WEEKLY COMMENTARY
14.03.2022

Santander
Fundusze Inwestycyjne

Last week (7-13.03.2022) was marked by the search for indicators of a potential halt to Russian aggression.

Despite the ongoing news flow about Russia's escalation of its methods of conducting military operations on the Ukrainian territory, **investors reacted positively to the information about the talks held between the negotiating teams and the foreign ministers of the two countries**. This allowed, especially **the main European markets, to make up a part of the recent declines**. The German DAX index ended the week up by over 4% and the French CAC40 by over 3%. **On the Polish equity market we also saw a broad rebound**. There were gains in both the largest company index WIG20 (+6%) and the broad market index WIG (+5%). **However, the equity indices on the other side of the ocean were moving in the opposite direction**. The S&P 500 index fell by almost 3% on a weekly basis, while the NASDAQ fell by 3.5%.

Western countries not directly involved in military actions implemented **further sanctions, both economic and personal, on the Russian Federation**. The USA, together with the UK, introduced an **embargo on imports of Russian oil, liquefied gas and coal**. It is worth mentioning, however, that both countries, unlike the European Union, were only marginally dependent on imports of the above-mentioned commodities from Russia. The lack of prompt alternatives for the supply of many EU countries determined the decision not to join the embargo for the time being. All in all, **the price of oil**, both WTI and Brent, **fell by around 5%** on a weekly basis. Other commodities, such as gas, copper and wheat, also recorded significant price declines on a weekly basis.

Within the treasury debt market, we experienced rising yields (price declines), both for the largest Western economies and the peripheral countries. Yields on 10-year US Treasury bonds rose (prices fell) by 27 basis points, ending the week just below the 2% level. A similar scale of movements was seen on German, Spanish and Italian 10-year government bonds. Polish 10-year treasury bonds stood out negatively here, with yields rising (price falling) by almost 60 basis points, ending the week just below the 5% level. To a large extent it was a consequence of the decision taken by the Monetary Policy Council at Tuesday's meeting and the subsequent communication.

The MPC decided to raise the reference rate by 75 basis points to 3.5%. At the same time an updated inflation projection was presented in an announcement, significantly raised due to the outbreak of the war. **During the press conference, the Governor of the National Bank of Poland reaffirmed the "hawkish" stance of the Council in the current conditions.** He said that the upper limit to which rates can rise has moved to "4.5% or even higher". At the same time, Governor Glapinski suggested that, if necessary, even two Council meetings per month might be conducted.

Last week the ECB meeting also took place. There were no surprises as interest rates in the euro area were left unchanged. **The surprise, however, came in the form of a reduction in the asset purchase programme (APP) from the December 2021 plan**, with the Council now targeting purchases of EUR 40bn in April, EUR 30bn in May and EUR 20bn in June. It previously assumed EUR 40 billion on average per month in the second quarter and EUR 30 billion in the third quarter. The purchase will end after the third quarter of this year if incoming data do not indicate any weakening of inflationary pressures in the medium term. Otherwise, the Council will make a further adjustment to the schedule.

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