

17 March 2022

Eyeopener

Fed started cycle with 25bp rate hike

Fed raised interest rates by 25bp and signalled continuation of cycle
Core inflation reached 6.7% y/y in February, the highest on record
Current account balance moved from the record deficit to almost zero

Today several data releases, including final Eurozone inflation for February and US industrial production for February, may have marginal impact on markets, which will be busy digesting the message coming from the Fed after the meeting held yesterday evening.

The FOMC hiked interest rates by 25bp, as expected. The dot plot describing the path of interest rate preferred by the FOMC members indicated that interest rates may go up by additional 150bp this year – as much as the market has anticipated – and by another 75bp in 2023. Only one out of nine voters (James Bullard) opted for a 50bp hike yesterday. When it comes to the Fed balance sheet reduction, chairman Jerome Powell mentioned that the process will start at the coming meeting. He added that the removal of monetary accommodation may be faster if the FOMC considers it the right thing to do and he expressed plenty of optimism regarding the shape of the US economy.

Core inflation excluding food and energy soared to 6.7% y/y in February, more than expected, from 6.1% y/y in January. Core inflation has reached the highest level since the data are collected (January 2001). Two months in a row the index jumped by 1.0% m/m, which is unprecedented and reflects the strength of the underlying price pressure that existed just before the war in Ukraine started. Three other core inflation measures were even higher, with the highest one – CPI excluding administered prices – at 8.0% y/y in February (down from 8.9% y/y in January). We expect the main core inflation measure to keep climbing in the coming months. In the short run the price dynamic may be strongly affected by a combination of supply disruptions and boost in demand for basic goods and services amid huge inflow of migrants from Ukraine, leading to even higher inflation. However the momentum is likely to wane over time, in our view, as the economy will slow under the impact of likely consumer and business confidence collapse, significant NBP rate hikes and a surge in basic costs of living. So, we would expect core inflation to diverge from the headline CPI in the following quarters – the latter will still be pushed higher by energy and food prices.

Current account balance in January reached -EUR0.06bn vs. market expectations at nearly -EUR0.52bn and our forecast of -EUR0.46bn. This upside surprise may give a sense of relief coming after the record high deficit of almost EUR4bn in December. The January goods trade balance was -EUR1.19bn, some EUR0.3bn higher than we had expected, with imports (at 37.5% y/y) surprising more to the downside than exports (+22.8% y/y). The imports side was still being boosted by expensive commodities (the NBP report states that oil price was up 70% y/y and natural gas up 600% y/y, also mentioning coal, iron and steel). On the exports side the growth drivers were coke, electricity, fertilizer and computers while cars and car batteries were a major drag on growth. In 12M moving sum terms, C/A went deeper below zero (to -1.3% of GDP – the lowest since early 2019, down from -0.9% in December). A further decline of the measure to around -2% by mid-year is likely in our view.

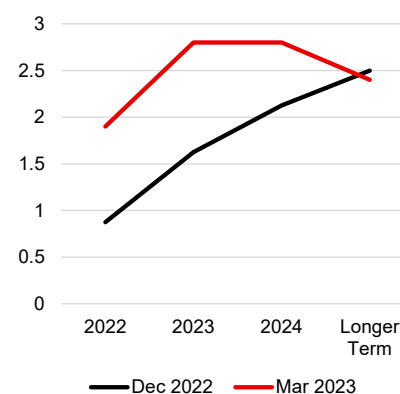
On Wednesday market rebound continued. European equities kept recovering from earlier losses (yesterday up 3-4%). Brent oil, which only one week ago was at \$130, fell another 1.5% to \$98 and gold price retreated to the level seen just before the Russian invasion on Ukraine. EURUSD broke above 1.10, the message from Fed temporarily pushed it lower to 1.097, but today in the morning is again above 1.10. Positive sentiment was based mainly on news about the progress in talks between Russia and Ukraine. The fact that Russia did not pay interest on its dollar bonds did not trigger major market turmoil, as we expected.

EURPLN kept declining, reaching 4.66 during the session and ending the day even slightly lower after the FOMC decision. Even the growing market hopes for ending the war would be enough to push EURPLN lower, but they were joined by core inflation and current account data, both supportive for the currency.

Other CEE currencies also reacted to positive global sentiment and even though were not gaining as quickly as some LatAm currencies, still managed to recover part of earlier losses from the beginning of war – EURCZK has already trimmed 80% of earlier selloff, EURHUF c.70%.

On the **domestic interest rate market** Wednesday was the second day in a row of suddenly reviving demand for Polish bonds across the curve. Yields declined by c.20bp, while on markets abroad better global risk appetite and expectations for Fed decision caused increase of yields by 4-9bp. As a result, in two days spread of Polish 10Y bond yield vs German Bund narrowed to c.40bp from the highest level in 20 years. Spread before the war in Ukraine was still 70bp lower than current level. Also, the market kept correcting the priced-in scale of possible next interest rate hike in Poland – to just below 75bp at the end of the day. Low liquidity, which earlier was causing the debt market to depreciate very quickly, now supported rapid gains.

Median of FOMC dots representing preferred interest rates path in the USA



Source: Fed, Santander

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FX market

Today's opening			
EURPLN	4.6603	CZKPLN	0.1887
USDPLN	4.2203	HUFPLN*	1.2507
EURUSD	1.1039	RUBPLN	0.0402
CHFPLN	4.4841	NOKPLN	0.4735
GBPPLN	5.5589	DKKPLN	0.6260
USDCNY	6.3463	SEKPLN	0.4473

*for 100HUF

Last session in the FX market						16/03/2022
	min	max	open	close	fixing	
EURPLN	4.659	4.712	4.694	4.662	4.706	
USDPLN	4.231	4.292	4.276	4.236	4.283	
EURUSD	1.095	1.104	1.098	1.100	-	

Interest rate market 16/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.25	-19
DS0726 (5Y)	5.13	-19
DS0432 (10Y)	4.77	-19

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.50	-6	1.65	6	-0.20	2
2L	5.53	-7	2.18	10	0.32	5
3L	5.31	-8	2.29	12	0.56	6
4L	5.05	-9	2.28	9	0.66	3
5L	4.87	-8	2.26	8	0.76	4
8L	4.55	-7	2.27	7	0.94	3
10L	4.47	-6	2.28	5	1.05	2

WIBOR rates

Term	%	Change (bps)
O/N	3.34	4
T/N	3.47	2
SW	3.55	0
2W	3.58	1
1M	3.72	1
3M	4.35	2
6M	4.72	3
1Y	4.83	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.12	6
3x6	5.73	-3
6x9	5.76	-8
9x12	5.76	-8
3x9	6.00	-7
6x12	5.95	-13

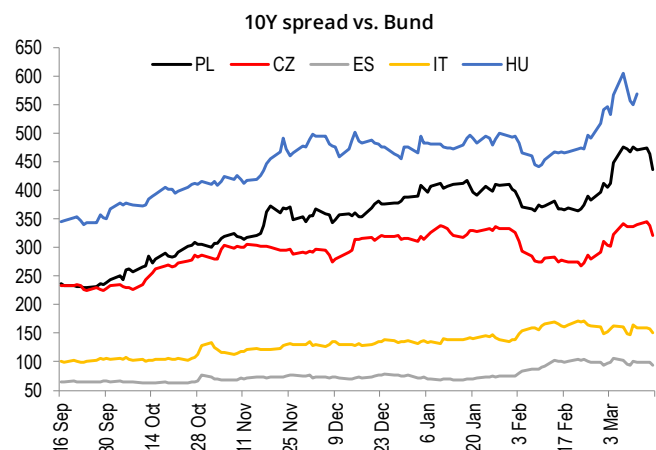
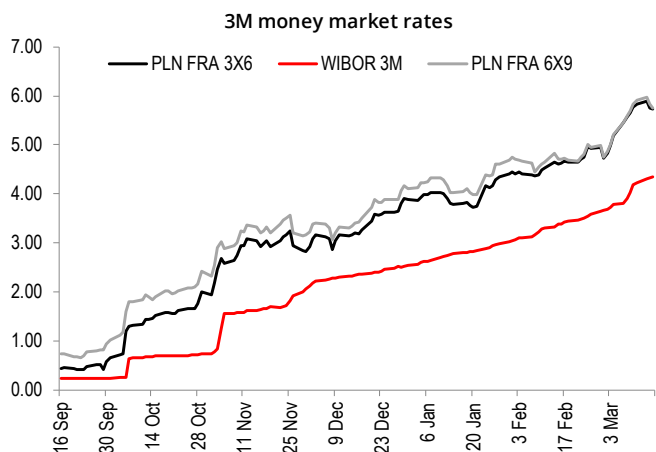
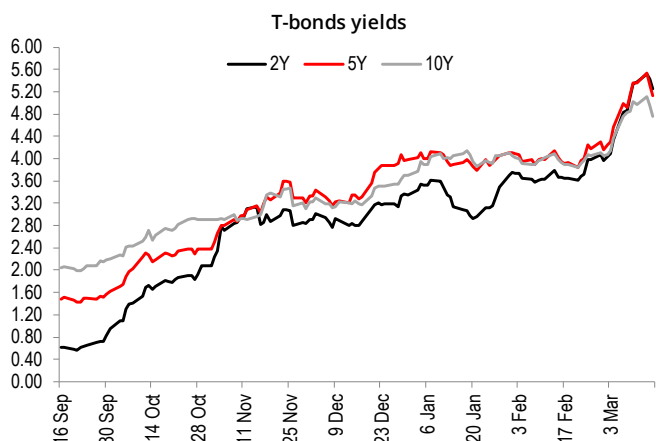
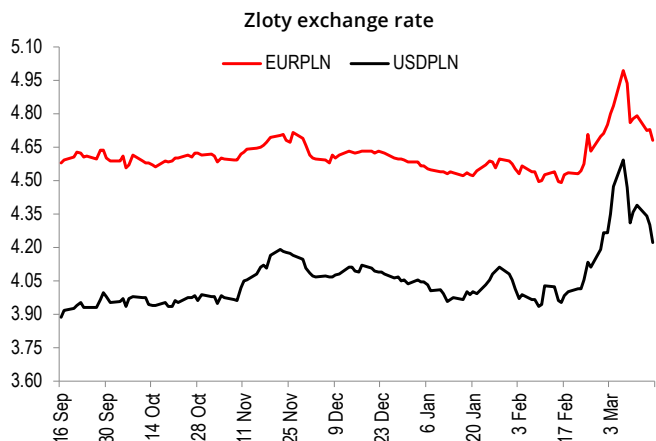
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	437	-26
France	10	-2	46	-2
Hungary	100	0	0	0
Spain	38	-5	95	-4
Italy	48	-2	151	-7
Portugal	28	-5	81	-4
Ireland	15	1	59	-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 (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
11:00	EZ	Industrial Production SA	Jan	% m/m	0.2	-	1.3
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	0.4	-	4.9
14:00	PL	CPI Core	Feb	% y/y	6.3	6.5	6.7
14:00	PL	Current Account Balance	Jan	€mn	-519	-464	-64
14:00	PL	Trade Balance	Jan	€mn	-1406	-1461	-1186
14:00	PL	Exports	Jan	€mn	24810	25105	24669
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	-
10:00	PL	Sold Industrial Output	Feb	% y/y	16.2	17.7	-
10:00	PL	PPI	Feb	% y/y	15.1	15.5	-
10:00	PL	Average Gross Wages	Feb	% y/y	9.9	10.1	-
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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