

25 February 2022

Eyeopener

Markets keep focusing on Ukraine

Russia continues invading Ukraine, USA and Europe announced sanctions
 Today important data from USA, conflict in Ukraine still in focus
 IMF: Poland should run less expansive fiscal policy

Today important US data releases: core PCE inflation (the Fed's preferred measure), durable goods orders, income and spending of US consumers. Information on the situation in Ukraine will also be important and the response of Russia to the sanctions imposed by the US and the EU. The sanctions are targeting mainly the Russian banking and energy sectors, limiting Russia's access to new technologies. Yesterday evening markets responded to the announcement of sanctions with a temporary drop in risk aversion – CEE currencies strengthened, oil and gold price fell, US stock indexes rebounded. This morning risk-off mood seems to be dominating again.

As regards the possible **impact of Russian aggression on the Polish economy**, it is still too early for precise numbers in our view, but the direction seems obvious: weaker economic growth and higher inflation. Much depends on further developments, the response of Russia to the sanctions announced by the West. Currently we can assume with high probability that trade with Ukraine and Russia will suffer (our exports to these countries is worth c.3% of GDP, imports c.5% of GDP). Poland exports to those countries lots of chemical products (perfumes in particular), medical equipment, machinery for agriculture. Poland receives energy commodities, metals, food and wood. During the previous conflict in 2014 the scale of the decline in foreign trade was 10-20%. This time it can be larger due to broader military activity and tougher sanctions.

NBP decided to activate an FX swap line with the National Bank of Ukraine up to PLN4bn.

IMF in the conclusions from the [Article IV Consultation](#) with Poland wrote that the government should avoid expansionary fiscal policy and focus on rebuilding buffers. Also, the transparency of public finances should be improved and the social security system fixed, so that the aid was better addressed to the poorest. The central bank should continue interest rate hikes to counter the second round effects, according to the IMF.

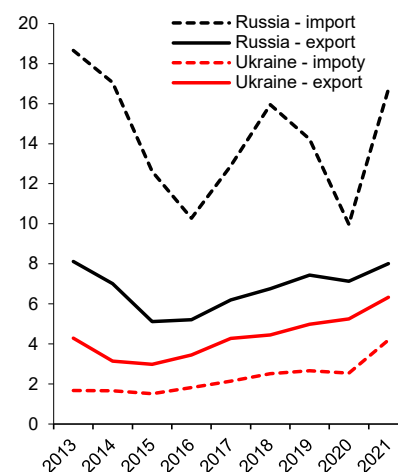
The financial markets were dominated by the risk aversion yesterday: European stock indices declined by 3-4% (WIG by more than 10%), oil price went up by 6%, breaking 100\$ per barrel. Stronger demand for safe assets lowered the 10Y yield of Treasuries and Bunds by 6bp. EURUSD started the day at 1.13, fell to 1.112, the lowest level registered in January.

EURPLN managed to stabilise at 4.65 until opening of the US session, but then increased to 4.72 and back to 4.69. Publication of sanctions against Russia caused a temporary drop of the rate to 4.61. The turnaround of upward EURPLN trend occurred at peak recorded in November, but we do not think that given such a dynamic situation in the east the technical level will provide any important barrier for the zloty depreciation should the risk aversion rise again. Sell-off of CEE assets can gain momentum in the last day of the week.

In the CEE region the forint recorded a similar loss as the zloty (2.8%) and break of 370 per euro means that the entire January strengthening was wiped out, much faster than it occurred at the start of the year. In line with words of MNB deputy president Barnabas Virag the weekly deposit rate went up by 30bp to 4.60%. The losses of the Czech koruna were by a half lower, which may have been due to central bank statement that it will appear on the FX market in order to limit exchange rate fluctuations if necessary. The ruble lost 7% yesterday versus the dollar and 13.5% since mid-February. Yesterday the Russia's central banks announced currency interventions, additional RUB liquidity operations and higher limits of FX swaps. The ruble reacted with some strengthening in reaction to Western sanctions.

The **domestic interest rate market** witnessed a major sell-off despite strengthening on the core markets. 2Y yield increased by 27bp, the middle of the curve by 17bp and the longer end by 10bp (10Y spread to Bund increased by 16bp to 390bp). The swap curve moved upwards only at the shorter end (+14bp), so its 2x10 spread reached -77bp. FRA rates went up by a dozen of basis points and they reached 5%. The T-bond auction saw sales at PLN3.5bn amid demand above PLN4.0bn, which was enough to reach surprisingly high prices, much better than offered on the secondary market that day. We do not think that the market will see a breather today. We may see increasing spreads between domestic and core bond yields.

Poland's trade in goods with Russia and Ukraine, PLNbn



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.6502	CZKPLN	0.1873
USDPLN	4.1502	HUFPLN*	1.2561
EURUSD	1.1208	RUBPLN	0.0501
CHFPLN	4.4908	NOKPLN	0.4633
GBPPLN	5.5658	DKKPLN	0.6248
USDCNY	6.3133	SEKPLN	0.4364

*for 100HUF

Last session in the FX market

24/02/2022

	min	max	open	close	fixing
EURPLN	4.604	4.718	4.659	4.693	4.628
USDPLN	4.092	4.239	4.146	4.211	4.128
EURUSD	1.111	1.126	1.124	1.115	-

Interest rate market 24/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.99	27
DS0726 (5Y)	4.26	26
DS0432 (10Y)	4.07	10

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.70	15	1.22	-4	-0.34	-3
2L	4.69	13	1.73	-3	0.14	-5
3L	4.46	8	1.88	-2	0.38	-5
4L	4.25	6	1.91	-3	0.50	-6
5L	4.13	6	1.94	-3	0.57	-5
8L	3.94	2	2.00	-1	0.73	-4
10L	3.92	2	2.03	-2	0.82	-2

WIBOR rates

Term	%	Change (bps)
O/N	2.55	4
T/N	2.74	9
SW	2.80	1
2W	2.87	5
1M	3.04	5
3M	3.55	5
6M	3.95	4
1Y	4.15	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	4.26	21
3x6	4.97	22
6x9	5.00	18
9x12	4.94	13
3x9	5.18	19
6x12	5.20	18

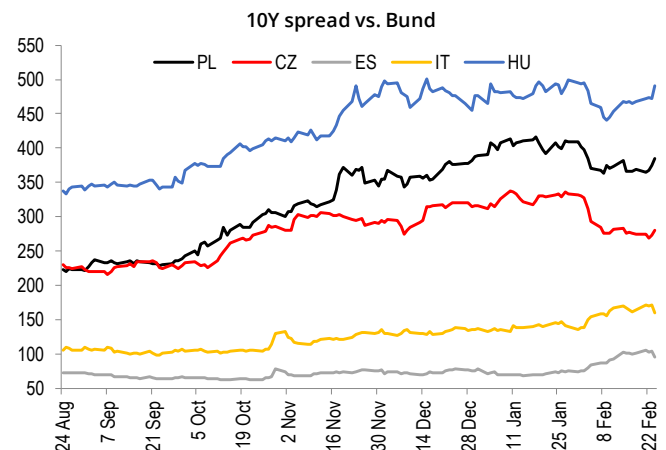
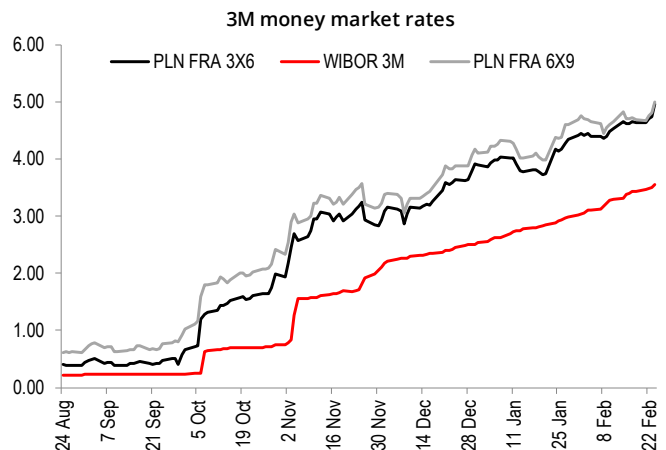
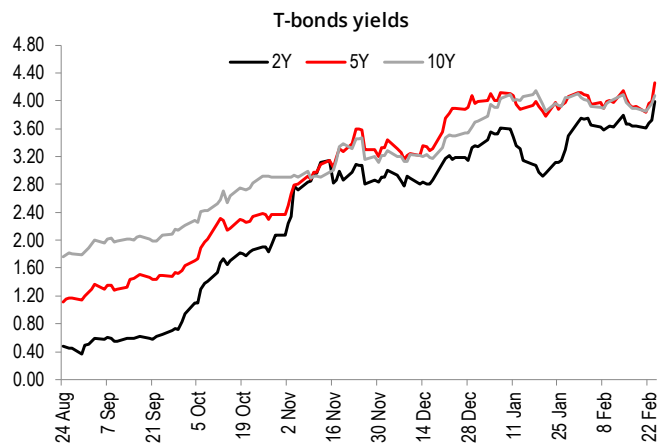
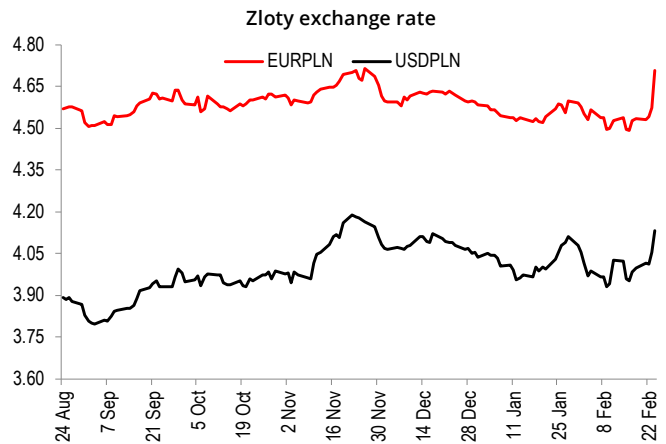
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	45	0	385	10
France	10	0	44	-7
Hungary	60	0	491	18
Spain	43	1	96	-8
Italy	51	0	159	-13
Portugal	31	0	85	-8
Ireland	11	1	60	-4
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	-	7.0	6.9
16:00	US	New Home Sales	Jan	% m/m	-0.3	-	-4.5	12.0
FRIDAY (25 February)								
08:00	DE	GDP WDA	4Q	% y/y	1.4	-	1.8	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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