

24 February 2022

Eyeopener

Russia attacked Ukraine

Russia attacked Ukraine, today US data including the second reading of 4Q GDP
Markets in risk-off mode, CEE currencies under pressure
Local governments ended 2021 with a PLN17.5bn surplus

Today the focus is on Ukraine, which was attacked by Russia at dawn, also from Belarus, according to some media reports. Financial markets are entering a high risk aversion mode. The open conflict in Ukraine can affect expectations about economic outlook and further actions of central banks. In the calendar we can see some US publications: preliminary GDP growth in the USA for 4Q21, weekly data on initial jobless claims, Kansas City Fed for manufacturing. Numerous FOMC members are scheduled to speak.

President's Duda **motion to apply Adam Glapiński for his second term** as NBP president submitted to the Sejm. According to the media, voting is possible even today.

January HICP in the euro zone was confirmed at 5.1% y/y. Core inflation declined to 2.3% y/y from 2.6% y/y in December and the slight acceleration in CPI was mostly due to higher energy prices. Indicator for Poland increased to 8.7% y/y in January from 8.0% y/y in December and core inflation ex food, alcohol, tobacco and energy increased to 6.6% y/y from 5.8% y/y. About 30% of categories recorded price growth above 10% y/y.

In February the consumer confidence indicators improved. Consumers were more positive about their financial situation and economic outlook and for saving. They were also less worried about unemployment and inflation. On the other hand, indicator of appetite for major purchases declined. Worries about the coronavirus epidemic declined markedly: 26.1% of respondents said that epidemic is a low or no threat for the everyday life, as compared to 19.6% in January. Consumer confidence indicators were declining since September 2021, so their improvement in February is a positive signal for private consumption.

According to deputy finance minister Sebastian Skuza, **local governments ended 2021 with a surplus PLN17.5bn**. The result was roughly in line with our expectations and support our estimate that the entire public sector (general government) recorded a moderate deficit (c.2.5% of GDP).

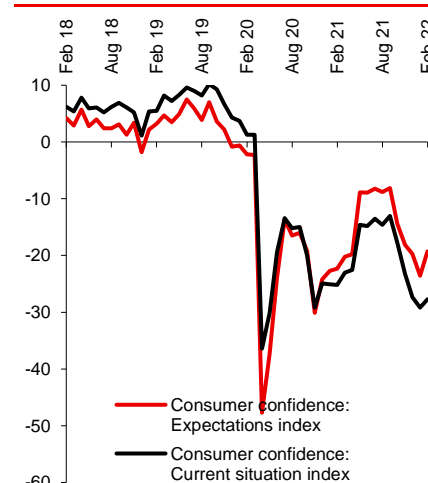
New MPC members Wiesław Janczyk and Henryk Wnorowski said that inflation will decline soon due to the government's "Anti-inflation Shield". According to Wnorowski, monetary policy instruments will continue to be used by the MPC.

Market optimism visible yesterday in the morning did not survive the confrontation with newsflow from Ukraine. In the afternoon equity markets resumed declines, Brent oil price jumped above \$95 and gold above \$1900. In such environment **EURPLN** jumped above 4.57, not only erasing peaceful Tuesday but also going above the upward channel that was observed in the last week. Today in the morning EURPLN temporarily was above 4.65 and one should be prepared for major disruptions in liquidity; market interventions from the BGK and/or NBP cannot be ruled out.

Other CEE FX: CNB head Jiri Rusnok repeated that further rate hikes are possible, but in smaller steps than so far. EURCZK went yesterday above peaks from a week ago when the geopolitical tension had increased. EURHUF yesterday rose rapidly to 360 and the ruble loss vs. USD was 2% day-on-day. Amidst the beginning of the war in the east, this morning CZK and HUF have already lost 2% (EURCZK reached 25, EURHUF 367), The ruble tumbled more than 8% overnight vs. USD.

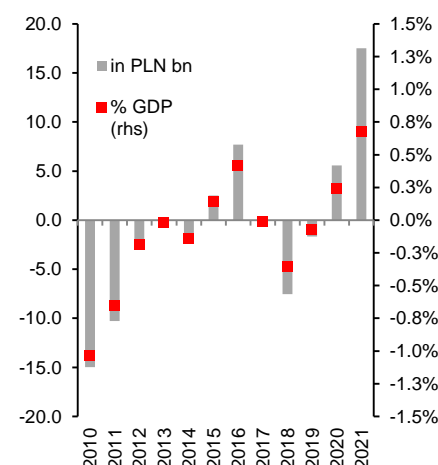
On the **interest rate market**, yesterday trading looked similar to what had happened in the first phase of geopolitical risk more than a week ago: quiet but cautious market with a tendency for higher yields (up 3-7bp, mostly on long end) and IRS rates (whole curve up 6bp) leading to wider Bund spread (+8bp on 10Y). Today we should expect a major drop of core market yields (the move is already around 10bp) and spreads may widen further. An auction was planned for today with OK0724, PS0527, DS0432 on offer as well as floaters WZ1126 and WZ1131, with an indicative size of PLN3-6bn, however given the circumstances in our view it may be cancelled.

Consumer confidence



Source: GUS, Santander

Fiscal balance in local governments



Source: GUS, Santander

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FX market

| Today's opening | | | |
|-----------------|--------|---------|--------|
| EURPLN | 4.6476 | CZKPLN | 0.1852 |
| USDPLN | 4.1342 | HUFPLN* | 1.2668 |
| EURUSD | 1.1238 | RUBPLN | 0.0478 |
| CHFPLN | 4.4987 | NOKPLN | 0.4606 |
| GBPPLN | 5.5689 | DKKPLN | 0.6243 |
| USDCNY | 6.3193 | SEKPLN | 0.4327 |

*for 100HUF

| Last session in the FX market | | | | | | 22.02.2022 |
|-------------------------------|-------|-------|-------|-------|--------|------------|
| | min | max | open | close | fixing | |
| EURPLN | 4.531 | 4.555 | 4.536 | 4.548 | 4.535 | |
| USDPLN | 3.993 | 4.033 | 4.012 | 4.009 | 3.994 | |
| EURUSD | 1.129 | 1.137 | 1.130 | 1.134 | - | |

Interest rate market 22.02.2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| DS1023 (2Y) | 3.69 | 7 |
| DS0726 (5Y) | 3.97 | 13 |
| DS0432 (10Y) | 3.91 | 6 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 4.49 | 5 | 1.24 | 7 | -0.32 | 2 |
| 2L | 4.50 | 4 | 1.73 | 6 | 0.16 | 3 |
| 3L | 4.31 | 5 | 1.86 | 7 | 0.40 | 6 |
| 4L | 4.12 | 4 | 1.90 | 3 | 0.53 | 5 |
| 5L | 4.00 | 3 | 1.91 | 2 | 0.60 | 4 |
| 8L | 3.85 | 3 | 1.97 | 1 | 0.75 | 4 |
| 10L | 3.85 | 5 | 1.99 | -1 | 0.84 | 4 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 2.51 | 4 |
| T/N | 2.65 | -1 |
| SW | 2.79 | 1 |
| 2W | 2.82 | 2 |
| 1M | 2.99 | 3 |
| 3M | 3.50 | 2 |
| 6M | 3.91 | 2 |
| 1Y | 4.11 | 1 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 4.00 | 6 |
| 3x6 | 4.71 | 6 |
| 6x9 | 4.76 | 8 |
| 9x12 | 4.74 | 9 |
| 3x9 | 4.92 | 5 |
| 6x12 | 4.96 | 5 |

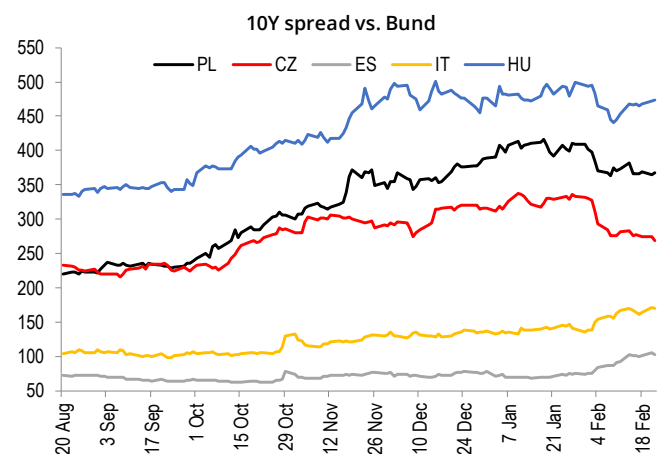
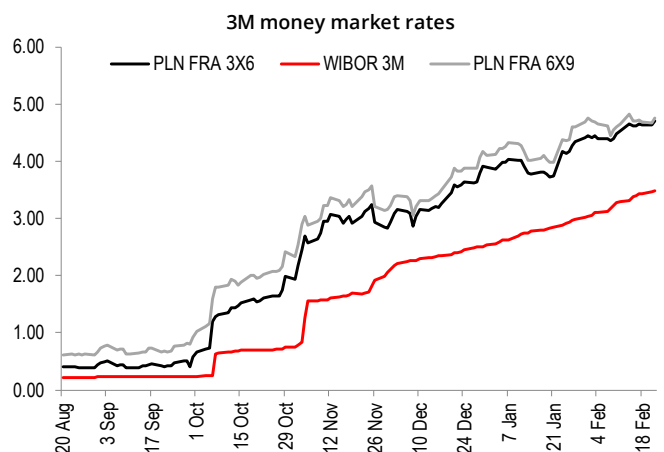
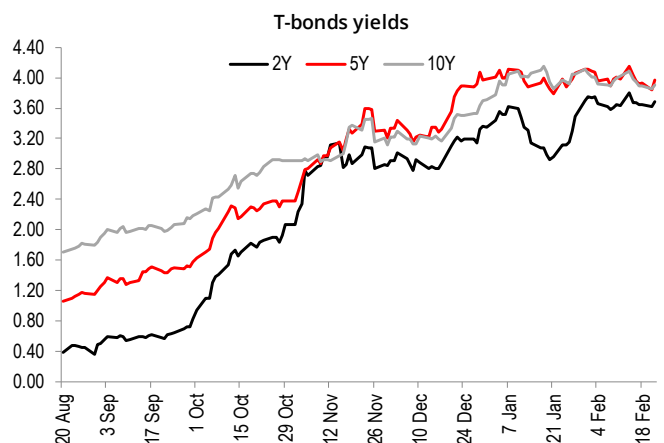
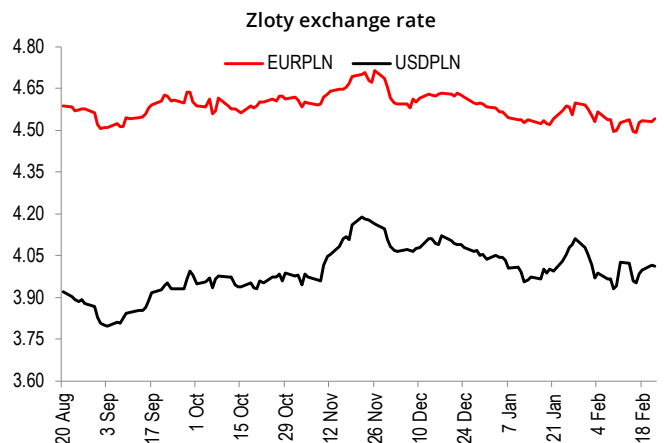
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 45 | 0 | 367 | 2 |
| France | 10 | 1 | 50 | -2 |
| Hungary | 60 | 0 | 474 | 2 |
| Spain | 41 | -1 | 103 | -2 |
| Italy | 50 | -2 | 169 | -3 |
| Portugal | 29 | 0 | 91 | -1 |
| Ireland | 9 | -1 | 62 | -1 |
| 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 | - | 98.9 | 96.0 |
| 14:00 | HU | Central Bank Rate Decision | Feb/22 | % | 3.40 | - | 3.40 | 2.90 |
| 14:00 | PL | Money Supply M3 | Jan | % y/y | 8.6 | 8.7 | 7.7 | 8.9 |
| 16:00 | US | Consumer Conference Board | Feb | pts | 110.0 | - | 110.5 | 111.1 |
| WEDNESDAY (23 February) | | | | | | | | |
| 10:00 | PL | Unemployment Rate | Jan | % | 5.6 | 5.5 | 5.5 | 5.4 |
| 11:00 | EZ | HICP | Jan | % y/y | 5.1 | - | 5.1 | 5.0 |
| 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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