

15 February 2022

## Eyeopener

### Is Polish inflation to surprise to the upside?

Today January inflation and 4Q GDP, German chancellor talks with Russia  
MPC's Kotecki on need to tighten monetary policy aggressively  
All-time high deficits on current account and trade balances

**Today** CPI inflation for January and flash GDP for 4Q21 will be released. Our CPI forecast is 9.0% y/y, market consensus 9.4% y/y and forecasts range between 8%+ and 10%+. Globally, upward inflation surprises are still predominant (recently in Hungary, Czechia and Romania) and we cannot rule out higher print also in Poland, even though it is not what our estimates show. Without the temporary tax cuts CPI would most likely jump to c.11% in January. One should remember that January data is provisional and will be re-estimated next months, after a change in CPI weights. We estimate 4Q21 GDP growth at 7.2% y/y. The growth breakdown will be revealed in two weeks, with the final data. German Chancellor is visiting Russia today to seek diplomatic solution to the crisis.

**Geopolitical risk** was weighing on equities and CEE currencies early on Monday. The risk-off mood was predominant, core market bond yields were lower, while gold and crude oil prices higher, discounting a risk of supply disruptions in case of Russia-Ukraine conflict. In the first day of the week we have witnessed exceptional volatility that we have warned against in the last weekly report – after the information that Russia may continue diplomatic talks there was a sudden turnaround of sentiment and market started focusing on issues that were earlier overshadowed by the geopolitical risk, e.g. looming rate hikes in the US (James Bullard's words about the need to compress policy tightening in time).

**Comments of the new MPC member Ludwik Kotecki** introduced significant market reaction yesterday. He said that Poland cannot afford to pause interest rate hikes and the monetary tightening must be more aggressive due to the lack of fiscal adjustment. The target interest rate level that would be enough to tame inflation is impossible to define ex ante, in his view. Kotecki said that the anti-inflation shields from the government are like pouring the oil on the fire – they will not lower inflation temporarily, but just move it in time.

**Current account balance** showed -EUR4.0bn in December, markedly below our (-EUR3.0bn) and market (-EUR2.3bn) expectations. The deficit was actually the highest since comparable data are available (2004) and has brought the entire year balance to -0.9% of GDP as compared to +2.9% surplus in 2020. The income balance (-EUR2.9bn, relatively low due to extra payments to EU budget, e.g. plastics tax) was in line with our expectations, the service balance (EUR1.5bn) was slightly below our forecasts, so surprise came mainly from trade, with exports below our forecasts (+19.4% y/y) and imports above (+35.9% y/y). Trade balance showed -EUR2.5bn and was the lowest on the record, turning the entire year's result negative. Exports were supported by electricity, but dragged lower by car sales, while imports were boosted by higher prices of fuels (oil and natural gas in particular). We are expecting imports to continue to outpace exports in the months to come, causing a further deepening of current account balance.

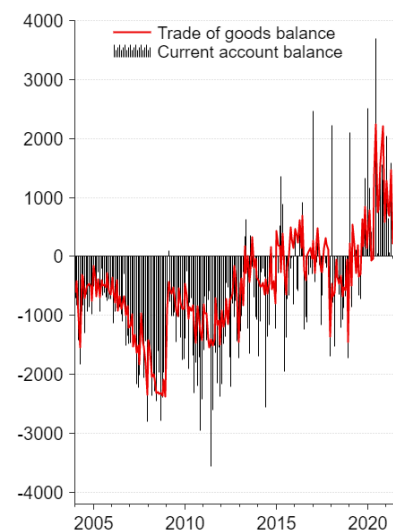
Both the anxiety related to the possibility of a military conflict in Ukraine and the reminder by the FOMC member about the upcoming rate hikes acted towards lower **EURUSD**, which dropped to around 1.13.

**EURPLN** dropped somewhat day-on-day, but its intraday volatility showed that it is particularly vulnerable to news regarding the Russia-Ukraine conflict (trading range from less than 4.53 to much above 4.58). The next days may look similar. Today's data may offer some temporary stability on the local FX market – solid prints of GDP and inflation could remind investors about PLN-supportive fundamentals.

**Other CEE currencies** were also under negative pressure. The Czech koruna ended the day at equally weak levels vs. the euro as during the sudden selloff on Friday evening, despite the release of very high CPI inflation for January (0.6pp above market expectations). The forint had it even worse, unsupported by any local data it increased the loss vs. the euro counting from Friday morning to more than 1%. The ruble has already lost 3% vs. the dollar since that time.

**The interest rate market** was fuelled by comment of Ludwik Kotecki and by upward surprise in Czech inflation ahead of release in Poland. Eventually the IRS curve shifted up by 10bp and FRA6x9 went beyond 4.80%. The bond curve developed a bear flattener (short end up by 16bp, long end up by 6bp). We think that CPI and GDP data will decide whether the yesterday's move will be prolonged or corrected, and it seems that after recent surprises in CEE inflation the bar may be set high for Polish rates.

#### Current account and trade balance, EURmn



Source: Refinitiv Datastream, Santander Bank Polska

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### FX market

#### Today's opening

EURPLN	4.5374	CZKPLN	0.1849
USDPLN	4.0066	HUFPLN*	1.2698
EURUSD	1.1322	RUBPLN	0.0524
CHFPLN	4.3349	NOKPLN	0.4510
GBPPLN	5.4229	DKKPLN	0.6093
USDCNY	6.3494	SEKPLN	0.4275

\*for 100HUF

#### Last session in the FX market 14/02/2022

	min	max	open	close	fixing
EURPLN	4.528	4.586	4.562	4.539	4.574
USDPLN	3.998	4.055	4.022	4.014	4.044
EURUSD	1.129	1.135	1.135	1.131	-

### Interest rate market 14/02/2022

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.80	17
DS0726 (5Y)	4.15	17
DS0432 (10Y)	4.09	7

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.46	10	1.25	3	-0.28	3
2L	4.61	12	1.76	7	0.24	7
3L	4.49	12	1.91	8	0.48	5
4L	4.36	9	1.97	9	0.61	0
5L	4.28	12	1.99	10	0.67	0
8L	4.13	9	2.02	7	0.81	1
10L	4.10	9	2.05	8	0.88	2

### WIBOR rates

Term	%	Change (bps)
O/N	2.50	3
T/N	2.65	-3
SW	2.78	0
2W	2.79	0
1M	2.86	1
3M	3.32	2
6M	3.80	2
1Y	4.03	2

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	3.92	13
3x6	4.65	13
6x9	4.83	19
9x12	4.76	9
3x9	4.91	15
6x12	4.99	19

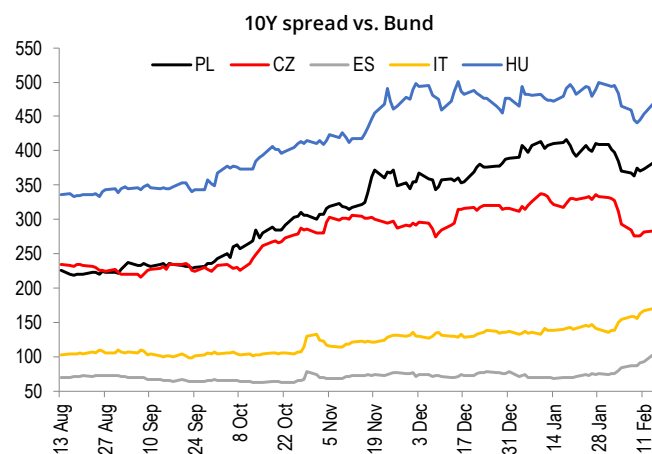
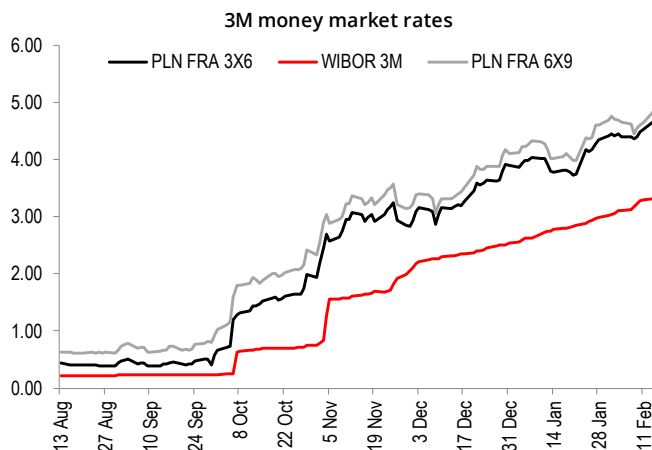
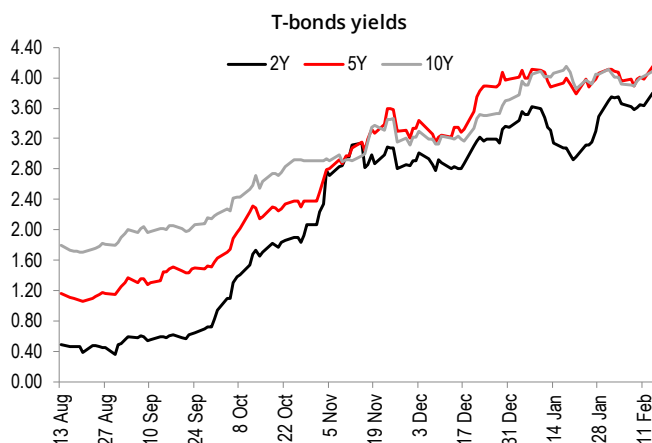
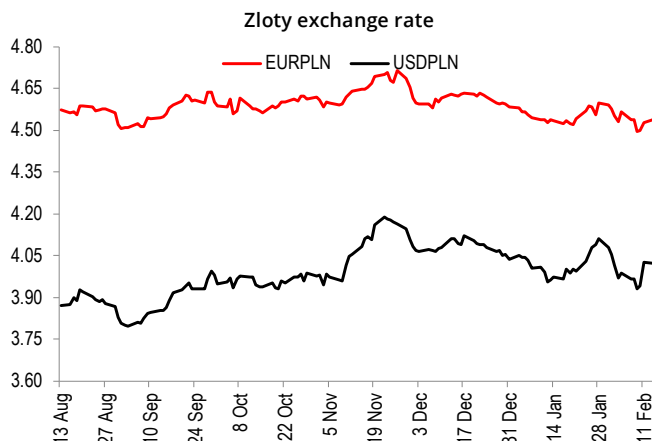
### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	45	0	381	8
France	9	0	48	1
Hungary	60	0	468	15
Spain	41	0	102	9
Italy	53	0	169	3
Portugal	28	0	90	2
Ireland	10	0	59	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*
<b>FRIDAY (11 February)</b>							
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
<b>MONDAY (14 February)</b>							
09:00	CZ	CPI	Jan	% y/y	9.3	-	6.6
14:00	PL	<b>Current Account Balance</b>	Dec	€mn	<b>-2254</b>	<b>-2997</b>	<b>-3957</b>
14:00	PL	<b>Trade Balance</b>	Dec	€mn	<b>-1570</b>	<b>-1624</b>	<b>-242</b>
14:00	PL	<b>Exports</b>	Dec	€mn	<b>23941</b>	<b>24370</b>	<b>24109</b>
14:00	PL	<b>Imports</b>	Dec	€mn	<b>25745</b>	<b>25994</b>	<b>26644</b>
<b>TUESDAY (15 February)</b>							
09:00	HU	GDP	4Q	% y/y	5.7	-	6.1
10:00	PL	<b>CPI</b>	Jan	% y/y	<b>9.4</b>	<b>9.0</b>	<b>8.6</b>
10:00	PL	<b>GDP</b>	4Q	% y/y	<b>7.1</b>	<b>7.2</b>	<b>5.3</b>
11:00	EZ	GDP SA	4Q	% y/y	4.6	-	4.6
11:00	DE	ZEW Survey Current Situation	Feb	pts	-6.5	-	-10.2
<b>WEDNESDAY (16 February)</b>							
9:30	PL	<b>ECJ on conditionality mechanism</b>					
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	0.5	-	-0.1
20:00	US	FOMC Meeting Minutes	Jan/22				
<b>THURSDAY (17 February)</b>							
14:30	US	Housing Starts	Jan	% m/m	-0.4	-	1.4
14:30	US	Index Philly Fed	Feb		20.0	-	23.2
<b>FRIDAY (18 February)</b>							
10:00	PL	<b>Employment in corporate sector</b>	Jan	% y/y	<b>1.7</b>	<b>2.0</b>	<b>0.5</b>
10:00	PL	<b>Sold Industrial Output</b>	Jan	% y/y	<b>14.7</b>	<b>13.6</b>	<b>16.7</b>
10:00	PL	<b>PPI</b>	Jan	% y/y	<b>14.4</b>	<b>14.1</b>	<b>14.2</b>
10:00	PL	<b>Average Gross Wages</b>	Jan	% y/y	<b>10.1</b>	<b>9.7</b>	<b>11.2</b>
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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