

14 February 2022

Eyeopener

Rising worries about escalating conflict

Today Polish balance of payments, German chancellor goes to Ukraine
 The White House: conflict escalation possible in the upcoming days
 Budget ended 2021 with PLN26.3bn deficit
 Government envisaging additional funds for pensions
 US consumer sentiment worst in a decade

Today the balance of payments data for December will be released. We expect a clear widening of the current account deficit to c.EUR3bn, amid still high export and import growth rates. There are no major data releases abroad. German chancellor visits Ukraine today and Russia tomorrow to talk about possible diplomatic solutions to the conflict. US national security advisor Jake Sullivan said that they see signals of further conflict escalation and that **Russia could invade Ukraine any day now** (possibly this week). It triggered worsening of market sentiment and zloty depreciation. **Michigan index of consumer confidence** fell in February from 67.2pts to 61.7pts, its lowest in a decade. The decline resulted mainly from US citizens' worries about their finances, mainly due to rising inflation.

According to the NBP, **house price growth kept accelerating in 4Q21**. At the primary market transactional prices approached offered prices, which in our view resulted from the fact that the sale exceeded the number of new flats introduced (according to JLL data). This year the situation may change – demand is likely to weaken due to higher financing cost while the supply will remain strong as suggested by the high new house starts in 2021. Thus, house prices should decelerate, at least relative to other prices in the economy.

Indexation of old age and disability pensions in Poland will reach 7%, i.e. will be higher than implied by the regulations (5.7%). The cost will be PLN18.4bn, out of which PLN3.4bn is the cost of extra indexation. Also, the government announced that it will pay the **14th pension** this year (it was supposed to be one-off payment). We estimate that after those changes pensioners' revenues will go up by c.15% this year in nominal terms. The government is boosting fiscal expansion in reaction to rising inflation, which in our view will counter the effects of interest rate hikes. PM Morawiecki said that after the "anti-inflationary shield" expires, the return to previous tax rates will be "gentle and selective" and that the shield may be extended. Currently it is planned to expire at the end of July, which would trigger a jump in CPI by 3.5pp in August, according to our estimate. PM's announcements suggest the jump may be smaller and spread over time.

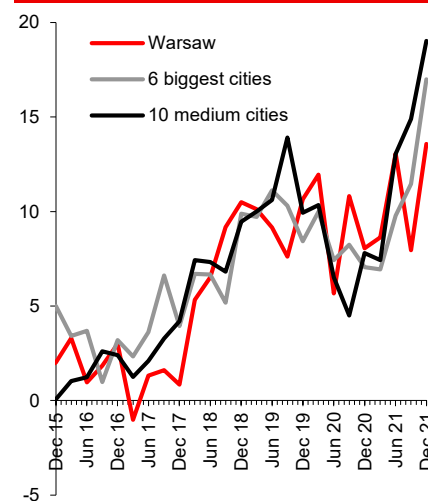
Central budget deficit at the end of 2021 was PLN26.3bn, which means that in December alone the budget recorded a balance of -PLN76.6bn. On the revenues side (decent total growth of +16.5% y/y) there was some weakness in indirect taxes, possibly on some acceleration of VAT returns, while PIT and CIT revenues were strong (growing 24.3% and 44.1% y/y respectively). The large rise of expenditures in December 2021, the same pattern as in 2020, was due to an increased subsidy to local governments and social security funds. The probable accelerated payments of VAT returns and spending boost in the final month of the year, the same as a year ago, were most likely done to remove some of the fiscal burden from the next year. We remind our readers that the central budget balance is a poor indicator of the shape of public finances, as many expenditures have been moved to various funds outside the central budget. Social security fund FUS recorded a deficit of PLN44.37bn. We estimate the whole general government sector balance to be around -2% GDP in 2021.

On the domestic FX market the sentiment was set by the return of **EURUSD** below 1.14 and the growing risk of Russia-Ukraine conflict. In these circumstances the zloty saw the largest daily loss of all the EM currencies (1.2%) and **EURPLN** rose to 4.55. The situation on the east is currently the key factor for the zloty and it may feel further negative pressure. The appearance of BGK and/or NBP on the market might limit the potential further selloff, as would signals about de-escalation of the rule of law conflict between Poland and the EU. High volatility seems warranted.

Other CEE FX: the koruna was not saved by opinions of 3 out of 7 central bank board members (in the released minutes) that the risk of prolonged high inflation may postpone the moment when there could be a switch to rate cuts. In case of the ruble also the more hawkish rhetoric of the central bank and the 1.4% rebound of oil price could not outweigh the negative impact of geopolitical risk on the currency. The Bank of Russia raised rates by 100bp, as expected.

On the interest rate market Friday was the second day of gradual flattening of the IRS curve (short end up 6bp, long end +2bp). The domestic yield curve was stable, similar to core markets. The switch auction did not attract much demand (total sales were PLN3.4bn). News about Russia-Ukraine conflict will be key for the market behaviour in the coming days. We expect strengthening of core bonds and a widening of the Bund spread.

Price of houses on the primary market, % y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.5584	CZKPLN	0.1853
USDPLN	4.0167	HUFPLN*	1.2672
EURUSD	1.1344	RUBPLN	0.0525
CHFPLN	4.3418	NOKPLN	0.4530
GBPPLN	5.4426	DKKPLN	0.6131
USDCNY	6.3580	SEKPLN	0.4300

*for 100HUF

Last session in the FX market						11/02/2022	
	min	max	open	close	fixing		
EURPLN	4.500	4.538	4.505	4.524	4.516		
USDPLN	3.951	3.984	3.956	3.968	3.967		
EURUSD	1.137	1.142	1.139	1.140	-		

Interest rate market 11/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.63	-1
DS0726 (5Y)	3.98	-2
DS0432 (10Y)	4.02	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.36	5	1.22	-4	-0.31	-5
2L	4.49	6	1.69	-11	0.17	-9
3L	4.37	3	1.83	-13	0.43	-8
4L	4.27	6	1.87	-15	0.61	-1
5L	4.16	2	1.88	-15	0.67	-1
8L	4.03	3	1.94	-14	0.79	5
10L	4.01	1	1.97	-15	0.86	5

WIBOR rates

Term	%	Change (bps)
O/N	2.47	-1
T/N	2.68	0
SW	2.78	0
2W	2.79	0
1M	2.85	1
3M	3.30	2
6M	3.78	3
1Y	4.01	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.79	1
3x6	4.53	4
6x9	4.65	3
9x12	4.67	6
3x9	4.76	4
6x12	4.80	2

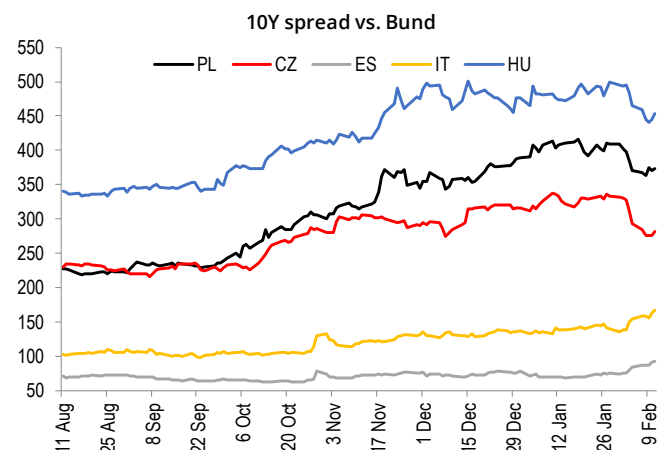
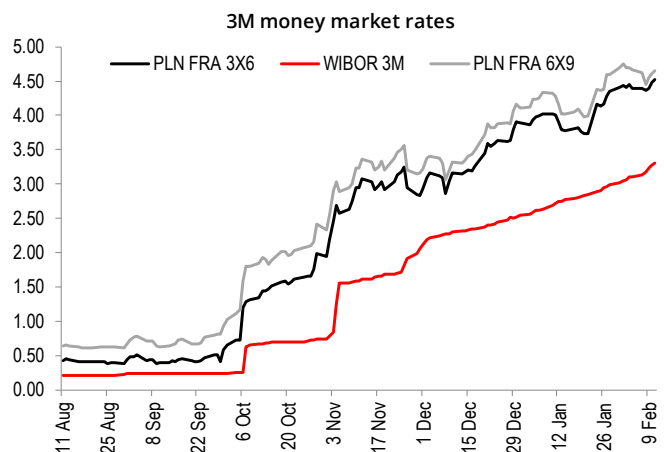
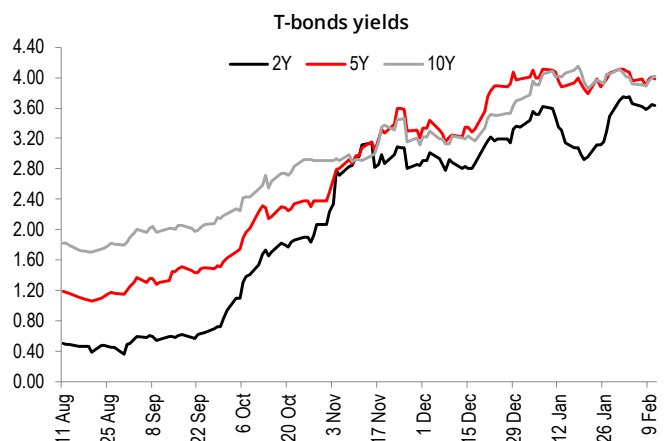
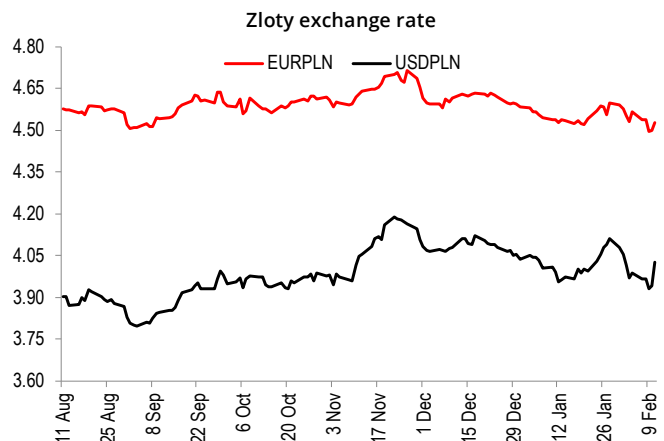
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	373	3
France	9	0	47	1
Hungary	61	0	453	8
Spain	40	1	93	3
Italy	53	1	166	3
Portugal	28	1	88	4
Ireland	11	1	56	2
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	LAST
				MARK ET	SANTANDER	VALUE	VALUE*
FRIDAY (11 February)							
08:00	DE	HICP	Jan	% m/m	0.9	0.9	0.3
09:00	HU	CPI	Jan	% y/y	7.3	7.9	7.4
16:00	US	Michigan index	Feb	pts	67.3	61.7	67.2
MONDAY (14 February)							
09:00	CZ	CPI	Jan	% y/y	9.3	-	6.6
14:00	PL	Current Account Balance	Dec	€mn	-2254	-2997	-1112
14:00	PL	Trade Balance	Dec	€mn	-1570	-1624	-632
14:00	PL	Exports	Dec	€mn	23941	24370	26915
14:00	PL	Imports	Dec	€mn	25745	25994	27547
TUESDAY (15 February)							
09:00	HU	GDP	4Q	% y/y	5.7	-	6.1
10:00	PL	CPI	Jan	% y/y	9.4	9.0	8.6
10:00	PL	GDP	4Q	% y/y	7.2	7.2	5.3
11:00	EZ	GDP SA	4Q	% y/y	4.6	-	4.6
11:00	DE	ZEW Survey Current Situation	Feb	pts	-7.0	-	-10.2
WEDNESDAY (16 February)							
9:30	PL	ECJ on conditionality mechanism					
11:00	EZ	Industrial Production SA	Dec	% m/m	0.3	-	2.3
14:30	US	Retail Sales Advance	Jan	% m/m	2.0	-	-1.9
15:15	US	Industrial Production	Jan	% m/m	0.4	-	-0.1
20:00	US	FOMC Meeting Minutes	Jan/22				
THURSDAY (17 February)							
14:30	US	Housing Starts	Jan	% m/m	-0.1	-	1.4
14:30	US	Index Philly Fed	Feb		20.0	-	23.2
FRIDAY (18 February)							
10:00	PL	Employment in corporate sector	Jan	% y/y	1.7	2.0	0.5
10:00	PL	Sold Industrial Output	Jan	% y/y	14.4	13.6	16.7
10:00	PL	PPI	Jan	% y/y	14.5	14.1	14.2
10:00	PL	Average Gross Wages	Jan	% y/y	10.0	9.7	11.2
16:00	US	Existing Home Sales	Jan	% m/m	-1.3	-	-4.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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