

28 February 2022

Eyeopener

New sanctions against Russia

Today GDP growth breakdown in 4Q21

EU introduced new sanctions against Russia, spike in risk aversion

Very high budget incomes in January

Today the developments in Ukraine remain key for market sentiment. We will get to see important local data: details of Polish 4Q GDP. Economic growth was 7.3% y/y (1.7% q/q s.a) according to a flash release and now the breakdown will be published. Full-year GDP estimate suggested that it may be disappointing, private consumption in particular, and more than half of the headline growth might have come from increase in inventories.

On Sunday the EU announced **more sanctions vs. Russia**, cutting off some Russian banks from SWIFT and freezing assets of the Russian central bank plus a ban on making transactions with it. SWIFT is a telecommunication system to quickly and safely exchange information identifying international payments. Cut off from the system means longer processing time of such transactions with negative implications on Russian foreign trade. The freeze of CBR assets (according to Josep Borrell a half of the total) means the bank will find it much harder to intervene to protect the ruble. New sanctions are a case for risk aversion on markets.

On Friday global markets were recovering from previous day losses marked by the Russian attack on Ukraine. The positive sentiment was supported by lower pricing of US rate hikes (although Fed's hawkish James Bullard still thinks the US economy needs 100bp of rate hikes by July). S&P500 index rose so much that its weekly change turned positive. European indices rose c.3.5%. 10Y US bond rebounded in yield to 2% which set the top for last week, while Bund got up above 0.20%. Gold was the cheapest in more than a week and oil price returned to the pre-invasion level. Michigan index measuring US consumer sentiment was slightly higher in the final print for February, but it is still its weakest level in a decade, due to high inflation. However the January data on consumer spending and incomes were a positive surprise. The spending was most likely financed to a large extent from savings (the saving rate dropped to the lowest level in 8 years) which cannot last too long.

According to the Ministry of Finance in January **the central budget** showed a record surplus for this month, PLN22.3bn (average result in years 2017-21 was PLN6.4bn). This came from very high tax revenues: PIT was up 53.1% y/y, CIT +51.8% y/y, VAT by 40.5% y/y. Total revenues rose 44.5% y/y while expenditure were up 7.2% y/y. Tax revenues this year will be supported by high rise of inflation and PIT may have got a boost from confusion regarding the tax-free allowance. However, in our view the January growth rates of tax receipts are too high to be explained by these factors. These are likely transitory effects, to be reversed in coming months (PM Morawiecki said earlier that the budget should be balanced after February).

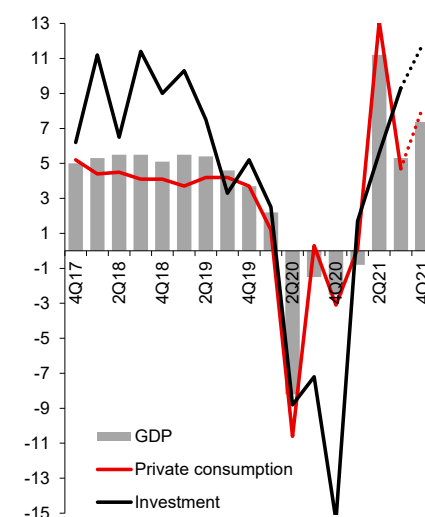
ESI indicators for the euro zone showed better sentiment of services companies while the industrial gauge remained near the all-time high. In industry new records were set by indexes of selling prices and employment, which suggests that despite the high cost and price pressure, companies are interested in expansion. The sentiment is likely to worsen due to the war in the East – ECB's chief economist Philip Lane estimated that Eurozone GDP in 2022 will be 0.3-0.4pp. lower on this. ESI for Poland did not move much from previous readings. What caught our attention was the slight decline of price expectations indexes in industry and retail trade and the drop of consumer inflation expectations to the lowest level since April 2021 (most likely in reaction to VAT cuts).

On Friday **EURPLN** stabilised close to the level reached after the first wave of sell-off after Russia's attack on Ukraine (4.65). Today the pair is opening at 4.70.

On Friday **the CEE currencies** were strengthening, but today they are weaker again, especially the ruble is taking hits with USDRUB above 100. The Central Bank of Russia hiked rates to 20% from 9.50% in an attempt to stop the ruble depreciation.

The interest rate market saw small changes this time (long end of the bond curve declined by 3bp, swap curve steepened by 6bp). Domestic bonds moved in two opposite direction that core market bonds. We think that the Polish market is likely to see flattening, or even reversal given rising expectations for rate hikes in the shorter term (FRA3x6 above 5.0%) and rising risk of cuts later on, when the economy will start to slow down.

GDP and main components, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.7029	CZKPLN	0.1879
USDPLN	4.2058	HUFPLN*	1.2523
EURUSD	1.1188	RUBPLN	0.0407
CHFPLN	4.4311	NOKPLN	0.4702
GBPPLN	5.4989	DKKPLN	0.6322
USDCNY	6.3106	SEKPLN	0.4416

*for 100HUF

Last session in the FX market

25/02/2022

	min	max	open	close	fixing
EURPLN	4.614	4.671	4.623	4.645	4.661
USDPLN	4.110	4.180	4.117	4.125	4.168
EURUSD	1.116	1.127	1.122	1.126	-

Interest rate market 25/02/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.99	0
DS0726 (5Y)	4.18	-8
DS0432 (10Y)	4.05	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.65	-4	1.24	2	-0.33	0
2L	4.66	-3	1.75	2	0.15	1
3L	4.48	2	1.89	1	0.40	2
4L	4.29	4	1.92	1	0.52	2
5L	4.16	3	1.95	1	0.60	3
8L	3.97	3	2.00	1	0.77	4
10L	3.95	2	2.04	1	0.86	5

WIBOR rates

Term	%	Change (bps)
O/N	2.68	13
T/N	2.77	3
SW	2.82	2
2W	2.94	7
1M	3.09	5
3M	3.59	4
6M	3.99	4
1Y	4.19	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	4.26	0
3x6	4.93	-3
6x9	4.94	-6
9x12	4.89	-5
3x9	5.12	-5
6x12	5.15	-5

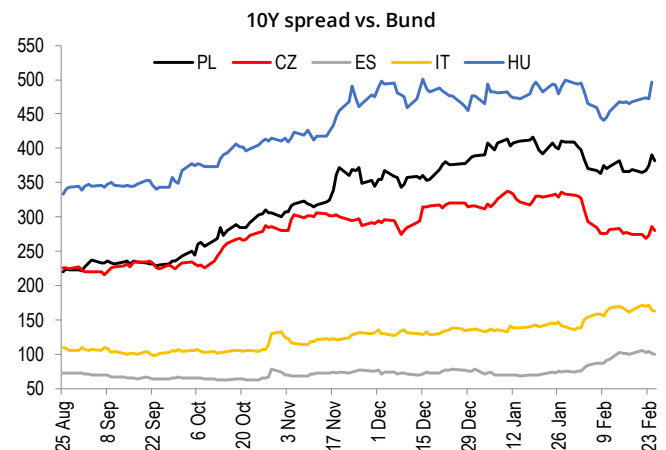
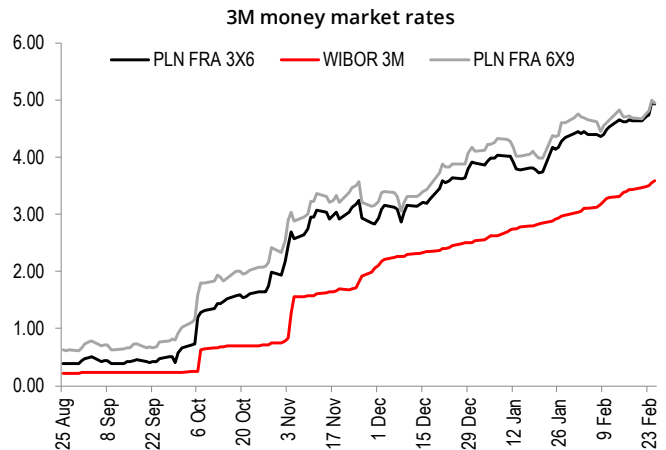
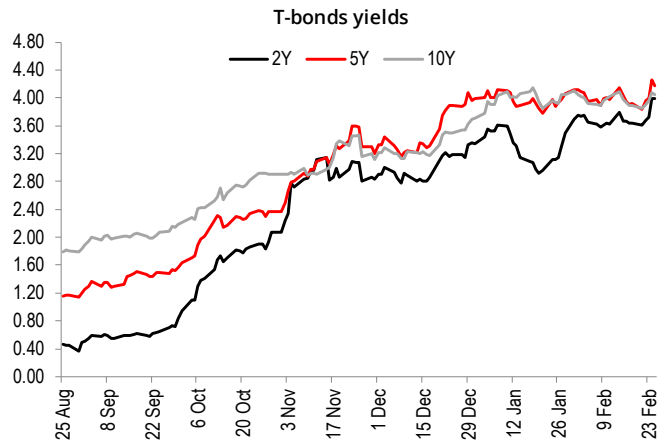
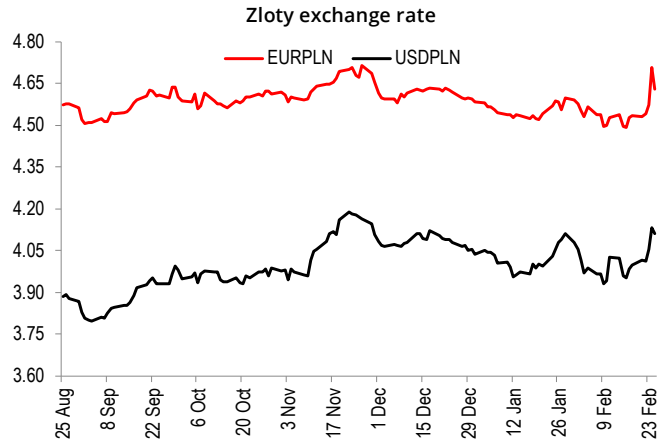
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	45	0	383	-8
France	10	0	49	-1
Hungary	60	0	0	-496
Spain	41	-3	100	-2
Italy	48	-3	162	-2
Portugal	30	-1	89	-2
Ireland	11	0	64	-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 (25 February)								
08:00	DE	GDP WDA	4Q	% y/y	1.4	-	1.8	1.4
11:00	EZ	ESI	Feb	pct.	113.0	-	114.0	112.7
14:30	US	Durable Goods Orders	Jan	% m/m	1.0	-	1.6	-0.7
14:30	US	Personal Spending	Jan	% m/m	1.6	-	2.1	-0.6
14:30	US	Personal Income	Jan	% m/m	-0.3	-	0.0	0.3
14:30	US	PCE Deflator SA	Jan	% m/m	0.6	-	0.6	0.4
16:00	US	Michigan index	Feb	pts	61.7	-	62.8	61.7
16:00	US	Pending Home Sales	Jan	% m/m	-0.5	-	-5.7	-3.8
MONDAY (28 February)								
10:00	PL	GDP	4Q	% y/y	7.3	7.3	-	5.3
TUESDAY (1 March)								
09:00	CZ	GDP SA	4Q	% y/y	3.6	-	-	3.6
09:00	PL	Poland Manufacturing PMI	Feb	pts	-	54.9	-	54.5
09:55	DE	Germany Manufacturing PMI	Feb	pts	58.4	-	-	59.8
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	57.7	-	-	58.7
14:00	DE	HICP	Feb	% m/m	0.7	-	-	0.9
16:00	US	ISM manufacturing	Feb	pts	58.0	-	-	57.6
WEDNESDAY (2 March)								
09:00	HU	GDP	4Q	% y/y	7.2	-	-	6.1
11:00	EZ	Flash HICP	Feb	% y/y	5.3	-	-	5.1
14:15	US	ADP report	Feb	k	310.0	-	-	-301.0
THURSDAY (3 March)								
02:45	CN	Caixin China PMI Services	Feb	pts	50.8	-	-	51.4
09:55	DE	Markit Germany Services PMI	Feb	pts	56.6	-	-	52.2
10:00	EZ	Eurozone Services PMI	Feb	pts	55.8	-	-	51.1
11:00	EZ	Unemployment Rate	Jan	%	7.0	-	-	7.0
14:30	US	Initial Jobless Claims		k	235.0	-	-	232.0
16:00	US	ISM services	Feb	pts	60.9	-	-	59.9
16:00	US	Factory Orders	Jan	% m/m	0.5	-	-	-0.4
FRIDAY (4 March)								
08:00	DE	Exports SA	Jan	% m/m	1.0	-	-	0.9
09:00	HU	Industrial Production SA	Jan	% y/y	-	-	-	3.6
11:00	EZ	Retail Sales	Jan	% m/m	1.5	-	-	-3.0
14:30	US	Change in Nonfarm Payrolls	Feb	k	400.0	-	-	467.0
14:30	US	Unemployment Rate	Feb	%	3.9	-	-	4.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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