

16 February 2022

Eyeopener

Conditionality mechanism standing trial

Today ECJ and Polish Constitutional Tribunal on conditionality mechanism
In the evening Fed minutes, which triggered strong pricing of hikes
CPI in January and GDP growth in 4Q21 high but with no major surprises

Today the ECJ is to rule on the conditionality mechanism, making the EU budget payments conditional on the rule of law. If, in line with expectations, the ECJ will dismiss protest of Polish and Hungarian governments, the door to freeze of payments for Poland will open. Also today the Polish Constitutional Tribunal will start its trial: it is planning to investigate whether the conditionality mechanism is in line with the Polish Constitution. These events can, but do not necessarily mean escalation of conflict between the European Commission and the Polish government – much will depend on eagerness of the Polish government to make a deal with the Commission, which is allegedly open for cooperation. Minutes from the January FOMC meeting can prove important. Since the hawkish speech of Jerome Powell the market pricing of rate hikes in the USA this year shifted to 170bp from 100bp, but the market is still mulling whether to expect +25bp or +50bp in March. We will also get to see US retail sales and industrial output in January, helpful in assessing the economic results of the last pandemic wave.

The returning risk appetite, after information that some Russian troops in Belarus were ordered to withdraw from the Ukrainian border was a main market mover. Comments after Putin-Scholz talks about potential for further negotiations fuelled the positive mood. Stock markets and core market yields went up towards levels seen before Friday's rise in worries about the conflict. The conflict-related premium also evaporated from prices of oil and precious metals (Brent down by over 3%, gold down by 1%). The upward turn of EURUSD seemed rather modest (up to 1.135).

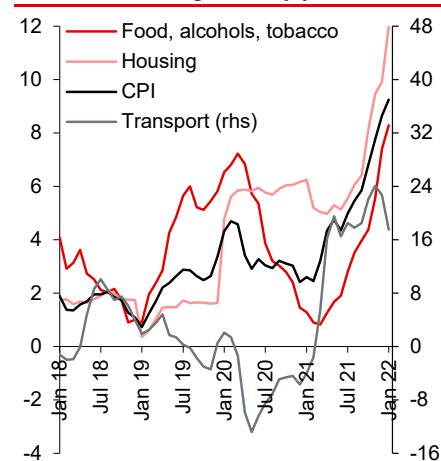
CPI inflation increased to 9.2% y/y in January and was below market forecasts for the first time in a while (9.4%). This is probably a local peak in CPI, and we are likely to see a decline to 8.5% y/y in February and to 7-8% range in the following months. After "Anti-inflation Shield" is reversed, CPI will jump again so return to NBP target at 2.5% is still a distant future. **GDP growth** remained strong in 4Q21 (7.3% y/y; 1.7% q/q) and more or less in line with expectations. We are expecting the start of 2022 to remain robust, but GDP momentum is likely to lose steam in the upcoming months. In general the data does not alter our expectations about monetary policy outlook: we are expecting another hike of reference rate by 50bp in March and its rise to 4.0% in mid-2022. More in [Economic Comment](#).

EURPLN started declining abruptly even before the solid domestic data. The exchange rate fall decelerated only after crossing 4.50, which means it came back to the levels from last Thursday, before the markets got scared of the possibility of an attack on Ukraine. Today, apart from the unpredictable and high-impact factor related to the Russia-Ukraine conflict which is keeping the volatility elevated, the performance of the zloty will depend on the information from ECJ and Polish Constitutional Court, and possible reaction to these of the Polish government showing if there is a possibility of a deal with the EU on rule of law. The potentially market-moving document from the January FOMC meeting will appear only after the European session.

Other CEE currencies also felt the return of the risk appetite. All were among the top daily EM performers (the koruna up 1.2% vs. the dollar, the forint +1.3%, the ruble +1.5%). EURCZK and EURHUF returned to the levels from Friday morning, USDRUB was still 1% above. In the background of the geopolitics-induced moves, the Czech central bank governor said that 5% on main rate is not an unbreachable level (now at 4.5%), but it is too soon to judge if a hike above it would be needed. In his view the bank only has to do fine-tuning of its policy, by smaller steps than at the previous meetings. In 4Q Hungarian GDP rose according to preliminary data by 2.1% q/q or 7.2% y/y, much more than had been expected.

The domestic interest rate market, having seen the large upside surprises with January CPI in the region (in Czechia and Hungary these were the largest upside deviations from market consensus in this period of high inflation), assumed that something similar could have happened in Poland. This explains why a reading of more than 9% y/y (the highest since late 2000) caused a significant strengthening of local bonds (the whole yield curve down 12bp, the IRS curve down 8bp).

CPI – selected categories, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.4939	CZKPLN	0.1842
USDPLN	3.9528	HUFPLN*	1.2552
EURUSD	1.1365	RUBPLN	0.0528
CHFPLN	4.2725	NOKPLN	0.4446
GBPPLN	5.3600	DKKPLN	0.6037
USDCNY	6.3350	SEKPLN	0.4266

*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	4.509	
USDPLN	3.998	4.055	4.022	4.014	3.974	
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)	3.67	-12
DS0726 (5Y)	4.03	-12
DS0432 (10Y)	3.98	-11

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.43	-3	1.25	-1	-0.29	-1
2L	4.52	-9	1.76	0	0.21	-3
3L	4.40	-10	1.93	2	0.45	-4
4L	4.26	-10	1.99	2	0.57	-4
5L	4.18	-10	2.02	4	0.64	-4
8L	4.04	-8	2.08	6	0.78	-2
10L	4.03	-7	2.12	7	0.87	-1

WIBOR rates

Term	%	Change (bps)
O/N	2.48	-2
T/N	2.65	0
SW	2.79	1
2W	2.79	0
1M	2.87	1
3M	3.38	6
6M	3.83	3
1Y	4.05	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.91	-1
3x6	4.62	-4
6x9	4.70	-13
9x12	4.69	-7
3x9	4.83	-8
6x12	4.88	-11

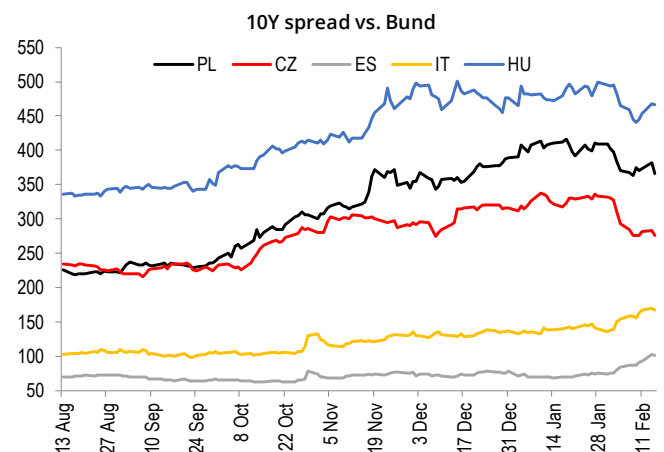
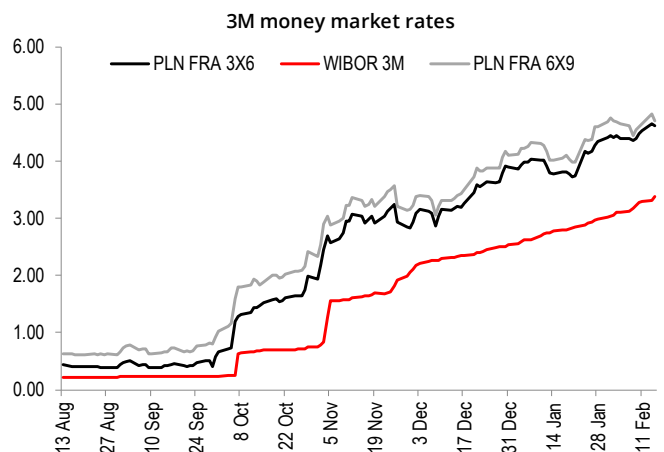
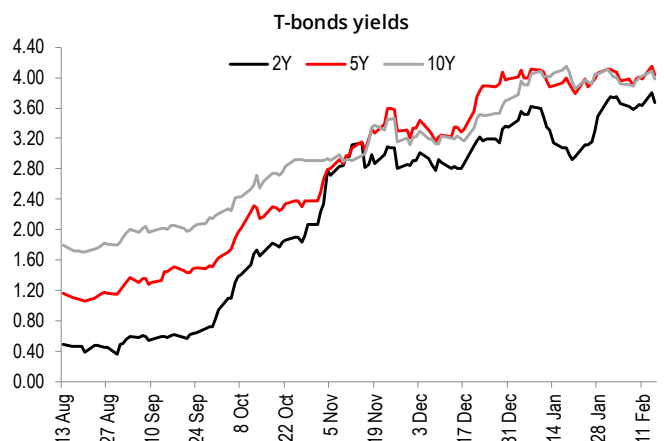
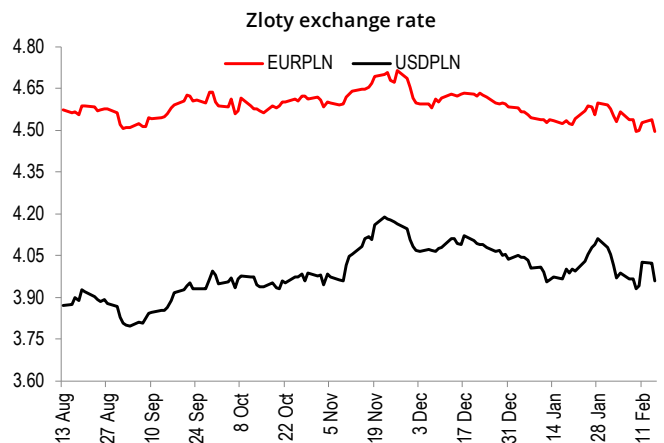
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	367	-15
France	9	0	48	0
Hungary	60	0	466	-2
Spain	40	0	101	-2
Italy	52	-1	167	-3
Portugal	28	0	89	-1
Ireland	11	0	56	-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	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	-628
14:00	PL	Trade Balance	Dec	€mn	-1570	-1624	-242
14:00	PL	Exports	Dec	€mn	23941	24370	27414
14:00	PL	Imports	Dec	€mn	25745	25994	26644
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	7.1	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	-6.5	-	-10.2
WEDNESDAY (16 February)							
9:00	PL	Constitutional Court on conditionality mechanism					
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	0.5	-	-0.1
20:00	US	FOMC Meeting Minutes	Jan/22				
THURSDAY (17 February)							
14:30	US	Housing Starts	Jan	% m/m	-0.4	-	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	14.7	13.6	16.7
10:00	PL	PPI	Jan	% y/y	14.4	14.1	14.2
10:00	PL	Average Gross Wages	Jan	% y/y	10.1	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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