

7 February 2022

Eyeopener

Strong US labour market despite pandemic

Unexpectedly strong employment rise in the USA in January and rebound in labour participation

EM currencies weaker after US data release

Bond yields in core markets much higher, Polish yields surprisingly lower

Today, industrial production data in Germany and Czechia

The hawkish turn of the ECB caused declines on European equities. German bond yields continued to rise and EURUSD spent most of the day above 1.145. The markets were moved by US data. Due to the new wave of the pandemic the markets and Fed members were prepared for a really bad January US labour market report. Yet, the monthly non-farm payrolls increase came in higher than any of the forecasts in the market consensus. What is more, there were large upside revisions of the previous readings, a higher-than-expected growth of wages and a long-expected upside turn in labour participation rate. After the data the UST yields went up by 10bp, with 10Y up to 1.92% and the market-implied size of the March FOMC rate hike got half way between a 25bp move and 50bp move. In the background there were some European data – the day started with a release of bad Eurozone retail sales print (-3% m/m, with non-food purchases down -5.2% m/m and online and mailing sales down 3.9% m/m) – while a similar deterioration was also seen during the previous peaks of the pandemic waves, there was a rebound of internet sales at that time (this time was different in this respect). The headline rebound of German industrial orders by 2.8% m/m masked a drop in foreign orders by 3% m/m, including the Eurozone orders at -4.2% m/m. German investment goods demand was particularly worse (-7.8% m/m). The strong headline was caused by domestic orders growing 11.7% m/m.

According to the Ministry of Labour **the registered unemployment rate rose to 5.6% in January** after 5.4% in December. The number of the unemployed rose by 32.5k m/m and such a direction of the move is typical for January, but this one was the lowest since comparable data are available (early 90s). In seasonally-adjusted terms the unemployment rate dropped according to our estimates to 5.2% from 5.4% in December. Our forecast for January was 5.5% albeit after the ministry's announcement the actual data provided by GUS on 23 February are likely to show 5.6%. We expect decline of the unemployment rate during 2022, to 5.0% in December.

According to voting results' released on Friday **the MPC's decision to hike rates by 50bp in December was unanimous**, just like two previous moves in October and November.

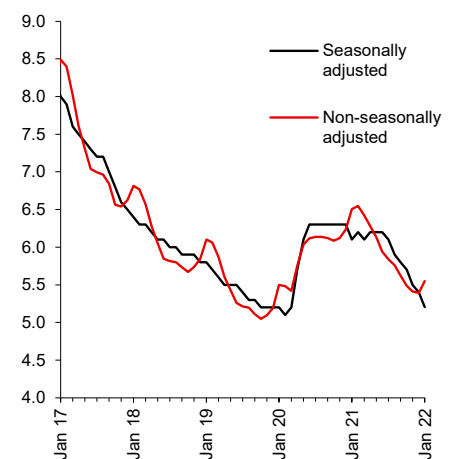
EURUSD was showing slight upward trend until the US data release, but afterwards fell below 1.145 for some time. It closed above this level, which suggests that 1.15 may be the next target for the rate, before the pair moves to well deserved correction after 2.7% increase in one week.

EURPLN after retreating from Thursday's decline was awaiting the US data near 4.54. In reaction to the data, the rate jumped above 4.56. We think that until the MPC decision (showing whether and how the central bank is going to support the zloty) EURPLN should stay near 4.55 and if the rate hike is 50bp, as expected, the situation should not change much. However, after strong impulse for dollar appreciation, the risk is asymmetric towards higher EURPLN.

Among **other CEE currencies**: EURCZK did not change during the day, similarly as EURHUF yet it did not decline below 353 ahead of the US data. On the weekly chart the forint proved to be outperforming in the EM universe (+1.2% against the euro). USDRUB declined to the Wednesday level (75.7) and after the US data rebounded above 76, but was still the strongest CEE currency on Friday.

The **domestic interest rate market** saw a major decline of yields, by about 10bp across the curve, while IRS rate went down by 3-6bp and FRA rates up to one year declined by 9bp. This may have been due to a similar move in the Czech Republic, after the CNB hiked rates by 75bp on Thursday and suggested a smaller scale of tightening in the future. Meanwhile, the euro zone money market saw increasing scale of rate hikes being priced-in. Given the latter and the strong data on US employment (contrary to expectations), it seems we can see higher yields in Poland this week in a delayed reaction to weakening of bond markets in the USA and the euro zone, and later after hawkish message from the MPC, which we are expecting.

Registered unemployment rate, %



Source: GUS, Labour Ministry, Santander

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FX market

Today's opening			
EURPLN	4.5502	CZKPLN	0.1869
USDPLN	3.9798	HUFPLN*	1.2766
EURUSD	1.1434	RUBPLN	0.0526
CHFPLN	4.3021	NOKPLN	0.4531
GBPPLN	5.3867	DKKPLN	0.6113
USDCNY	6.3576	SEKPLN	0.4348

*for 100HUF

Last session in the FX market						04/02/2022
	min	max	open	close	fixing	
EURPLN	4.534	4.566	4.542	4.559	4.546	
USDPLN	3.953	4.000	3.962	3.981	3.966	
EURUSD	1.141	1.148	1.146	1.145	-	

Interest rate market 04/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.65	-9
DS0726 (5Y)	3.95	-12
DS0432 (10Y)	3.92	-9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.28	-2	0.98	10	-0.30	5
2L	4.45	-8	1.47	12	0.14	10
3L	4.36	-5	1.67	11	0.36	11
4L	4.25	-7	1.77	11	0.46	11
5L	4.19	-4	1.83	11	0.51	10
8L	4.01	-6	1.92	8	0.59	8
10L	3.98	-3	1.97	10	0.65	7

WIBOR rates

Term	%	Change (bps)
O/N	2.11	-20
T/N	2.27	1
SW	2.56	10
2W	2.68	6
1M	2.71	1
3M	3.11	1
6M	3.59	3
1Y	3.82	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.59	1
3x6	4.40	-5
6x9	4.66	-4
9x12	4.70	-4
3x9	4.67	-3
6x12	4.84	-8

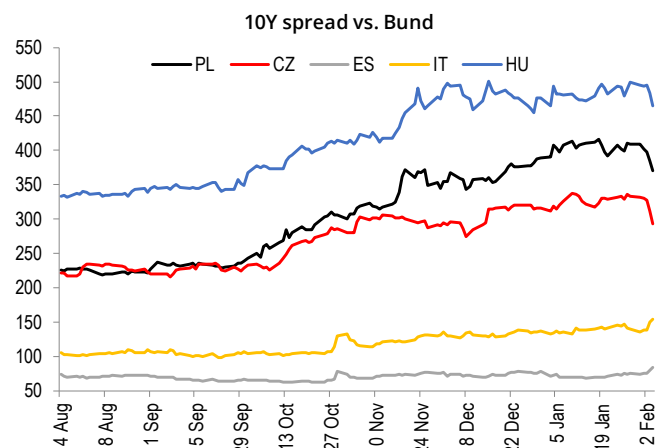
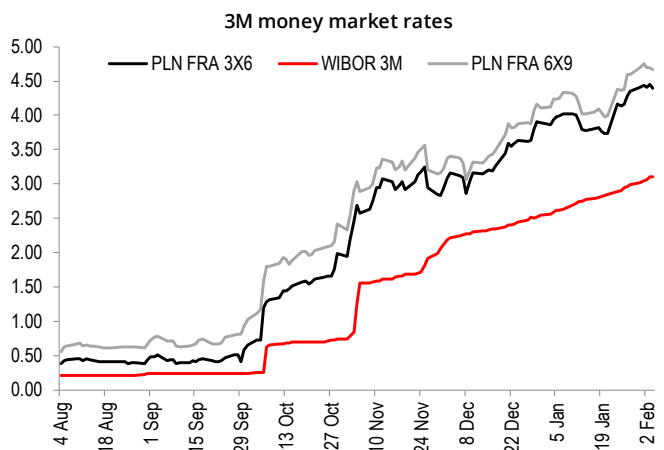
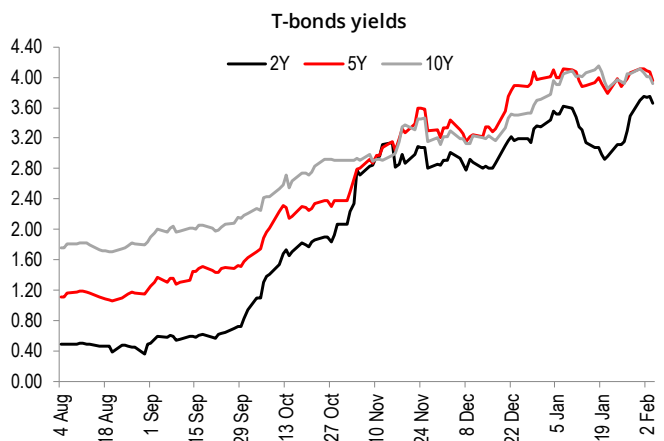
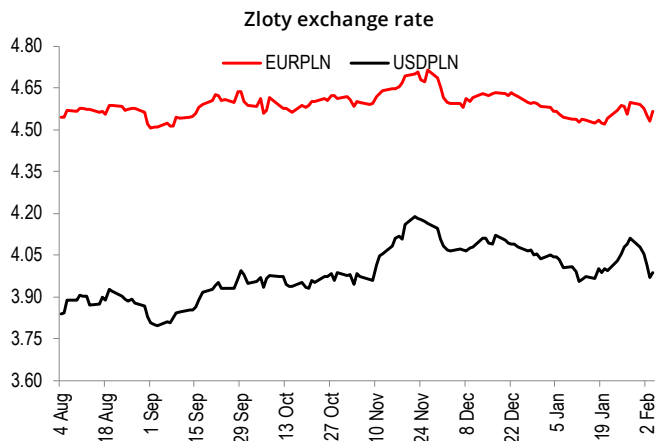
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	42	0	371	-14
France	9	0	44	0
Hungary	52	0	465	-18
Spain	38	3	84	4
Italy	55	5	154	5
Portugal	27	3	77	4
Ireland	10	0	52	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 (4 February)								
08:00	DE	Factory Orders	Dec	% m/m	0.3	2.8	3.7	
09:00	HU	Industrial Production SA	Dec	% y/y	3.5	3.6	2.1	
11:00	EZ	Retail Sales	Dec	% m/m	-0.9	-3.0	1.0	
14:30	US	Change in Nonfarm Payrolls	Jan	k	125	467	199	
14:30	US	Unemployment Rate	Jan	%	3.9	4.0	3.9	
MONDAY (7 February)								
02:45	CN	Caixin China PMI Services	Jan	pts	50.3	51.4	53.1	
08:00	DE	Industrial Production SA	Dec	% m/m	0.5	-0.3	-0.2	
09:00	CZ	Industrial Production	Dec	% y/y	4.0	-	4.5	
TUESDAY (8 February)								
	PL	MPC decision		%	2.75	2.75	-	2.25
WEDNESDAY (9 February)								
08:00	DE	Exports SA	Dec	% m/m	-0.9	-	1.8	
THURSDAY (10 February)								
14:00	PL	MPC minutes	4 Jan					
14:30	US	CPI	Jan	% m/m	0.5	-	0.5	
14:30	US	Initial Jobless Claims	week	k	245	-	238	
FRIDAY (11 February)								
08:00	DE	HICP	Jan	% m/m	0.9	-	0.3	
09:00	HU	CPI	Jan	% y/y	7.35	-	7.4	
16:00	US	Michigan index	Feb	pts	67.3	-	67.2	

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

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