

10 March 2022

Eyeopener

MPC determined to fight inflation

Glapiński: MPC determined to bring down inflation and strengthen the zloty
 Meida: EC may soon approve Polish recovery program
 S&P rating agency lowers Polish growth forecasts

Today the key event is the ECB meeting. Market will watch the central bank's assessment of how the war in Ukraine influences interest rate outlook in the euro zone. Moreover, inflation data in Czechia and the USA will be released. In Poland, we will see minutes from the February MPC meeting, but it is unlikely to be very significant for market expectations. The EU summit on war in Ukraine starts today. Also, the foreign ministers of Russia and Ukraine will meet in Turkey (this will be the highest-level negotiations so far).

The **NBP president Adam Glapiński** presented a very bullish message at the press conference yesterday. He explicitly described himself and the entire (new) MPC as "very hawkish" and emphasised that their main objective is to curb inflation and prevent its persistence. In his view, elevated inflation is the only real worry right now. Glapiński was very upbeat on the GDP growth outlook, saying that it may slow from c.7% at the start of the year to c.4% at the end but no more. He was emphasising that fighting inflation is now the central bank's top priority and they will try to contain it by all possible means. He said it is very likely that interest rate hikes will continue in the coming months, the target level for the reference rate is hard to indicate precisely but it will be probably higher than 4.0%-4.5% indicated earlier. The extremely bullish message from the NBP governor regarding the economic growth and a clear emphasis on fighting inflation suggest that more decisive rate hikes will follow. We expect two more interest rate hikes by 75bp in April and in May. Whether the MPC stops at 5.0% will depend on the developments in Ukraine, trends in commodity and FX markets. Currently we think it is a baseline scenario, as in couple of months it will be already visible that the war in Ukraine has a toll on economic activity also in Poland. Eventually, at the end of 2023 the central bank may start monetary easing cycle, responding to the looming economic slowdown. See more in the [Economic Comment](#).

According to RMF FM ratio, the **European Commission may approve Poland's recovery and resilience plan** soon. It would be a positive signal for the economy and for the currency, we think, although it should be remembered that the actual inflow of money from the recovery fund will depend on the fulfilment of EC's requirements, e.g. liquidation of the Disciplinary Chamber of the Supreme Court.

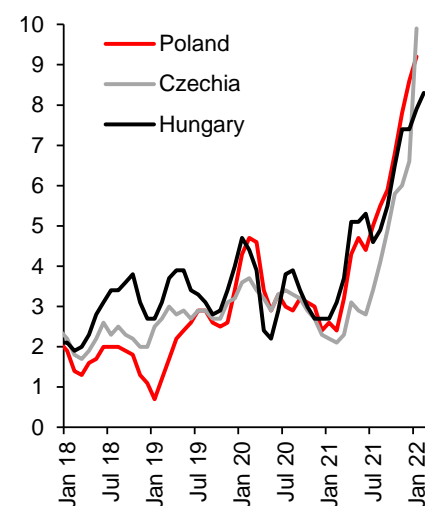
CPI inflation in Hungary surprised in February to the upside, accelerating from 7.9% to 8.3% y/y. **US JOLTS** data also were better than expected, and the previous reading was revised up. EU approved new sanctions against Russia and Belarus: excluding several Belarusian banks from the SWIFT, ban on exporting naval navigation equipment and communication technology to Russia.

Yesterday markets were no longer just quiet after the risk-off period - strong risk appetite returned, with main EU stock markets gaining 6-7%, 10Y Bund and UST yields jumping to the highest level since early March, accelerating rebound of EURUSD (to over 1.105) and EURCHF to over 1.025. Gold price sank 2% and Brent oil went from US\$130 per barrel to \$120 (to continue falling overnight to \$115). This development was driven by information that Ukraine may consider neutrality in line with Russia's demands, but in return for safety guarantees and no land losses. As we signalled earlier, **the zloty** was responding to this news flow and was the top performer in the EM universe yesterday (+3.9% vs USD). Hawkish stance of the NBP president may have also been helpful.

Other CEE currencies: only HUF gained at a similar scale (+3.4% vs USD), while the koruna ranked third (1.7%). The Czech central bank governor announced that FX interventions supporting the koruna will last as long as necessary, but at the same time he assumed only a minor adjustment of rates going forward.

The domestic **interest rate market** saw a bond sell-off, with 2Y yield rising by 25bp (10bp during speech of the NBP president), while 10Y segment climbed by 8bp similarly to peer core bonds. The zloty's gains limited rise in IRS rates to 3-8bp, but stronger proof of de-escalation of conflict in Ukraine is probably necessary to make investors return to Polish bonds.

CPI in CEE region, % y/y



Source, Refinitiv, Santander

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FX market

Today's opening			
EURPLN	4.7804	CZKPLN	0.1883
USDPLN	4.3232	HUFPLN*	1.2595
EURUSD	1.1057	RUBPLN	0.0329
CHFPLN	4.6623	NOKPLN	0.4851
GBPPLN	5.6976	DKKPLN	0.6421
USDCNY	6.3208	SEKPLN	0.4453

*for 100HUF

Last session in the FX market 09.03.2022

	min	max	open	close	fixing
EURPLN	4.745	4.892	4.861	4.768	4.843
USDPLN	4.291	4.480	4.455	4.309	4.415
EURUSD	1.091	1.109	1.091	1.107	-

Interest rate market 09.03.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.11	24
DS0726 (5Y)	5.14	23
DS0432 (10Y)	4.86	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.35	8	1.42	4	-0.28	1
2L	5.32	5	1.85	7	0.14	5
3L	5.09	7	1.93	8	0.32	6
4L	4.84	2	1.94	9	0.45	7
5L	4.66	4	1.93	9	0.55	7
8L	4.39	2	1.97	8	0.78	8
10L	4.34	2	2.01	9	0.91	9

WIBOR rates

Term	%	Change (bps)
O/N	3.31	72
T/N	3.49	3
SW	3.57	11
2W	3.58	12
1M	3.62	12
3M	4.03	12
6M	4.38	8
1Y	4.53	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	4.92	-9
3x6	5.64	6
6x9	5.69	11
9x12	5.66	8
3x9	5.95	5
6x12	5.96	11

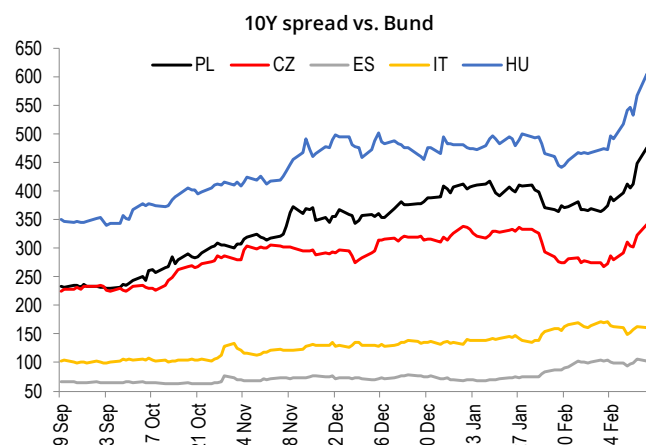
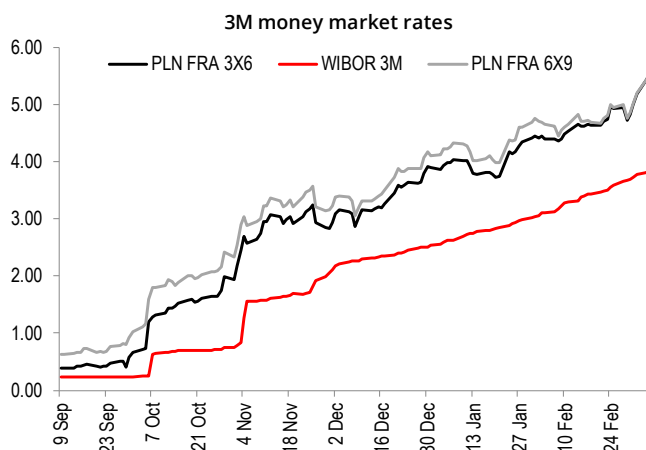
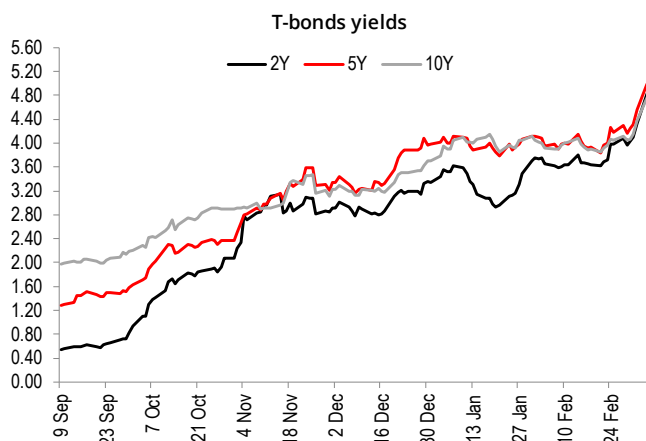
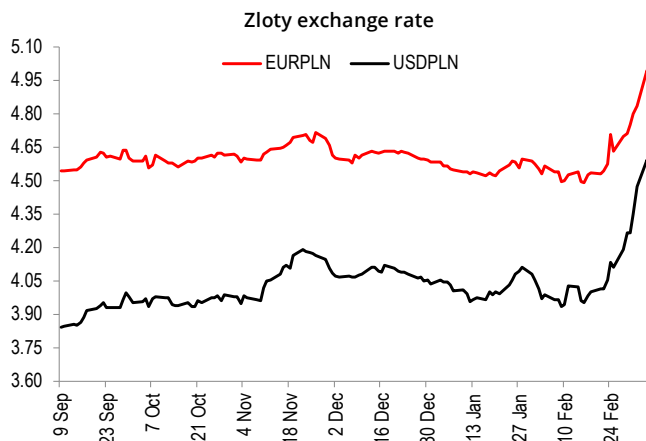
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	467	-5
France	13	0	45	0
Hungary	100	0	556	-22
Spain	41	-2	94	-1
Italy	50	-2	148	-1
Portugal	28	-2	80	-2
Ireland	15	0	70	4
Germany	10	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 (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	3.50
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	2.7	1.1
11:00	EZ	GDP SA	4Q	% y/y	4.6	4.6	4.0
WEDNESDAY (9 March)							
09:00	HU	CPI	Feb	% y/y	8.1	8.3	7.9
15:00	PL	NBP President Conference					
THURSDAY (10 March)							
09:00	CZ	CPI	Feb	% y/y	10.4	-	9.9
09:30	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	-	215
FRIDAY (11 March)							
08:00	DE	HICP	Feb	% m/m	0.9	-	0.9
09:00	PL	NBP Inflation Report					
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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