

16 March 2022

Eyeopener

Today Fed will consider the first rate hike

Today FOMC decision, in Poland core inflation and balance of payments data
Inflation declined temporarily in February, January revised up
The first day of Polish bond strengthening since the beginning of war in Ukraine

Today the Fed meeting ends, expected to start the rate hiking cycle. Back in the middle of February markets expected a 50bp move, but the rising geopolitical tension and later the war in Ukraine reduced these expectations to +25bp. At the meeting an update of Fed macroeconomic projections will be provided and a new dot chart, showing opinions of all FOMC members about the scale of tightening the US economy needs. In Poland, balance of payments and core CPI data will be released. Current account deficit in January most likely shrank significantly as compared to previous month (December print set a new record for C/A deficit at almost -EUR4bn), but mainly due to strong seasonality – the 12M rolling deficit is likely to widen again. Core inflation rose again in February to 6.5% y/y according to our estimates. Russia should pay today interest on bonds worth USD100mn. The payment will most likely be made in RUB rather than in USD, but we do not expect it to destabilise markets, because the issue has been discussed for several days.

CPI inflation in Poland fell to 8.5% y/y in February (we predicted 8.6%, Bloomberg consensus 8.4%) from 9.4% y/y in January (revised up from 9.2%). The decline in February resulted in large part from the implementation of the “anti-inflation” shield, which lowered prices of food, fuel and energy. Overall, the result was close to our expectations and do not change our inflation forecast for the coming months: CPI inflation rate is likely to start climbing again since March in response to surge in commodity prices, and may top 10% y/y in June. The data support continuation of interest rate hikes by the MPC, we expect two more hikes by 75bp bringing the reference rate to 5.0% in May. More in [Economic Comment](#).

MPC's Rafal Sura told PAP that the monetary tightening should not be continued to the point where it cools down the economy and may lead to much higher unemployment, even if the MPC's goal is to bring inflation below 3,5% y/y and prevent depreciation of the zloty. **Ludwik Kotecki** said that the MPC should be hiking rates until the inflation goal is met and the dilemma of central bank pushing the economy towards recession might appear only if rates were to go up by additional 300bp or more. The scenario of stagflation is possible in his view, but not certain.

GUS data on foreign trade in goods showed that in January exports were up 13.7% y/y (with exports to Germany rising only 3.7% y/y) and imports were up 25% y/y. On the imports side a high pace of growth was still seen in the value of goods shipped from China (33% y/y), Russia (65% y/y) and the USA (60% y/y). The trade balance with Germany shrank to +EUR1.3bn (the lowest reading since April 2020) while the trade balance with the rest of the Eurozone set a new record at +EUR2.4bn..

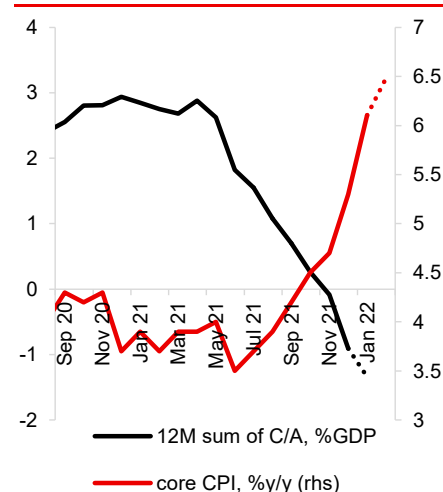
On Tuesday the continuation of Chinese equities selloff did not affect main indices in Europe and USA – the former were almost unchanged and the latter gained c.2%. The second day in a row of sharp decline in oil price (Brent lower c.8%, below 99\$ p/b) and gold losing 2% suggested rising hopes for the end of war in Ukraine. EURUSD rebounded from 1.10 and at the end of the day was near 1.095, where it stood during the previous Asian session. One day before the FOMC meeting there were no signs of rising expectations regarding the scale of possible interest rate hike, and possibly this factor prevented EURUSD from moving higher.

EURPLN extended its Monday's decline to 4.70 and the zloty was the fastest gaining currency in the emerging market universe yesterday. Apparently, it was related to the clear revival in the bond market, where the demand for Polish papers appeared for the first time since the war in Ukraine started. Higher than expected inflation also supported the zloty, just like the persisting hopes that the European Commission may approve Poland's recovery and resilience plan soon. Today EURPLN started the session near 4.69 and the sentiment remains optimistic, after president Zelensky's comment that negotiations on ending war are becoming more 'realistic'.

Other CEE currencies: forint also improved significantly against euro, EURHUF has been declining throughout the day. EURCZK stopped at 24.8 already at the start of the day.

On the **domestic interest rate market** the yields of Polish bonds recorded the biggest daily drop since the war in Ukraine started, even though the initial move was up after the local inflation data was higher than expected. 2Y bonds gained 7bp, the belly and long end of the curve even 16bp and the decline was clearly bigger than on the IRS market (4-6bp). We think the move could have been triggered by the decline of crude oil price and other commodities, which – if does not reverse soon – may cool down expectations for necessary rate hikes and give chances for better economic growth after the fight with inflation is over. Today's FOMC meeting may prevent domestic yields from falling further.

C/A deficit and core inflation



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Marcin Luźniński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening			
EURPLN	4.6941	CZKPLN	0.1887
USDPLN	4.2794	HUFPLN*	1.2576
EURUSD	1.0967	RUBPLN	0.0395
CHFPLN	4.5563	NOKPLN	0.4752
GBPPLN	5.5915	DKKPLN	0.6317
USDCNY	6.3476	SEKPLN	0.4451

*for 100HUF

Last session in the FX market						15/03/2022
	min	max	open	close	fixing	
EURPLN	4.704	4.752	4.737	4.706	4.731	
USDPLN	4.286	4.328	4.313	4.297	4.299	
EURUSD	1.094	1.102	1.098	1.095	-	

Interest rate market 15/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.44	-9
DS0726 (5Y)	5.32	-21
DS0432 (10Y)	4.96	-15

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.55	-8	1.59	1	-0.22	-1
2L	5.60	-7	2.08	1	0.27	-4
3L	5.38	-7	2.17	0	0.50	-4
4L	5.14	-6	2.19	2	0.63	-4
5L	4.95	-8	2.18	2	0.72	-4
8L	4.62	-10	2.20	3	0.91	-2
10L	4.53	-9	2.23	2	1.03	-2

WIBOR rates

Term	%	Change (bps)
O/N	3.30	0
T/N	3.45	0
SW	3.55	0
2W	3.57	0
1M	3.71	3
3M	4.33	3
6M	4.69	3
1Y	4.80	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.06	-8
3x6	5.75	-14
6x9	5.84	-13
9x12	5.84	-13
3x9	6.07	-9
6x12	6.08	-13

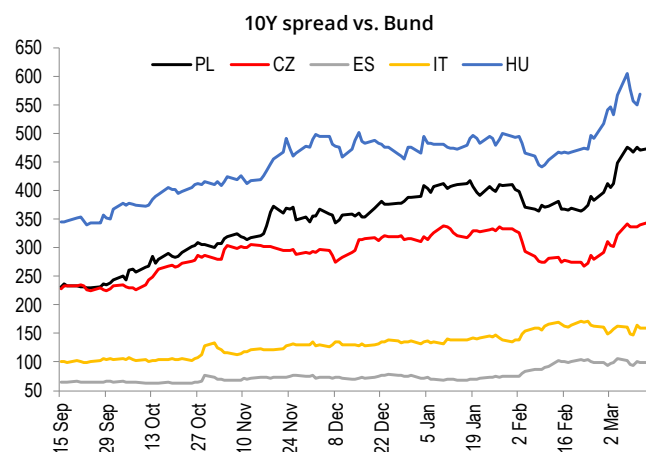
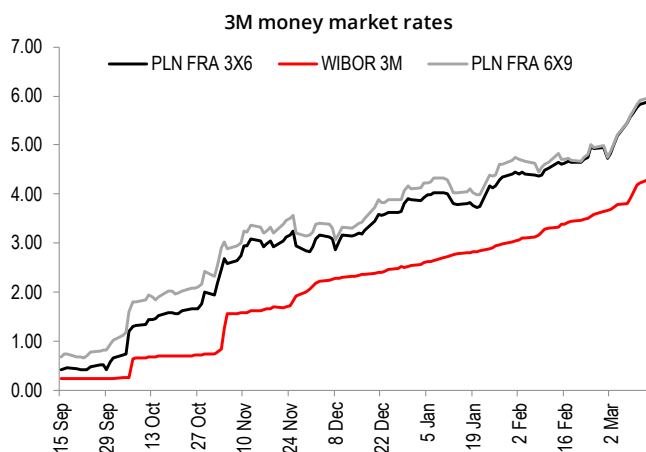
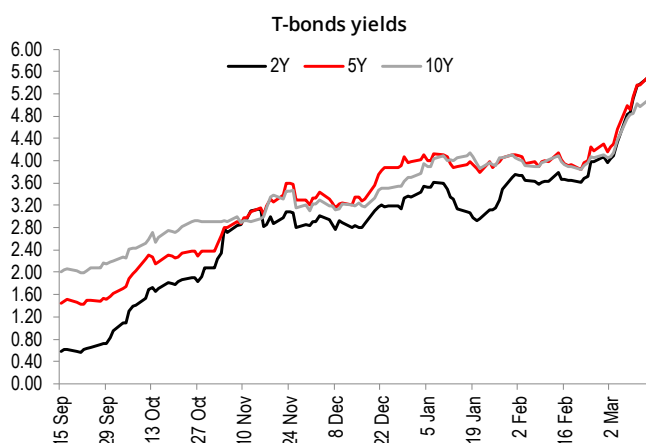
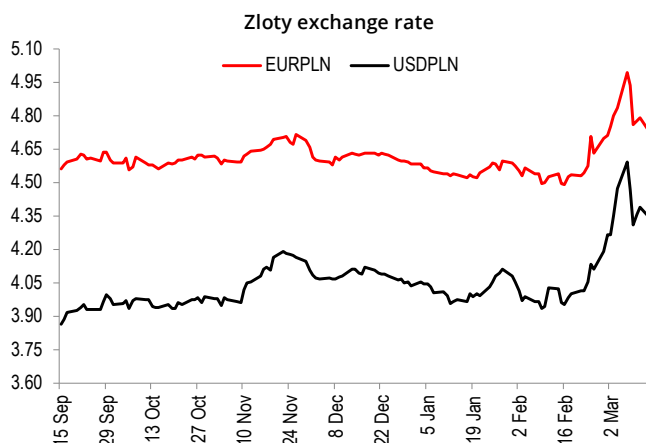
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	463	-11
France	13	0	48	1
Hungary	100	0	0	0
Spain	43	0	99	0
Italy	50	0	158	-1
Portugal	33	0	85	0
Ireland	14	0	63	-1
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	8.5	9.4
11:00	EZ	Industrial Production SA	Jan	% m/m	0.2	-	0.0	1.3
11:00	DE	ZEW Survey Current Situation	Mar	pts	-23.0	-	-21.4	-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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.