

14 March 2022

# Eyeopener

## The waiting day

NBP projection shows CPI above 10% this year even after correcting for extension of anti-inflation shield

Growing worries of US consumers

EURPLN and bond yields exceptionally stable on Friday

**Today** no important economic events in the calendar, but the recent weeks have shown that the sentiment on Mondays is usually determined by the developments in Ukraine. During the weekend Russia attacked targets in western Ukraine, close to the Polish border and threatened to attack convoys with aid. Also, according to FT, Russia asked China for military assistance. This morning no significant rise of risk aversion can be seen, though. This week several central bank decisions are scheduled, including the FOMC, BoE, BoJ, PBoC and markets often turn quiet ahead of such events. In Poland tomorrow inflation data will be released.

**US consumer sentiment** measured with the Michigan University survey worsened in March more than expected. This was the first readings since the outbreak of war in Ukraine and the strong rise of commodity prices. The index was already depressed by very high inflation which has been weakening the purchasing power of US households' incomes. Currently the main sentiment index is the weakest in 10 years. We do not think however that this could discourage the Fed from hiking rates on Wednesday.

**NBP released its new projection**, according to which CPI inflation is to rise above 12% y/y in 2H22. These estimates are exaggerated by the fact that the central bank assumed that "anti-inflation shield" will expire in July, while it will most likely be extended. Our current scenario predicts CPI peaking at c.10% y/y in mid-year and averaging at 9% in 2022 and 8% in 2023. Taking into account projection's results and the NBP's just-revealed estimates of the monetary transmission (rate hike by 100bp » CPI lower by 0.2-0.4pp in the long run) one could argue that to bring inflation back within the tolerance band around the target, interest rates should be lifted by c.300bp more from the current level. We do not expect such scenario, first of all because the exchange rate appreciation may do part of the job (EURPLN was at its peak 5.0 at the moment of preparing projection), secondly we think that economic slowdown will be more severe than anticipated by the central bank. In our view, the NBP reference rate will peak at 5.0% in mid-year.

**MPC's Ludwik Koteck** wrote in an article to Dziennik Gazeta Prawna that further rate hikes should be expected, but the current high uncertainty it is impossible to already set the target level of rates.

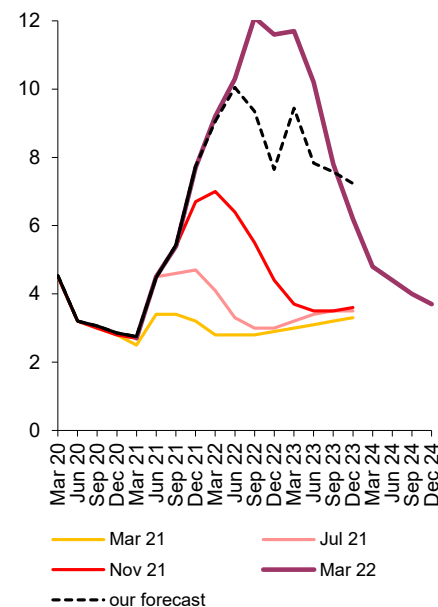
**On Friday** markets were still relatively calm after the Russian president's remarks that there was some progress in negotiations with Ukraine, even if military aggression did not ease at that time. The market sentiment was also not affected negatively by the next set of sanctions. The US president claimed the US is going to lower the status of Russia as a trade partner to the same level as Cuba and North Korea, he also talked about new sanctions on Russian goods, cutting off Russia from IMF and World Bank financing. The EU did not finish talks on the fourth sanctions package against Russia during the weekend and the decision is to be taken today and include i.a. bans on luxury goods exports, steel and iron imports, investments in the Russian energy sector as well as an extension of the black list of sanctioned Russian oligarchs.

Main equity markets held recent gains, bond yields in core markets started declining slightly and dollar started regaining ground at the end of last week. For **EURPLN** it was the calmest session since the war broke out (unchanged d/d, still below 4.80). However, we have little doubts that if the risk aversion surges again, the level 5.0 may be breached. Still, our working assumption is that there will be no reason for such panic in the coming days and thus EURPLN is more likely to stabilise near 4.75.

**Other CEE currencies** were equally stable and moved in different directions: Czech koruna gained 0.4% vs euro, while forint lost 0.8%. EURCZK remains slightly more than 3% below the pre-war level, EURPLN slightly more than 6% above and EURHUF recently has moved to 8%.

On the **domestic interest rate market** the biggest move was a decline of 10Y yield by 5bp, which was a very static end of the week, during which 2Y yield soared by more than 100bp, 5Y by over 80bp and 10Y by almost 60bp. IRS curve moved up by 10bp on Friday and 65-75bp during the week. We see the risk that curves may go further up (and deepen inversion, as the bigger rate hikes in the short run, the sooner rate cuts may be needed when the economy slows) in response to hawkish message from the NBP and most likely also from the Fed. At the switching auction the Ministry of Finance sold bonds worth PLN1.46 (all fixed-coupon bonds maturing this year plus PS1023) and sold bonds for PLN1.59bn, mainly 5Y with floating coupon (PLN0.84bn), issued for the first time.

CPI inflation according to subsequent NBP projections and our current forecast, % y/y



Source: NBP, Santander

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**FX market**

Today's opening			
EURPLN	4.7606	CZKPLN	0.1900
USDPLN	4.3574	HUFPLN*	1.2558
EURUSD	1.0923	RUBPLN	0.0380
CHFPLN	4.6839	NOKPLN	0.4860
GBPPLN	5.6817	DKKPLN	0.6423
USDCNY	6.3597	SEKPLN	0.4480

\*for 100HUF

Last session in the FX market						11/03/2022
	min	max	open	close	fixing	
EURPLN	4.763	4.806	4.773	4.782	4.792	
USDPLN	4.322	4.382	4.340	4.373	4.369	
EURUSD	1.093	1.104	1.100	1.093	-	

**Interest rate market** 11/03/2022

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.38	5
DS0726 (5Y)	5.36	0
DS0432 (10Y)	4.98	-5

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.58	8	1.51	4	-0.24	0
2L	5.62	11	1.94	5	0.27	1
3L	5.40	13	2.03	4	0.48	3
4L	5.14	11	2.02	1	0.60	3
5L	4.96	10	2.01	3	0.68	3
8L	4.67	10	2.04	1	0.84	0
10L	4.59	9	2.07	1	0.94	-1

**WIBOR rates**

Term	%	Change (bps)
O/N	3.36	11
T/N	3.51	3
SW	3.55	0
2W	3.55	0
1M	3.64	5
3M	4.22	4
6M	4.61	9
1Y	4.73	10

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	5.10	1
3x6	5.84	7
6x9	5.91	8
9x12	5.91	9
3x9	6.14	11
6x12	6.19	14

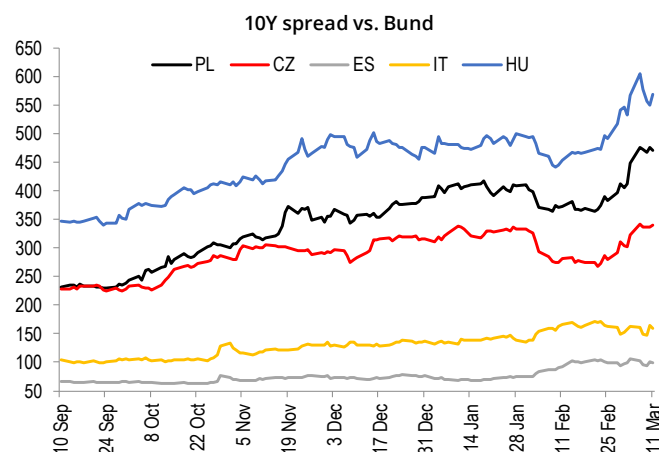
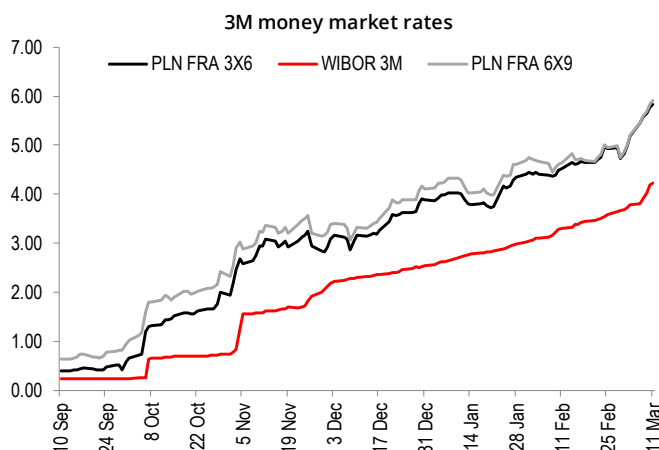
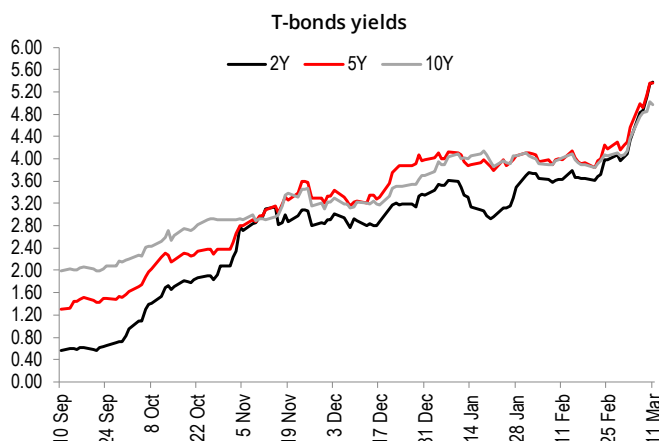
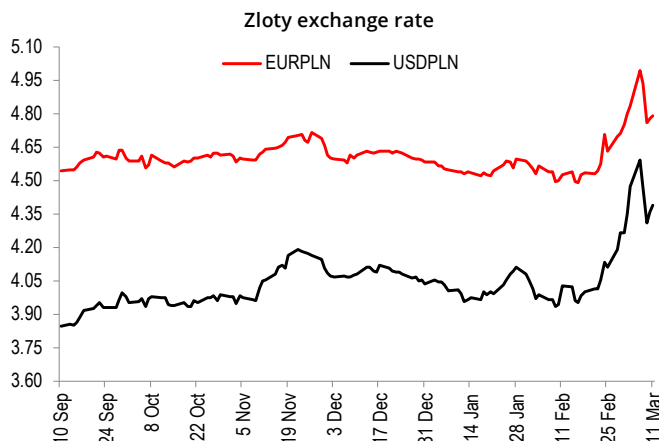
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	471	-5
France	13	0	47	-1
Hungary	100	0	569	19
Spain	43	-2	99	-2
Italy	50	-5	160	-5
Portugal	33	0	87	-1
Ireland	15	0	64	-3
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		
<b>FRIDAY (11 March)</b>								
08:00	DE	HICP	Feb	% m/m	0.9		0.9	0.9
09:00	CZ	Industrial Production	Jan	% y/y	3.6		3.7	0.4
16:00	US	Michigan index	Mar	pts	61.0		-	62.8
<b>TUESDAY (15 March)</b>								
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Feb</b>	<b>% y/y</b>	<b>8.1</b>	<b>8.6</b>	-	<b>9.2</b>
11:00	EZ	Industrial Production SA	Jan	% m/m	0.2	-	-	1.2
11:00	DE	ZEW Survey Current Situation	Mar	pts	-23.0	-	-	-8.1
<b>WEDNESDAY (16 March)</b>								
13:30	US	Retail Sales Advance	Feb	% m/m	0.3	-	-	3.8
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Feb</b>	<b>% y/y</b>	<b>6.3</b>	<b>6.5</b>	-	<b>5.3</b>
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>Jan</b>	<b>€mn</b>	<b>-519</b>	<b>-464</b>	-	<b>-3957</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>Jan</b>	<b>€mn</b>	<b>-1406</b>	<b>-1461</b>	-	<b>-2535</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Jan</b>	<b>€mn</b>	<b>24810</b>	<b>25105</b>	-	<b>24109</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Jan</b>	<b>€mn</b>	<b>26512</b>	<b>26566</b>	-	<b>26644</b>
19:00	US	FOMC decision	Mar.22		0.50		-	0.25
<b>THURSDAY (17 March)</b>								
11:00	EZ	HICP	Feb	% y/y	5.8	-	-	5.1
13:30	US	Initial Jobless Claims	Mar.22	k	215	-	-	227
13:30	US	Housing Starts	Feb	% m/m	3.8	-	-	-4.1
13:30	US	Index Philly Fed	Mar		15.0	-	-	16.0
14:15	US	Industrial Production	Feb	% m/m	0.5	-	-	1.4
<b>FRIDAY (18 March)</b>								
<b>10:00</b>	<b>PL</b>	<b>Employment in corporate sector</b>	<b>Feb</b>	<b>% y/y</b>	<b>2.1</b>	<b>2.2</b>	-	<b>2.3</b>
<b>10:00</b>	<b>PL</b>	<b>Sold Industrial Output</b>	<b>Feb</b>	<b>% y/y</b>	<b>16.2</b>	<b>17.7</b>	-	<b>19.2</b>
<b>10:00</b>	<b>PL</b>	<b>PPI</b>	<b>Feb</b>	<b>% y/y</b>	<b>15.1</b>	<b>15.5</b>	-	<b>7.9</b>
<b>10:00</b>	<b>PL</b>	<b>Average Gross Wages</b>	<b>Feb</b>	<b>% y/y</b>	<b>9.9</b>	<b>10.1</b>	-	<b>9.5</b>
15:00	US	Existing Home Sales	Feb	% m/m	-4.6	-	-	6.7

Source: Santander Bank Polska, Bloomberg, Parkiet  
\* in the case of a revision the data is updated

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