

18 March 2022

Eyeopener

USD weaker after Fed, dovish hike from BoE

Today Polish industrial production, PPI, wages and employment
Dollar clearly weaker despite hawkish FOMC message
BoE raised rates by 25bp but did not show appetite for more hikes
Bonds stronger again, but the trend weakens

Today we will see Polish data on output, wages, employment and PPI. The former are likely to show still solid results of industry but this will be a snapshot from just before the war and because of this may be less relevant now. What may matter is the growth rate of wages as this is considered one of the channels of upside pressure on inflation. Also today the US and Chinese presidents will discuss the situation in Ukraine. The US is worried that China may be preparing support for Russia in its invasion, which China is denying. We may see investors once again preferring to dispose of open positions in the region before the weekend, which would make the zloty and Polish bonds weaker today.

US industrial output was in line with expectations, but with manufacturing showing a decent 1.2% m/m print. Declines were mostly seen in the output of utilities and car production. US house starts numbers reached in February the highest level since 2006, but there could be weakness ahead due to expected rate hikes and building permits already getting softer. Regional US business sentiment indexes so far did not help much in assessing the response of the US economy to the war in Ukraine and global market turbulence it caused. Philly Fed index jumped much above expectations on stronger new orders, employment and improved deliveries, while Empire index released a couple of days ago disappointed for the third time in a row. Eurozone inflation was a notch higher at 5.9% y/y than its flash reading. Next prints are likely to be even higher when the effect of the new wave of global commodity price hikes hits HICP numbers. Some decline of inflation in the Eurozone may come in 2H22. The Bank of England decided to hike rates by 25bp after 8-1 vote, but contrary to the Fed the decision was accompanied by dovish remarks. In the view of BoE while some more tightening may happen, changes to the inflation outlook may sway the bank's stance in any of the directions. With inflation forecast around 8% and remarks in the statement about wage pressure the bank seemed relaxed about signalling a not-too-distant end of rate hikes. In the evening a news came that Russia eventually serviced its USD-denominated debt in dollars rather than RUB. Still, S&P cut Russia's credit score to CC from CCC- due to the risk of default.

As all the elements of the government anti-inflation shield entered into force in February, **Polish HICP inflation** dropped from 8.7% y/y to 8.1%. At the same time services prices inflation rose to 9.4% y/y. A print as high as this was only seen once in late 2020 and before that the last time these prices grew so fast was before 2001. The share of goods and services in the HICP basket with price growth exceeding the 2.5% y/y central bank target rose in February to 88%.

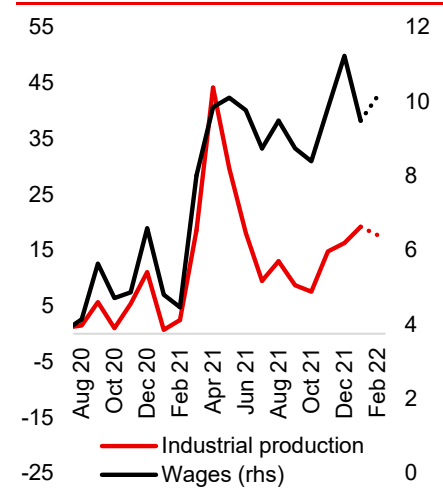
On Thursday Russia denied news that there was progress in negotiations with Ukraine that could end the Russian invasion. While it made the markets shed expectations that the worst in this conflict is behind us, it did not trigger as large market swings as the war-related news flow of the previous weeks. The markets were also affected by the Wednesday Fed decision. European stock exchanges stopped rising, but the US ones saw the third day of indices going up by at least 1%. Bond prices on core markets also stopped moving. Oil price jumped some 9%. EURUSD crossed 1.11 without any struggle but at the end of the day was slightly below the level, one hypothesis to explain this could be clearing of long USD positions built ahead of the FOMC meeting.

EURPLN amid lack of new signals that fighting in Ukraine may be stopped halted its decline and stabilised near 4.68. New strong data from Polish economy expected today could be supportive for the currency, but we think that just before the weekend investors may be closing positions, just like they did in the previous two weeks, so EURPLN may exceed 4.70.

Other CEE currencies just like the zloty were yesterday among top performing EM currencies, gaining c.1% versus dollar and losing slightly against euro. Hungarian central bank did not raise its weekly deposit rate this time (5.85%).

On the **domestic interest rate market** there was no more clear downward move of bond yields, which took place in the previous two days. Yet, at the end of the day yield curve was slightly lower than on Wednesday, which – amid 2-3bp rise of IRS curve – was enough to narrow asset swap spreads (5Y ASW fell by 30bp in one week). Spreads to core market bonds also narrowed. Uncertainty about the situation in Ukraine remains an important factor for the market and it cannot be ruled out that – similarly to FX market – the end of the week may see some correction of Polish bond prices due to position closing.

Polish industrial output and wages in the corporate sector, %/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6901	CZKPLN	0.1889
USDPLN	4.2371	HUFPLN*	1.2481
EURUSD	1.1075	RUBPLN	0.0409
CHFPLN	4.5135	NOKPLN	0.4808
GBPPLN	5.5638	DKKPLN	0.6295
USDCNY	6.3559	SEKPLN	0.4485

*for 100HUF

Last session in the FX market						17/03/2022
	min	max	open	close	fixing	
EURPLN	4.656	4.695	4.661	4.674	4.688	
USDPLN	4.195	4.255	4.227	4.200	4.240	
EURUSD	1.102	1.113	1.102	1.113	-	

Interest rate market 17/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.22	-2
DS0726 (5Y)	5.11	-2
DS0432 (10Y)	4.76	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.54	4	1.63	-2	-0.24	-4
2L	5.55	2	2.16	-2	0.27	-6
3L	5.34	3	2.24	-5	0.49	-7
4L	5.08	3	2.23	-5	0.63	-3
5L	4.90	3	2.23	-3	0.72	-3
8L	4.58	3	2.23	-4	0.90	-4
10L	4.51	4	2.26	-2	1.01	-4

WIBOR rates

Term	%	Change (bps)
O/N	3.22	-12
T/N	3.50	3
SW	3.55	0
2W	3.57	-1
1M	3.74	2
3M	4.37	2
6M	4.75	3
1Y	4.85	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.14	2
3x6	5.73	1
6x9	5.82	6
9x12	5.82	6
3x9	6.00	0
6x12	6.02	6

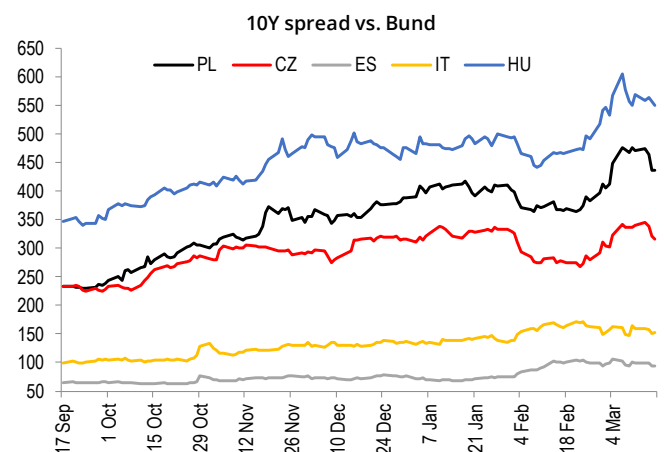
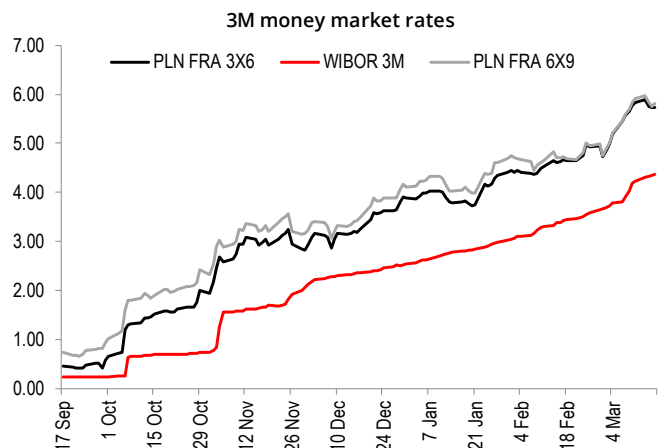
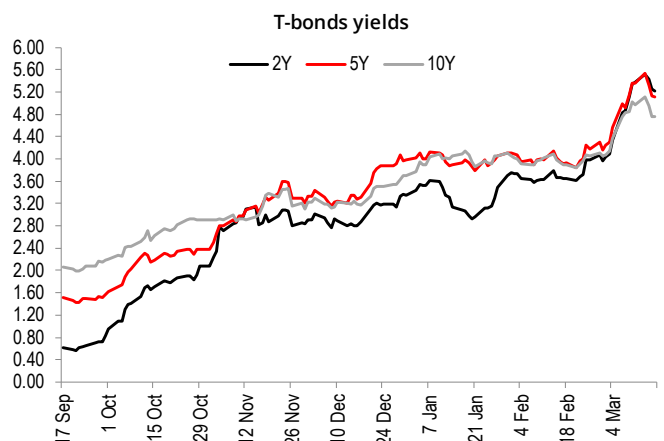
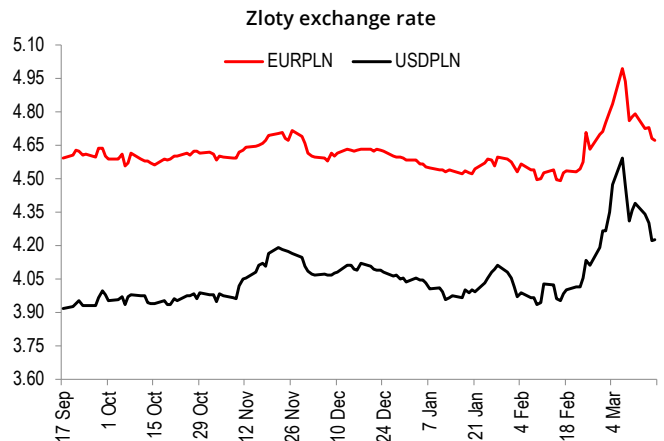
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	437	0
France	10	0	45	-1
Hungary	100	0	550	-6
Spain	38	0	95	0
Italy	48	0	152	1
Portugal	28	0	83	2
Ireland	14	-1	58	-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	0.4	-	0.3	4.9
14:00	PL	CPI Core	Feb	% y/y	6.3	6.5	6.7	5.3
14:00	PL	Current Account Balance	Jan	€mn	-519	-464	-64	-3957
14:00	PL	Trade Balance	Jan	€mn	-1406	-1461	-1186	-2535
14:00	PL	Exports	Jan	€mn	24810	25105	24669	24109
14:00	PL	Imports	Jan	€mn	26512	26566	25855	26644
19:00	US	FOMC decision	Mar.22		0.50	-	0.50	0.25
THURSDAY (17 March)								
11:00	EZ	HICP	Feb	% y/y	5.8	-	5.9	5.1
13:30	US	Initial Jobless Claims	Mar.22	k	215	-	214	229
13:30	US	Housing Starts	Feb	% m/m	3.8	-	6.8	-5.5
13:30	US	Index Philly Fed	Mar		15.0	-	27.4	16.0
14:15	US	Industrial Production	Feb	% m/m	0.5	-	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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