

21 February 2022

Eyeopener

Industrial output surged, today next data

Today January retail sales and construction in Poland, flash PMIs in Europe Industrial production and PPI beat expectations in January Fitch kept Poland's sovereign rating and outlook unchanged

Today another set of economic data releases in Poland after a series of strong readings on Friday (see below). We are expecting a solid acceleration in real retail sales and still modest rise in construction. However, such a dataset, together with strong reading of industrial output in January, will suggest that the economic momentum remained high in 1Q22 versus 7.3% y/y GDP growth in 4Q21, supporting expectations for further monetary tightening. Polish currency and assets may be also influenced by flash PMI readings in Europe, e.g. if German indicators show a major jump again. However, data from Poland or Germany will be important only if they are not overshadowed by information about escalation of Russia-Ukraine conflict. Currently it seems that after the weekend the market is less scared about negative scenarios in the east, awaiting the Biden-Putin talks.

Prior to the weekend, markets were cautious. Perspective of two days with limited possibility to change market positions (and even three days for US investors, as they have a banking holiday today), encouraged investors to stick to assets perceived safe and defensive currencies. Declines on stock markets were supported by strengthening of core bonds. **EURUSD** abandoned its attempts to reach 1.14, which seemed to be targeted in the middle of the week, when market were a bit more sanguine about easing in the east. In turn, the rate declined below 1.135.

In January the **industrial output** in Poland accelerated way above market consensus, to 19.2% y/y from 16.7%. Wages rose by 9.5% y/y in January, somewhat slower than expected. In real terms wages added a minute 0.2% y/y, the weakest reading since January 2013, if we omit the initial coronavirus shock. PPI surprised to the upside for the 13th time in a row and reached 14.8% y/y. Read more in our [Economic comment](#).

The new MPC members nominated by the President will be Ireneusz Dąbrowski (professor of economics from SGH, Mr.Głapiński's associate in the NBP) and Henryk Wnorowski (PiS deputy, professor of economics from Białystok University). We expect to see one more candidacy from Sejm in the coming days, to be voted on Wednesday-Thursday at the Sejm meeting. The nominations that have been revealed so far have not changed our conviction that NBP governor Adam Głapiński will retain full control over the shape of monetary policy in Poland after the replacement of MPC members.

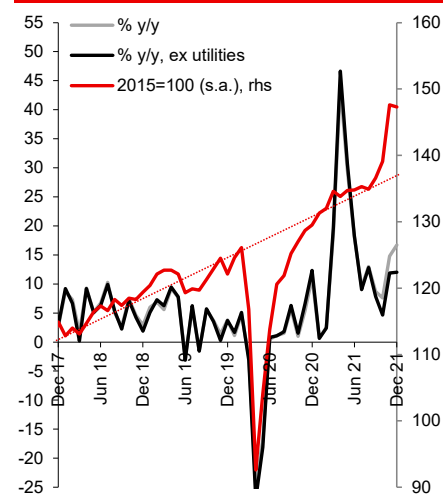
Fitch Ratings on Friday confirmed Poland's long-term sovereign rating at "A-" with a stable outlook. The agency assessed that the approval of recovery fund for Poland will be delayed until 2H22 and so the significant inflow of funds will materialise in 2023.

This week, if the risk of Russian invasion goes down we see room for stronger **zloty** on the back of strong macro data and signals from Polish authorities about a possible compromise with EU (on Friday PM Morawiecki after meeting with EC head expressed a belief that chances for a compromise within weeks rose somewhat, also the EC considered the presidential bill on the judiciary as constructive step). If EURPLN gets below 4.50, the next important level could be 4.45. But it is too early to say if the geopolitical tension recedes for good. The range of the PLN appreciation may also be limited by the activity of importers, which are put under severe cost pressure and may thus attempt to seize quicker than usual any FX moves to their advantage. The Friday behaviour of the zloty was not a case for much optimism. Despite strong local data, which in normal circumstances should have sent EURPLN lower, the exchange rate kept drifting higher and USDPLN hit 4 (+0.4% day-on-day).

Other CEE currencies: the Czech koruna was again standing out, retaining its value vs. the euro while the ruble and the forint lost. The fate of the ruble still depends on the perception of risks of the escalation of the conflict and sanctions. The forint is again as weak as during the first nervous market reaction to the geopolitics a week ago. We also feel that the markets are not counting on a hawkish message at tomorrow's MNB meeting. This actually provides reasons for at least partial HUF recovery in the coming days.

The **domestic interest rate market** showed early last week that heightened geopolitical risk can lead to wider Bund spread. The following days that with the tension holding still, so can the local yields, even falling at times. If the tension regarding Ukraine eases, local factors will start playing role, leading to further flattening of the curves, in our view, given that the strong macro readings are supporting further monetary policy tightening.

Polish industrial output



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5151	CZKPLN	0.1859
USDPLN	3.9690	HUFPLN*	1.2679
EURUSD	1.1373	RUBPLN	0.0519
CHFPLN	4.3351	NOKPLN	0.4446
GBPPLN	5.4099	DKKPLN	0.6082
USDCNY	6.3309	SEKPLN	0.4258

*for 100HUF

Last session in the FX market 18/02/2022

	min	max	open	close	fixing
EURPLN	4.510	4.538	4.516	4.532	4.526
USDPLN	3.964	4.010	3.973	4.002	3.980
EURUSD	1.131	1.138	1.137	1.132	-

Interest rate market 18/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.64	0
DS0726 (5Y)	3.93	1
DS0432 (10Y)	3.90	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.44	-2	1.17	-2	-0.33	0
2L	4.49	-3	1.66	-2	0.12	-1
3L	4.33	-4	1.80	-3	0.35	-2
4L	4.15	-6	1.85	-3	0.47	-2
5L	4.02	-8	1.88	-4	0.54	-3
8L	3.89	-7	1.94	-5	0.70	-2
10L	3.88	-7	1.98	-4	0.79	-1

WIBOR rates

Term	%	Change (bps)
O/N	2.48	-10
T/N	2.70	0
SW	2.79	0
2W	2.80	0
1M	2.93	2
3M	3.44	1
6M	3.87	1
1Y	4.08	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.92	-3
3x6	4.64	-2
6x9	4.70	-2
9x12	4.69	-4
3x9	4.85	-2
6x12	4.87	-3

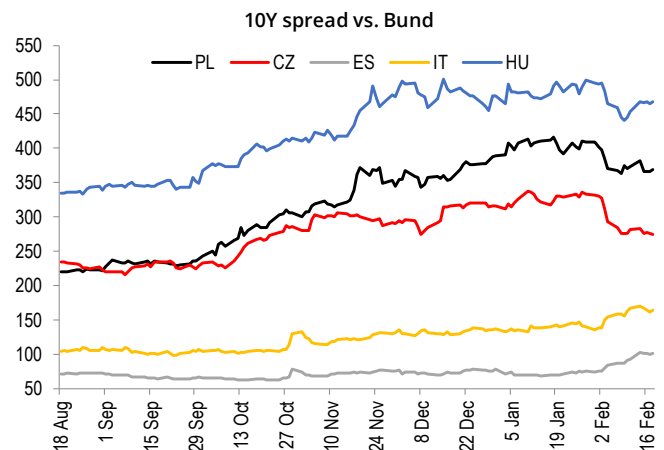
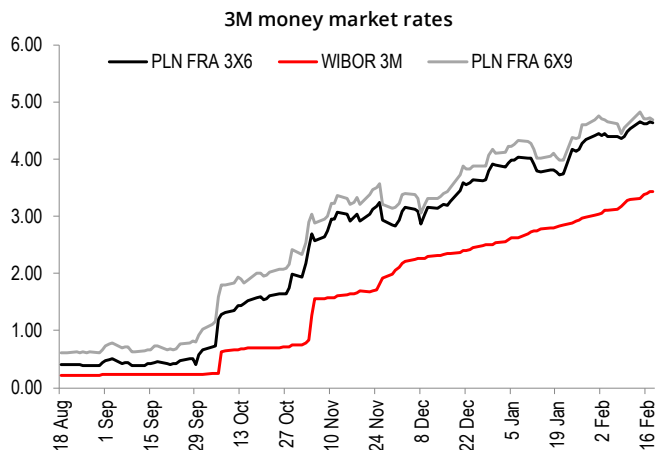
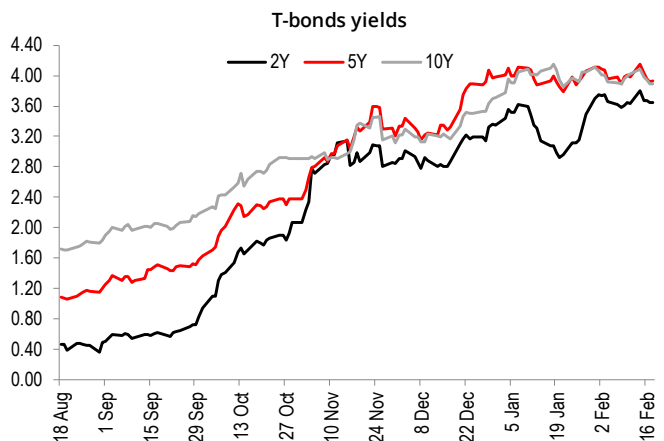
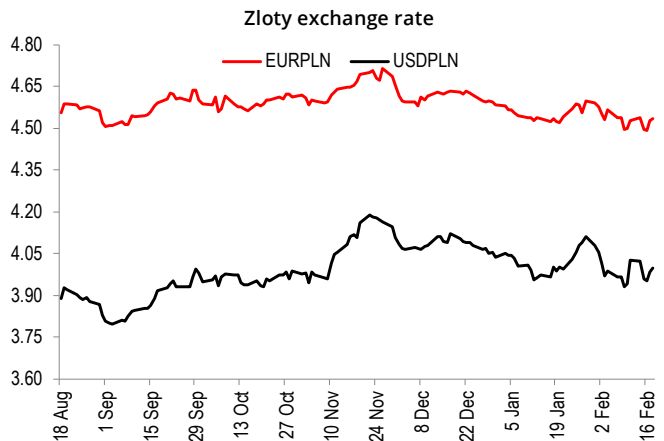
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	369	3
France	9	0	49	1
Hungary	60	0	467	3
Spain	41	0	101	2
Italy	51	0	164	3
Portugal	28	0	89	2
Ireland	10	-1	60	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 VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (18 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	1.9	2.0	2.3	0.5
10:00	PL	Sold Industrial Output	Jan	% y/y	13.5	13.6	19.2	16.7
10:00	PL	PPI	Jan	% y/y	14.6	14.1	14.8	14.4
10:00	PL	Average Gross Wages	Jan	% y/y	10.1	9.7	9.5	11.2
16:00	US	Existing Home Sales	Jan	% m/m	-1.3	-	6.7	-3.8
MONDAY (21 February)								
09:30	DE	Germany Manufacturing PMI	Feb	pts	59.4	-	-	59.8
09:30	DE	Markit Germany Services PMI	Feb	pts	54.0	-	-	52.2
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	58.6	-	-	58.7
10:00	EZ	Eurozone Services PMI	Feb	pts	52.3	-	-	51.1
10:00	PL	Construction Output	Jan	% y/y	4.3	2.9	-	3.1
10:00	PL	Retail Sales Real	Jan	% y/y	10.5	13.1	-	8.0
TUESDAY (22 February)								
10:00	DE	IFO Business Climate	Feb	pts	96.5	-	-	95.7
14:00	HU	Central Bank Rate Decision	Feb/22	%	3.40	-	-	2.90
14:00	PL	Money Supply M3	Jan	% y/y	8.6	8.7	-	8.9
16:00	US	Consumer Conference Board	Feb	pts	110.0	-	-	113.8
WEDNESDAY (23 February)								
10:00	PL	Unemployment Rate	Jan	%	5.6	5.6	-	5.4
11:00	EZ	HICP	Jan	% y/y	5.1	-	-	5.1
THURSDAY (24 February)								
14:30	US	GDP Annualized	4Q	% Q/Q	7.0	-	-	6.9
16:00	US	New Home Sales	Jan	% m/m	-0.3	-	-	11.9
FRIDAY (25 February)								
08:00	DE	GDP WDA	4Q	% y/y	1.4	-	-	1.4
11:00	EZ	ESI	Feb	pct.	113.0	-	-	112.7
14:30	US	Durable Goods Orders	Jan	% m/m	0.6	-	-	-0.7
14:30	US	Personal Spending	Jan	% m/m	1.5	-	-	-0.6
14:30	US	Personal Income	Jan	% m/m	-0.3	-	-	0.3
14:30	US	PCE Deflator SA	Jan	% m/m	0.6	-	-	0.4
16:00	US	Pending Home Sales	Jan	% m/m	-	-	-	-3.8

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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