	Unemployment Rate	Dec	%	7.1		7.0	7.2
16:00	US	ISM manufacturing	Jan	pts	58.0		57.6	58.7
WEDNESDAY (2 February)								
11:00	EZ	Flash HICP	Jan	% y/y	4.4		5.1	5.0
14:15	US	ADP report	Jan	k	208		-301	807.3
THURSDAY (3 February)								
09:55	DE	Markit Germany Services PMI	Jan	pts	52.2		52.2	48.7
10:00	EZ	Eurozone Services PMI	Jan	pts	51.2		51.1	53.1
13:45	EZ	ECB Main Refinancing Rate	Feb/22	%	0.0		0.0	0.0
14:30	US	Initial Jobless Claims	Jan/22	k	265		238	260
14:30	CZ	Central Bank Rate Decision	Feb/22		4.5		4.5	3.75
16:00	US	Durable Goods Orders	Dec	% m/m	-0.9		-0.7	-0.9
16:00	US	ISM services	Jan	pts	59.5		59.9	62.0
16:00	US	Factory Orders	Dec	% m/m	-0.4		-0.4	1.6
FRIDAY (4 February)								
08:00	DE	Factory Orders	Dec	% m/m	0.3	2.8	-	3.6
09:00	HU	Industrial Production SA	Dec	% y/y			-	2.1
11:00	EZ	Retail Sales	Dec	% m/m	-0.5		-	1.0
14:30	US	Change in Nonfarm Payrolls	Jan	k	178		-	199
14:30	US	Unemployment Rate	Jan	%	3.9		-	3.9

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

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.