

17 February 2022

## Eyeopener

### Some chance for an agreement with the EU

The conditionality mechanism was not challenged neither by the ECJ or the Constitutional Tribunal

Words of Jarosław Kaczyński can mean a change in relations with the EU  
Message of the FOMC minutes in line with expectations

**Today** there are no major data releases in the calendar that could move markets. Yesterday's minutes from the January FOMC meeting was more or less consistent with expectations. US central bankers believed the economy is close to full employment and inflation rise is worrisome, which justifies raising interest rates faster than after 2015 (back then rates went up 225bp in 3 years) and a withdrawal of quantitative easing according to plan agreed in December. Also yesterday, Jarosław Kaczyński seemed to suggest higher willingness to compromise with the EU on the rule of law. If there is more evidence that government goes in this direction, it would be positive for the zloty and bonds.

**Markets had much calmer day yesterday:** no major declines in the stock markets, no sharp moves of yields and exchange rates, but crude oil rebounded by over 2% and gold up almost 1%. Markets seemed to stop worrying that much about the Russia-Ukraine conflict, after Russia informed it started withdrawing troops from the border (it has not been confirmed by the NATO and US intelligence, plus there was a huge cyber-attack on Ukraine). Economic data released yesterday beat expectations, which probably contributed to EURUSD rise. But the details were slightly disappointing: January production in the euro zone was largely based on rebound in Germany (France, Spain, Italy recorded declines) and good US data resulted from big jump in gas mining and electricity production (total industrial output up 1.4% m/m but manufacturing only 0.2%). Core measure of US retail sales suggested weakening of consumption at the start of the year.

**NBP president Adam Glapiński** in the interview with Superexpress daily repeated his earlier claims that MPC decisions will be aimed at ensuring price stability and interest rates will not affect negatively the labour market.

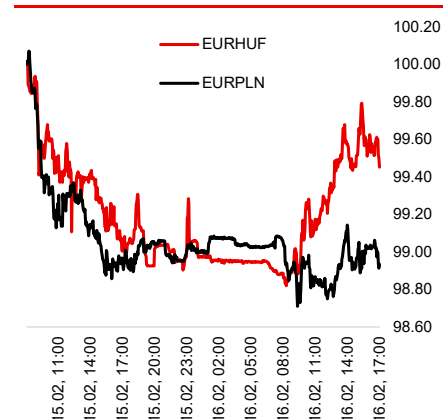
**ECJ rejected the complaint by Poland and Hungary regarding the conditionality mechanism**, which opened the door for freeze of EU funds to the countries that do not comply with rule of law. This was no surprise - in line with ECJ speaker's opinion from December. At the same time the Polish Constitutional Court adjourned its hearing on the same matter (if the mechanism can be applied to Poland at all) and no new date was given. So, instead of going for another outright clash with EU institutions (as in autumn, when the Court declared supremacy of Polish law over EU law) the postponement leaves room for some compromise. The room was soon filled by a declaration by the ruling party leader Jarosław Kaczyński that "our presence in the EU is currently much needed for our future, for the future of Poland and Europe". Another of his remarks was that the bills on solving the rule of law issues between Poland and the EU proposed by the president (getting some unofficial appraisal by the EU) and the government can be merged. If Poland provides an action plan it will be a step towards getting its recovery plan approved by the EC.

**The zloty** held on to its gains from the previous days of the week and has been searching for opportunities to strengthen some more. Through most of the session EURPLN stayed below 4.50 and at the close did not try to break above it. What we saw as the signs of willingness to improve relations with the EU, creates potential for further decline of the FX rate. It would however require a supportive environment (quiet global markets, status quo in the Russia-Ukraine conflict). This morning the zloty is a bit weaker on news that Russian military forces at the Ukrainian border are growing in numbers and not decreasing.

**Other CEE currencies** were also as calm as the zloty, except the forint. Albeit the ECJ verdict on the conditionality mechanism seems to affect Poland and Hungary equally (both countries filed the same case against it are both seem the most threatened by its future use), their currencies responded in a different way: the zloty was stable while the forint lost 0.4% vs. the euro, making it one of the worst EM FX performers yesterday.

**The domestic interest rate market** was practically still yesterday. Bond yields are also not much different than a week ago (2Y is 5bp higher, 5Y up 2bp and 10Y unchanged). We treat the potential improvement in Poland-EU relations as a factor positive for Polish government bonds, assuming that a possible loss in EU funding would have to be covered in future to at least some extent by higher local supply.

EURPLN and EURHUF, start of 15 Feb session = 100



Source: Bloomberg, Santander

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### FX market

Today's opening			
EURPLN	4.5085	CZKPLN	0.1846
USDPLN	3.9663	HUFPLN*	1.2518
EURUSD	1.1365	RUBPLN	0.0523
CHFPLN	4.3001	NOKPLN	0.4450
GBPPLN	5.3884	DKKPLN	0.6058
USDCNY	6.3349	SEKPLN	0.4262

\*for 100HUF

Last session in the FX market						16/02/2022
	min	max	open	close	fixing	
EURPLN	4.481	4.504	4.498	4.498	4.492	
USDPLN	3.937	3.963	3.961	3.952	3.948	
EURUSD	1.135	1.140	1.135	1.138	-	

### Interest rate market 16/02/2022

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.67	-1
DS0726 (5Y)	3.96	-7
DS0432 (10Y)	3.94	-4

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.43	0	1.21	-3	-0.32	-3
2L	4.53	1	1.71	-5	0.17	-4
3L	4.40	1	1.87	-5	0.40	-5
4L	4.26	0	1.94	-5	0.53	-3
5L	4.17	0	1.98	-4	0.60	-3
8L	4.03	-1	2.04	-3	0.75	-4
10L	4.02	-1	2.09	-3	0.83	-4

#### WIBOR rates

Term	%	Change (bps)
O/N	2.56	8
T/N	2.66	1
SW	2.78	-1
2W	2.79	0
1M	2.88	1
3M	3.39	1
6M	3.84	1
1Y	4.06	1

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

Term	%	Change (bps)
1x4	3.91	1
3x6	4.62	0
6x9	4.71	0
9x12	4.71	1
3x9	4.84	1
6x12	4.86	-2

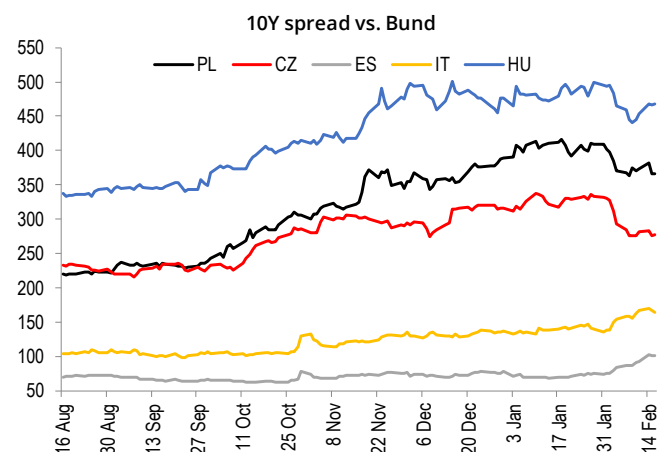
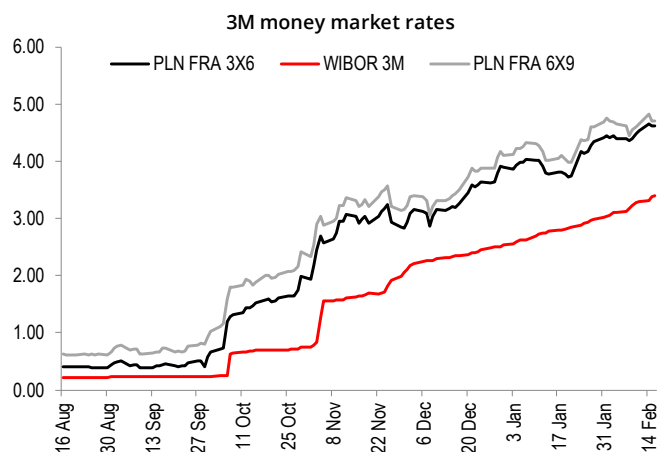
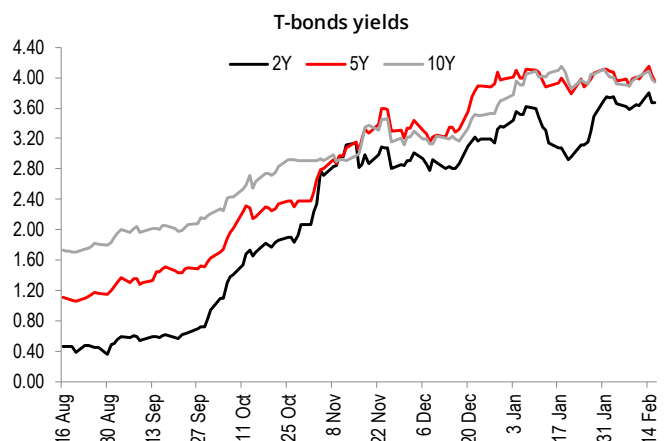
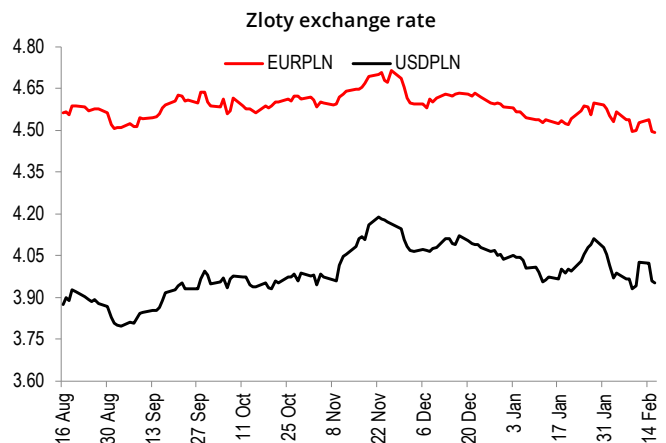
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	367	0
France	9	0	47	0
Hungary	60	0	468	2
Spain	41	1	100	0
Italy	51	-1	163	-3
Portugal	28	1	88	-1
Ireland	10	-1	56	0
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	-2254	-2997	-628
14:00	PL	<b>Trade Balance</b>	Dec	€mn	-1570	-1624	-242
14:00	PL	<b>Exports</b>	Dec	€mn	23941	24370	27414
14:00	PL	<b>Imports</b>	Dec	€mn	25745	25994	26644
<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	9.4	9.0	8.6
10:00	PL	<b>GDP</b>	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
<b>WEDNESDAY (16 February)</b>							
9:00	PL	<b>Constitutional Court on conditionality mechanism</b>					
9:30	PL	<b>ECJ on conditionality mechanism</b>					
11:00	EZ	Industrial Production SA	Dec	% m/m	0.3	-	2.4
14:30	US	Retail Sales Advance	Jan	% m/m	2.0	-	-2.5
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	1.7	2.0	0.5
10:00	PL	<b>Sold Industrial Output</b>	Jan	% y/y	14.7	13.6	16.7
10:00	PL	<b>PPI</b>	Jan	% y/y	14.4	14.1	14.2
10:00	PL	<b>Average Gross Wages</b>	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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