

7 March 2022

Eyeopener

Another difficult week ahead

Risk aversion still prevails after the weekend

Zloty under severe pressure despite NBP interventions, selloff in POLGBs

Oil prices sharply up after information about possible ban of Russian oil imports

Strong US labour market data in February

It is yet another week when the war in Ukraine and its possible consequences, including sanctions on Russia and disruptions in commodity markets are likely to remain the key theme for markets. The upcoming central bank meetings: NBP on Tuesday and ECB on Thursday will be also under strong influence of considerations about the impact of war on the economic outlook. We think the ECB will no longer prepare markets for withdrawal of monetary accommodation, instead it may emphasise the need for staying cautious. In turn the Polish MPC may hike interest rates by 50bp, as we expected already before the war broke out, and the communication may be focused on supporting the currency. At this meeting the MPC will learn the updated economic forecasts of the central bank, but we are not sure to what extent they will capture the possible consequences of war in Ukraine. At the moment there is no information whether and when the NBP governor's press conference will be held.

On Friday we learned surprisingly weak data about euro zone retail sales, apparently affected by the pandemic development in January and weakening consumers' purchasing power. Later on, the US labour market data surprised positively with employment jump and unemployment decline. Labour participation jumped again (to the highest level since March 2020) and the number of unemployed was only 0.7% lower than in February 2020. Such news strengthened the impression that the ECB may be moving away from its earlier plans to normalize monetary policy, while the FOMC could do the opposite. It was pushing EURUSD lower. Global equity markets kept falling, gold price went up another 2%, crude price c.7%. Overnight oil price jumped another 10% (to c.\$130 per barrel) after information that US is talking to European countries about banning Russian oil imports.

NBP sold bills worth c.PLN160bn in open market operations. The previous rounds of Friday operations were to the tune of c.PLN250bn (at the regular auction on 18 February and after inclusion of the c.PLN60bn fine-tuning operation on 25 February). This shows the high need to secure liquidity in the face of exceptional market volatility and highly uncertain situation in Ukraine.

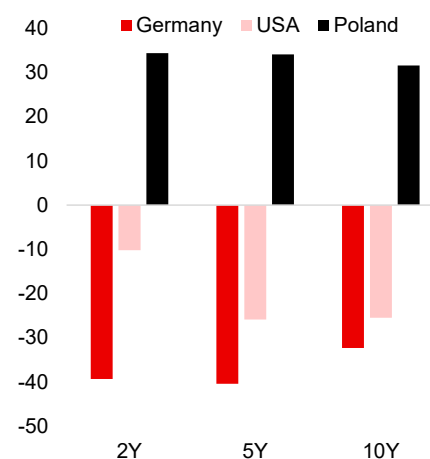
The **registered unemployment rate** in Poland was 5.5% in February according to the information provided by the Minister of Family and Social Policy Marlena Maląg (in line with market expectations, the same as in January). Natural seasonal changes on the labour market should send the unemployment rate lower in the coming months.

On Friday, once **EURUSD** reached 1.10 in its relatively gradual decline, there was a marked acceleration of its fall and got to almost 1.09 before the end of the day. Meanwhile the zloty was depreciating quickly and steadily. The NBP interventions were giving only short-lived respite, but after the close of the European session the zloty sell-off continued, sending **EURPLN** to almost 4.90 at the end of the day (this morning it is around 4.93). The factor that has been causing the sell-off of CEE currencies will be most likely still present this week, so we have to consider that EURPLN will be pushed further up towards 5.00.

Other CEE currencies: the Czech koruna did not yield to the strong tendency to weaken of currencies of countries which are close to Ukraine. The CZK outperformance was based on the Czech central bank's actions. The CNB has started FX interventions and its governor Jiri Rusnok announced that he will not let CZK depreciate dramatically and the FX reserves will be enough to redirect the market as much as it will be necessary. Deputy CNB governor Tomas Nidetzky stressed that at the next meeting a rate high will be discussed for sure. At the same time the forint saw a daily loss of 1.6% vs. the euro (with the zloty down 1.9% and the koruna gaining 0.4%) despite the unexpected 1W deposit rate hike a day earlier and positive surprise in Hungarian industrial output on Friday morning.

On the interest rate market there was a large sell-off of Polish government bonds, which sent their yields more than 20bp higher across the curve. Yields on core markets went the other way, which widened the Bund spread by more than 30bp in one day and by more than 60bp in one week. Domestic asset swap spreads were widening which means that the weakness of the papers was caused mainly by the willingness to get rid of assets highly exposed to the war in Ukraine before the weekend rather than due to changing expectations about future interest rates. The large move on the domestic market happened at very poor liquidity and we believe that a potential return of more normal trading should allow for a reversal of a large part of the recent rise of yields. However a signal is needed in the form of positive news regarding the conflict.

Change of government bond yields, 25 February – 4 March (bp)



Source: Bloomberg, Santander

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FX market

Today's opening			
EURPLN	4.9429	CZKPLN	0.1896
USDPLN	4.5306	HUFPLN*	1.2483
EURUSD	1.0872	RUBPLN	0.0358
CHFPLN	4.8685	NOKPLN	0.4985
GBPPLN	5.8959	DKKPLN	0.6564
USDCNY	6.3197	SEKPLN	0.4530

*for 100HUF

Last session in the FX market						04/03/2022
	min	max	open	close	fixing	
EURPLN	4.786	4.882	4.836	4.846	4.836	
USDPLN	4.348	4.474	4.386	4.445	4.391	
EURUSD	1.088	1.103	1.103	1.091	-	

Interest rate market 04/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	4.33	24
DS0726 (5Y)	4.56	25
DS0432 (10Y)	4.38	23

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.91	16	1.28	3	-0.35	0
2L	4.86	15	1.67	-3	0.01	-5
3L	4.61	13	1.73	-4	0.17	-9
4L	4.37	12	1.72	-8	0.29	-6
5L	4.20	11	1.72	-9	0.40	-4
8L	3.98	12	1.77	-11	0.60	-2
10L	3.94	11	1.81	-11	0.72	-2

WIBOR rates

Term	%	Change (bps)
O/N	2.56	-13
T/N	2.87	0
SW	3.18	12
2W	3.23	9
1M	3.30	4
3M	3.78	5
6M	4.19	9
1Y	4.30	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	4.68	20
3x6	5.19	19
6x9	5.21	19
9x12	5.18	18
3x9	5.41	22
6x12	5.43	21

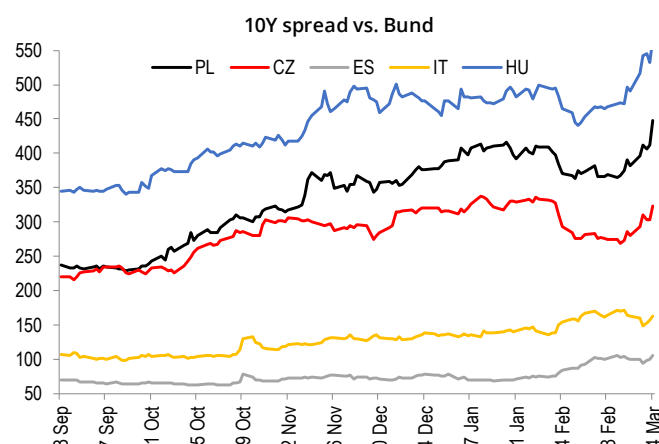
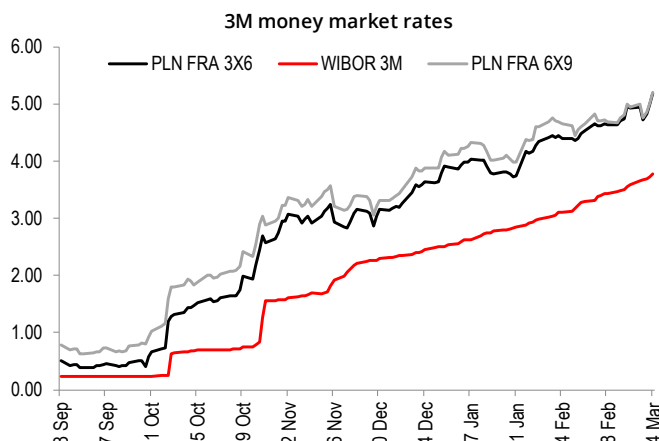
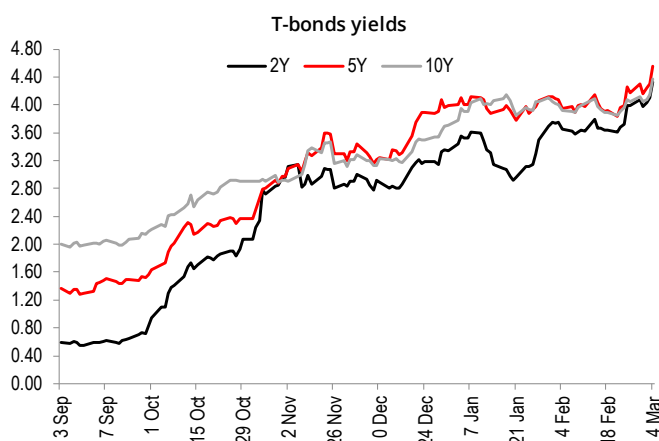
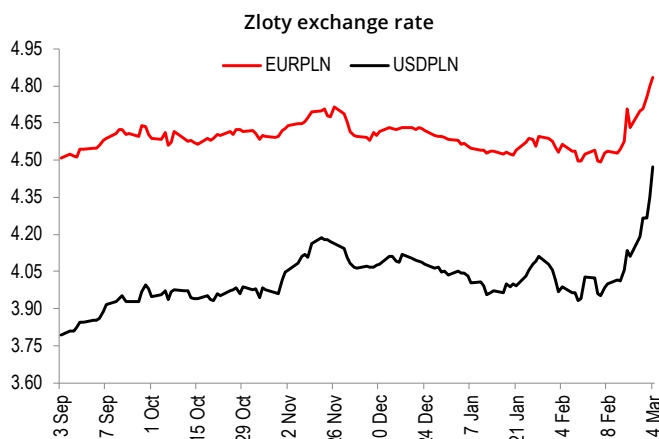
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	448	35
France	11	0	52	4
Hungary	100	0	566	33
Spain	46	3	105	6
Italy	53	4	162	5
Portugal	33	3	92	7
Ireland	13	0	72	8
Germany	8	1	-	-

* 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 (4 March)							
08:00	DE	Exports SA	Jan	% m/m	1.0	-2.8	0.9
09:00	HU	Industrial Production SA	Jan	% y/y	5.8	7.1	3.6
11:00	EZ	Retail Sales	Jan	% m/m	1.5	0.2	-2.7
14:30	US	Change in Nonfarm Payrolls	Feb	k	423	678	481
14:30	US	Unemployment Rate	Feb	%	3.9	3.8	4.0
MONDAY (7 March)							
08:00	DE	Factory Orders	Jan	% m/m	1.0	1.8	2.8
08:00	DE	Retail Sales	Jan	% m/m	1.5	2.0	-4.6
TUESDAY (8 March)							
	PL	MPC decision		%	3.25	3.25	-
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	-	-0.3
11:00	EZ	GDP SA	4Q	% y/y	4.6	-	4.6
WEDNESDAY (9 March)							
09:00	HU	CPI	Feb	% y/y	8.1	-	7.9
THURSDAY (10 March)							
09:00	CZ	CPI	Feb	% y/y	10.4	-	9.9
9:30	HU	1W deposit rate		%	-	-	5.35
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0
14:00	PL	MPC minutes					
14:30	US	CPI	Feb	% m/m	0.8	-	0.6
14:30	US	Initial Jobless Claims	week	k	225.0	-	215.0
FRIDAY (11 March)							
08:00	DE	HICP	Feb	% m/m	0.9	-	0.9
09:00	CZ	Industrial Production	Jan	% y/y	-	-	0.4
16:00	US	Michigan index	Mar	pts	62.8	-	67.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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