

11 February 2022

Eyeopener

European Commission upbeat on Poland

Today US Michigan index, inflation in Hungary
EC lowered economic forecasts for EU, raised for Poland
US inflation surprised to the upside again, rising expectations for Fed hikes

Today the calendar is rather empty, the only important event is the release of the Michigan index. Since mid-2021 the index has moved in a downward trend. Earlier we will get to see data on January inflation, e.g. in Hungary and Germany.

US CPI advanced by 0.6% m/m and 7.5% y/y in January, faster than expected. Core inflation rose at the same m/m pace. US inflation is the highest since 1982 and another upward surprise means rising pressure on the Fed.

The European Commission published its winter economic forecasts. Commission's analysts expect a solid GDP growth in the EU amid moderate inflation, even though in comparison to the autumn edition the GDP forecasts went down somewhat (2022 down by 0.3pp to 4.0%, 2023 up by 0.3pp to 2.7%) and the inflation forecasts went up (to 3.5% from 2.2% in 2022 and to 1.7% from 1.4% in 2023). According to the Commission, the EU economy started the year on a weaker note than previously expected due to higher infections because of the new omicron variant and higher level of social and economic restrictions. Moreover, the economy was undermined by supply disruptions and rising inflation, especially by higher energy prices. EC forecasts assume that epidemic disruptions be short-lived and supply problems will disappear within a year. The inflation pressure is expected to go down, while the positive labour market situation and accelerating spending from the Recovery Fund will allow for a solid growth. Rebound should be visible already in 2Q22. **The Commission is quite optimistic about Poland:** in 2022 it predicts GDP growth at 5.5% and inflation at 6.8%, in 2023 at 4.2% and 3.8%, respectively. In our view the GDP growth will be lower due to delays in launch of the Recovery Fund and monetary policy tightening. Meanwhile, inflation could be close EC's forecast only if the "anti-inflation shield" is prolonged until end of 2022. Otherwise it will average well above 8%, in our view.

According to minutes from the December MPC meeting, most of the Council members wanted to hike rates to tame inflation and influence inflation expectations, but some members were concerned that another rate hike could have negative impact on economic growth. It looks like part of the MPC was not willing to tighten policy further (this week NBP governor described February's decision as "almost" unanimous). Currently it has limited significance, as the better part of the MPC members will be replaced soon. In January the MPC voted unsuccessfully to raise the reserve requirement from 2.0% to 3.5% and to lower interest on the reserve to deposit rate level.

After the large Wednesday drop **EURPLN** attempted cautiously to extend the move, but the US inflation data pushed it back to 4.50, where it closed the day. In the meantime **EURUSD** moved from the initial intuitive downside reaction to the data to a meaningful rebound and closed 0.4% higher on the day, similar to what had happened after the previous two US CPI releases also had been above expectations. However, after the European market close the dollar strengthened again due to growing expectations for quicker rate hikes in the USA (after St. Louis Fed James Bullard's remarks that the inflation data made him more hawkish and he would see the main rate at 1% by July). This morning EURUSD is around 1.138, EURPLN at c.4.5050. The stronger dollar is weakening regional currencies in the morning, but the key factor for the zloty may be the news by RMF FM radio that the **presidential proposal on changes to the judiciary system may allow the European Commission to unlock Polish national recovery program.**

As for the **other CEE FX**, the rebound of EURUSD made the forint reduce the yesterday daily loss by half, to 0.4% (this time the currency did not get support from 1-week deposit rate hike – the central bank left it in place at 4.30%) and turn a rise of EURCZK to a marginal decline. The ruble gained 0.1% vs. the dollar and awaits the Russian central bank decision – the previous post-meeting statement suggested that the tightening phase is coming to an end, and yet the markets assume that rates will go up by 100bp today. This morning a negative pressure on CEE FX is observed due to the EURUSD decline.

On the interest rate market, the event of the day was the break of 10Y UST yield above 2% for the first time in 2.5 years. The US inflation helped move the US yield curve up from 8bp on the long end to 19bp on 2Y and 10Y Bund by 7bp. Before the data the Polish curve was a bit higher day-to-day only in the 2Y part, but at the end of the day all tenors were up 3-6bp, as well as the whole IRS curve. With Poland being much ahead of the ECB in the monetary policy tightening process, the rise of core market yields is translating mostly to the narrowing of the Bund spread.

European Commission's GDP forecasts

	2022	2023
EU	4.0 (-0.3)	2.8 (+0.3)
Euro zone	4.0 (-0.3)	2.7 (+0.3)
Germany	3.6 (-1.0)	2.6 (+0.9)
France	3.6 (-0.2)	2.1 (-0.2)
Italy	4.1 (-0.2)	2.3 (0.0)
Spain	5.6 (+0.1)	4.4 (0.0)
Netherlands	3.0 (-0.3)	2.7 (+1.1)
Poland	5.5 (+0.3)	4.2 (-0.2)
Sweden	3.8 (+0.3)	2.0 (+0.3)
Czechia	4.4 (0.0)	3.9 (+0.7)
Hungary	5.0 (-0.4)	3.2 (0.0)
Romania	4.2 (-0.9)	4.5 (-0.9)

Change versus November 2021 in brackets
Source: European Commission, Santander

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FX market

Today's opening			
EURPLN	4.5065	CZKPLN	0.1847
USDPLN	3.9568	HUFPLN*	1.2703
EURUSD	1.1389	RUBPLN	0.0529
CHFPLN	4.2652	NOKPLN	0.4475
GBPPLN	5.3548	DKKPLN	0.6054
USDCNY	6.3598	SEKPLN	0.4252

*for 100HUF

Last session in the FX market						10/02/2022
	min	max	open	close	fixing	
EURPLN	4.482	4.506	4.492	4.499	4.488	
USDPLN	3.912	3.959	3.931	3.915	3.922	
EURUSD	1.137	1.150	1.143	1.149	-	

Interest rate market 10/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.64	3
DS0726 (5Y)	4.01	2
DS0432 (10Y)	3.99	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.31	5	1.27	23	-0.26	6
2L	4.43	7	1.79	26	0.26	13
3L	4.34	7	1.95	21	0.51	16
4L	4.21	6	2.02	19	0.61	14
5L	4.14	4	2.04	15	0.68	14
8L	4.01	4	2.08	11	0.75	9
10L	3.99	6	2.11	11	0.81	9

WIBOR rates

Term	%	Change (bps)
O/N	2.48	-14
T/N	2.68	0
SW	2.78	1
2W	2.79	1
1M	2.84	4
3M	3.28	5
6M	3.75	5
1Y	3.98	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.78	7
3x6	4.48	9
6x9	4.61	6
9x12	4.61	5
3x9	4.71	7
6x12	4.78	2

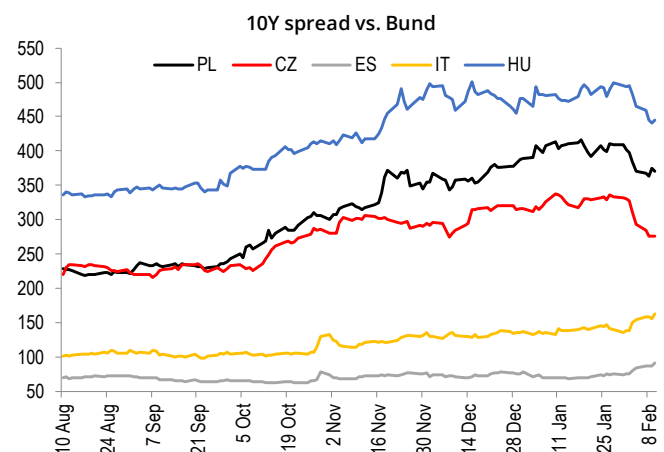
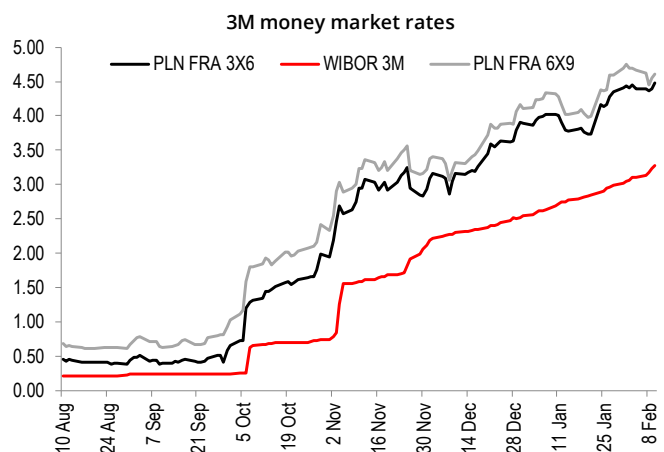
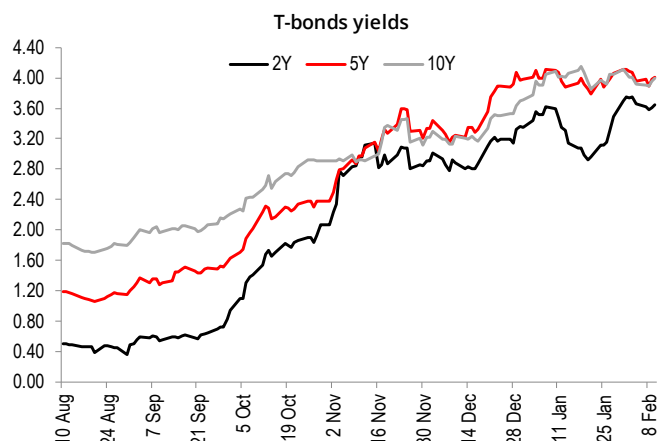
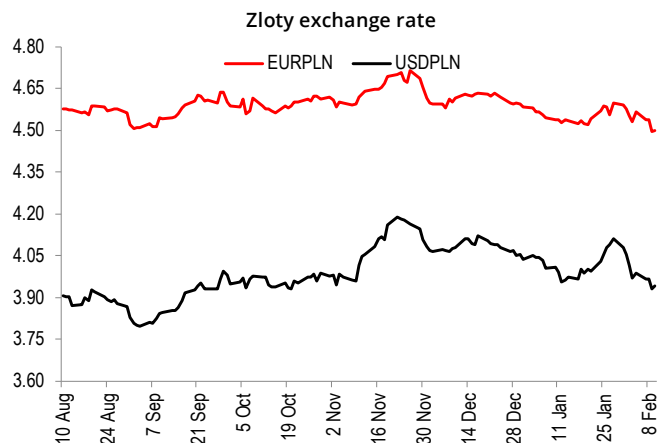
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	45	0	370	-4
France	9	0	47	1
Hungary	60	0	445	4
Spain	39	1	90	4
Italy	52	0	163	8
Portugal	27	0	84	4
Ireland	10	0	55	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	0.4	4.5
TUESDAY (8 February)							
	PL	MPC decision		%	2.75	2.75	2.75
WEDNESDAY (9 February)							
08:00	DE	Exports SA	Dec	% m/m	-0.5	0.9	1.8
15:00	PL	NBP Governor's Conference					
THURSDAY (10 February)							
14:00	PL	MPC minutes	4 Jan				
14:30	US	CPI	Jan	% m/m	0.5	0.6	0.5
14:30	US	Initial Jobless Claims	week	k	245	223	239
FRIDAY (11 February)							
08:00	DE	HICP	Jan	% m/m	0.9	0.9	0.3
09:00	HU	CPI	Jan	% y/y	7.35	7.9	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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