

22 February 2022

Eyeopener

Rising tension in the east

Today money supply data, business climate indicators abroad
 Russia recognised independence of breakaway republics, West readies sanctions
 Strong data on retail sales and construction output in Poland
 Moody's: ECJ verdict negative for Poland's sovereign rating

There are not so many macro data releases in the calendar **today**. Leading indicators abroad seem to be the most important: Ifo in Germany plus PMI in manufacturing and services in the USA. Markets expect an improvement of these gauges. There is also an incoming decision on interest rates in Hungary (hike by 50bp is expected). In Poland we will get to see M3 money supply in January. In our view the M3 growth rate remained stable. Markets are likely to focus on Ukraine, though. **Last evening Russian president Putin issued a decree recognising independence of two so-called people's republics:** of Donetsk (DPR) and Luhansk (LPR), signed with them border defence treaties and ordered Russian troops to enter terrains occupied by separatists. Today US investors are returning after the long weekend (Presidents' Day). Sentiment will be still very much dependent on information about conflict between Ukraine and Russia, including today's response of the Western countries to the Russian actions.

Flash February PMI indices in Europe (euro zone, Germany, France, UK) showed an improvement of sentiments in services and slight deterioration in manufacturing (even though indicator for France climbed to the highest level in 7 months). Services were also supported by strong demand and rising employment. Companies were reporting strong demand and rising employment. **PPI inflation** in Germany surprised to the upside again and climbed to 25.0% y/y.

According to Moody's the ECJ ruling on conditionality mechanism is negative for Poland's and Hungary's credit profile. The agency's analytics are expecting the EC to at least partially freeze payments of EU funds for both countries. Moody's is assessing Poland's credit at A2 with stable outlook. The agency has planned its review of Poland's rating for 29 April.

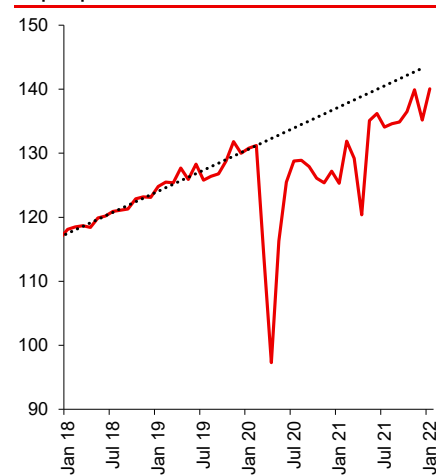
Retail sales accelerated to 10.6% y/y in January from 8.0% y/y in December. In seasonally-adjusted terms sales advanced by 3.6% m/m. Annual growth rate was partially under positive influence of low statistical base from January 2021, when lockdowns, especially of shopping malls, were detrimental to some sales categories. This was particularly negative for clothing. We are expecting retail sales to remain solid in the upcoming months, yet can register some slowdown. Sales will be supported by positive labour market situation, slightly positive real wage growth and savings overhang. **Construction output** advanced by 20.8% y/y, way above the market consensus. High volatility of January growth rates is characteristic for construction, but even despite that the reading is supporting for expectations that GDP growth may have remained close to 7% y/y in 1Q22. Read more in our [Economic comment](#).

EURPLN entered the week quite calmly (judging by the small change vs. the Friday close) compared to the tensions on other markets (heavy loss of value by the ruble, main European stock exchanges lost 1-1.5% and WIG20 down more than 3%, CHF appreciation by 0.5% to below 1.04 vs. the euro). The readings of European PMIs were supportive for Polish economy and the market was prepared for solid domestic data (and was not disappointed) – these allowed the zloty to strengthen yesterday morning, but the gain was gone by the end of the session on growing geopolitical tension in the East. With the US on holiday yesterday we cannot assume that the adjustment of the zloty is already over. It could happen that on further negative news flow regarding the conflict in Ukraine EURPLN could head for 4.60 this week. De-escalation would in our view be enough to send the exchange rate below 4.50.

Other CEE currencies were also stable, apart from the ruble, which lost more than 2.5% vs. the dollar in response to the growing risk of sanctions against Russia. In the evening, after the news from Russia, the CEE currencies have started to weaken and this is still visible this morning.

The interest rate market was quite stable amid absence of US investors. Only the PLN IRS curve fell some 6 bp. At the end of the day the Bund spread of the Polish 10Y bond was some 5 bp narrower than on Friday. The global market sentiment will set the tone for the domestic interest rate market. In our view the recent macro data should be reason for flatter yield curve (short end going up), but the growing geopolitical tension may prevent the move.

Retail sales – volume, seasonally-adjusted vs pre-pandemic trend



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5502	CZKPLN	0.1855
USDPLN	4.0267	HUFPLN*	1.2585
EURUSD	1.1298	RUBPLN	0.0499
CHFPLN	4.3963	NOKPLN	0.4466
GBPPLN	5.4670	DKKPLN	0.6112
USDCNY	6.3413	SEKPLN	0.4250

*for 100HUF

Last session in the FX market		21/02/2022			
	min	max	open	close	fixing
EURPLN	4.507	4.539	4.510	4.528	4.519
USDPLN	3.960	4.007	3.968	3.991	3.977
EURUSD	1.132	1.139	1.136	1.135	-

Interest rate market 21/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.61	-3
DS0726 (5Y)	3.84	-9
DS0432 (10Y)	3.85	-5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.44	1	1.17	0	-0.34	0
2L	4.45	-4	1.67	1	0.13	1
3L	4.25	-8	1.79	-1	0.34	0
4L	4.07	-7	1.87	2	0.48	2
5L	3.96	-5	1.90	2	0.56	2
8L	3.82	-7	1.96	2	0.71	1
10L	3.80	-8	2.00	2	0.80	1

WIBOR rates

Term	%	Change (bps)
O/N	2.45	-3
T/N	2.65	-5
SW	2.79	0
2W	2.80	0
1M	2.95	2
3M	3.47	3
6M	3.88	1
1Y	4.09	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.94	2
3x6	4.64	0
6x9	4.67	-2
9x12	4.65	-3
3x9	4.87	2
6x12	4.90	4

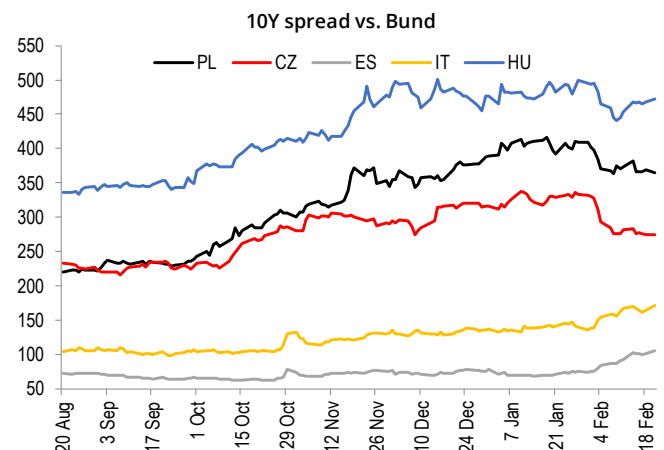
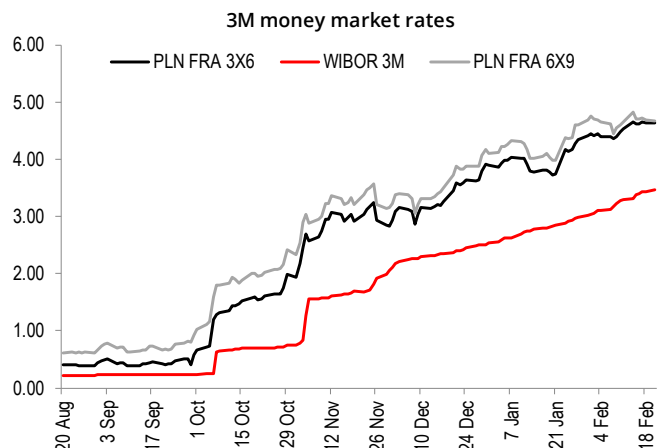
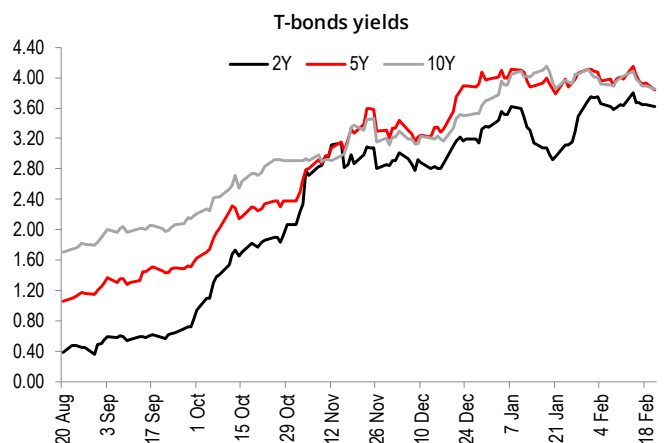
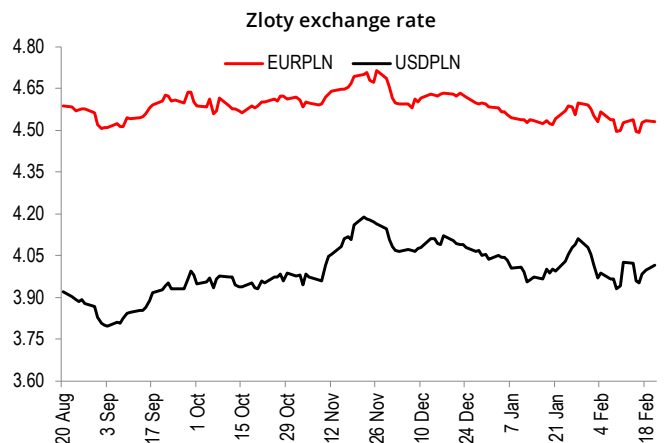
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	365	-4
France	9	0	51	2
Hungary	60	0	472	5
Spain	42	1	105	4
Italy	52	1	172	7
Portugal	30	1	93	3
Ireland	11	1	62	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 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	-	58.5	59.8
09:30	DE	Markit Germany Services PMI	Feb	pts	54.0	-	56.6	52.2
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	58.6	-	58.4	58.7
10:00	EZ	Eurozone Services PMI	Feb	pts	52.3	-	55.8	51.1
10:00	PL	Construction Output	Jan	% y/y	4.3	2.9	20.8	3.1
10:00	PL	Retail Sales Real	Jan	% y/y	10.5	13.1	10.6	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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