

15 March 2022

Eyeopener

Inflation likely to fall, but not for long

Today February CPI data, reflecting full effects of anti-inflation shield
 Media: EC unlikely to trigger conditionality mechanism against Poland soon
 CEE currencies stronger, bond yields higher in the region and in core markets

Today we will see Polish inflation data for February and a revision of the January print after adjustment of weights (possibly pushing it 0.1pp higher). According to our forecast, CPI inflation slowed from 9.2% y/y to 8.6% y/y in February. The market consensus calculated at the end of February based on local analysts' forecasts was 8.1% y/y; the current median of forecasts according to Bloomberg is 8.4% y/y with individual forecasts in the 7.7-10.0% range. The decline we expect to see resulted mainly from the full implementation of "anti-inflation shield", while the fundamental price pressure remained strong. Due to the new surge of global commodity prices, in the next months inflation may be going up again and cross 10% y/y around May and June. Also today we will see ZEW index for March summarizing the change of expectations about German economic outlook in response to the outbreak of the war in Ukraine. Prime ministers of Poland, Czechia and Slovenia are to travel to Kyiv today to meet Ukrainian authorities.

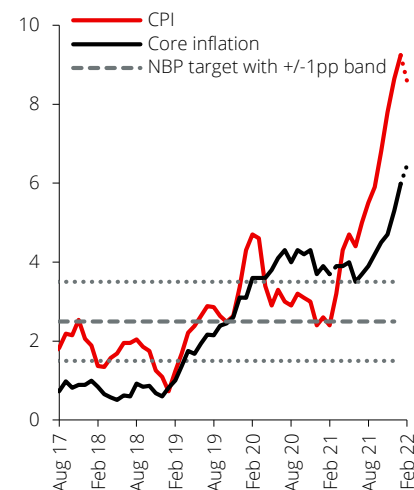
On Monday, global markets were in surprisingly positive mood: European equities were going up, yields of core market bonds were rising fast and the scale of expected rate hikes to be delivered by the Fed still this year almost reached 175bp two days ahead of the FOMC meeting. What is more, oil price dropped by more than 8% and gold price by more than 1%. **EURUSD** recovered from the Friday drop and in the evening was back to 1.10. On Monday diplomats from the USA and China discussed how to end the conflict in Ukraine. The talks covered the issue of US worries that China might support Russia. This morning the new sanctions prepared at the EU summit should be officially announced – according to Bloomberg these will not include purchases and transport of Russian energy commodities, which would explain the Monday market behaviour. The commodity prices may be however affected by today's Reuters news that natural gas flow to Europe through the Yamal pipeline has been suspended.

EURPLN declined clearly at the start of the week and ended the day slightly below 4.75. The daily gain vs. euro reached 0.9%. We suspected that weekend news about new Covid restrictions in China and Russian attack very close to Polish border could make zloty appreciation difficult, but apparently it didn't. Possibly, the currency strengthening was related somehow to the media rumours about European Commission's reluctance to trigger the conditionality mechanism against Poland and Hungary in the near term and signals that the EC may approve Polish recovery and resilience plan in the coming days.

Other CEE currencies appreciated as well: forint by 2% vs euro, Czech koruna by 1.2% (EURHUF declined below 375, EURCZK to 24.9 and both stayed there until the end of the day). Head of the Czech central bank Jiri Rusnok presented estimates that CPI will peak at 13-14% - much higher than suggested by the February inflation projection (which envisaged the peak in 1Q-2Q just below 10%). CNB governor said that interest rate cuts will have to be postponed until 2023.

On the **domestic interest rate market** POLGBs recorded yields rise of c.15bp along the curve. Yields of 10Y bonds in the USA and Germany moved up only slightly less (13bp and 12bp, correspondingly). Markets are preparing for the start of FOMC policy tightening, which is clearly unsupportive for bonds.

Poland CPI inflation and core inflation, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening			
EURPLN	4.7374	CZKPLN	0.1903
USDPLN	4.3100	HUFPLN*	1.2608
EURUSD	1.0996	RUBPLN	0.0388
CHFPLN	4.5854	NOKPLN	0.4760
GBPPLN	5.6133	DKKPLN	0.6363
USDCNY	6.3782	SEKPLN	0.4489

*for 100HUF

Last session in the FX market						14/03/2022
	min	max	open	close	fixing	
EURPLN	4.706	4.782	4.781	4.737	4.747	
USDPLN	4.289	4.383	4.382	4.315	4.322	
EURUSD	1.091	1.099	1.091	1.097	-	

Interest rate market 14/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.52	14
DS0726 (5Y)	5.54	17
DS0432 (10Y)	5.11	14

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.63	5	1.58	7	-0.22	2
2L	5.67	5	2.06	12	0.31	5
3L	5.45	5	2.17	14	0.54	6
4L	5.20	5	2.17	14	0.67	7
5L	5.03	7	2.16	14	0.76	8
8L	4.72	5	2.18	13	0.94	9
10L	4.63	4	2.20	14	1.05	10

WIBOR rates

Term	%	Change (bps)
O/N	3.30	-6
T/N	3.45	-6
SW	3.55	0
2W	3.57	2
1M	3.68	4
3M	4.30	8
6M	4.66	5
1Y	4.77	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.14	3
3x6	5.89	4
6x9	5.97	6
9x12	5.97	6
3x9	6.16	2
6x12	6.20	1

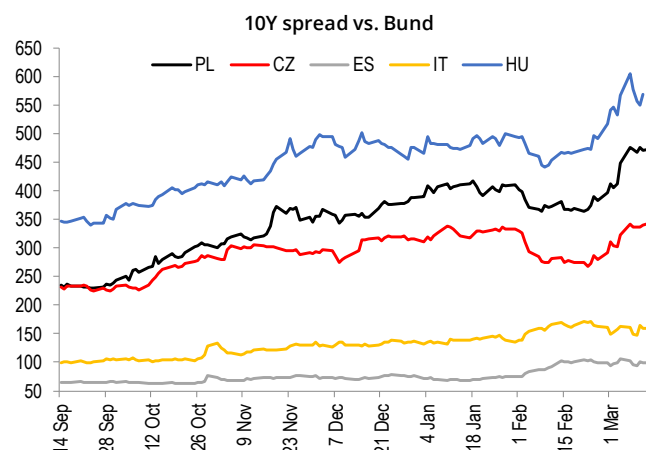
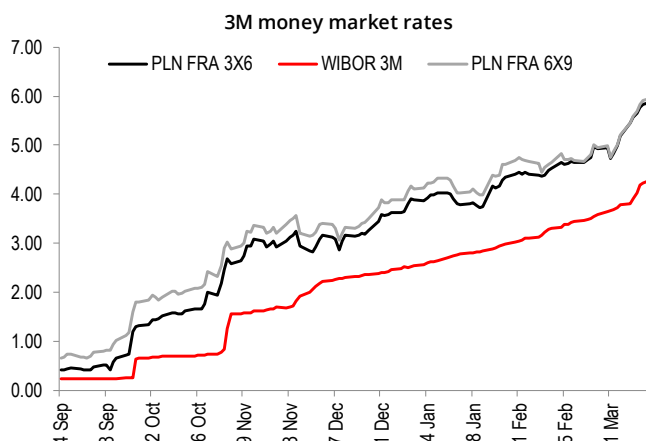
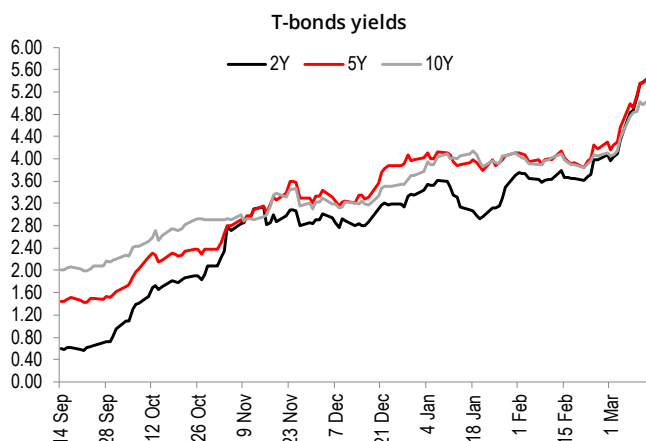
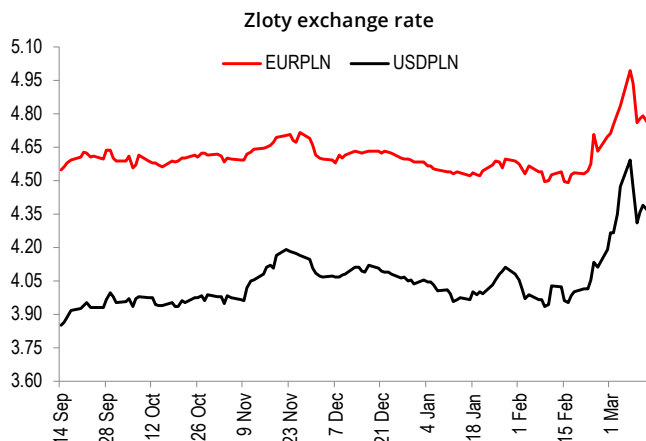
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	474	3
France	13	0	47	0
Hungary	100	0	0	-569
Spain	43	0	98	0
Italy	50	0	159	-1
Portugal	33	0	85	-1
Ireland	14	0	64	0
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 (11 March)								
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	
TUESDAY (15 March)								
10:00	PL	CPI	Feb	% y/y	8.1	8.6	-	9.2
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
WEDNESDAY (16 March)								
13:30	US	Retail Sales Advance	Feb	% m/m	0.3	-	-	3.8
14:00	PL	CPI Core	Feb	% y/y	6.3	6.5	-	5.3
14:00	PL	Current Account Balance	Jan	€mn	-519	-464	-	-3957
14:00	PL	Trade Balance	Jan	€mn	-1406	-1461	-	-2535
14:00	PL	Exports	Jan	€mn	24810	25105	-	24109
14:00	PL	Imports	Jan	€mn	26512	26566	-	26644
19:00	US	FOMC decision	Mar.22		0.50	-	-	0.25
THURSDAY (17 March)								
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
FRIDAY (18 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	2.1	2.2	-	2.3
10:00	PL	Sold Industrial Output	Feb	% y/y	16.2	17.7	-	19.2
10:00	PL	PPI	Feb	% y/y	15.1	15.5	-	7.9
10:00	PL	Average Gross Wages	Feb	% y/y	9.9	10.1	-	9.5
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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