

21 March 2022

## Eyeopener

### New February's data today

Today construction output and retail sales data for February  
Industrial production and wage growth surprised positively  
Confirmation of hawkish message by several FOMC members unnoticed

**Today** data on construction output and retail sales for February will be released and we think these will come quite strong (although our construction output forecast is much below the consensus). However, this week the focus will rather be on business sentiment indicators for March (GUS, PMI, Ifo) and on the chances of Poland's recovery plan approval.

**MPC's Wiesław Janczyk** said that due to the very high uncertainty he would assume now a more cautious approach to monetary policy at the next meetings. The council's appetite for monetary tightening has decreased in his view due to stronger PLN and the belief that for now inflation should be under control. **Ludwik Kotecki** told Rzeczpospolita daily that the new projection overestimated GDP growth and underestimated inflation. In his view at the April meeting the MPC will for sure discuss a rate hike and its size. The increase of fiscal deficit will in his view mean that the burden of fighting inflation will fall on monetary policy to a greater extent.

PM Mateusz Morawiecki said that as part of the **anti-Putin shield**, the Polish operator of natural gas pipelines, Gaz-System will get PLN3bn capital injection for infrastructure investments and farmers will get subsidies of PLN500 per hectare, for farms up to 50ha area of their fields, for fertilizer purchases. According to the Ministry of Agriculture the budget of the fertilizer subsidy program is going to be PLN3.9bn, it needs to be approved by the EC first and will only cover farmers threatened with loss of liquidity due to the pandemic. What is more, the president signed into law the homeland defence bill which means that still this year the defense budget has to be increased to 2.2% GDP.

**Industrial production** rose strongly in February (17.6% y/y), **employment** went up (2.2% y/y) and **wages** accelerated (11.7% y/y), all confirming that just before the war in Ukraine started Polish economy was running at high gear. It was accompanied by very high cost pressure in industry, as **PPI growth** beat expectations once again (15.9% y/y in February). It was a snapshot of economic situation from before the Russian invasion and it is likely that economic growth will slow while cost pressure may even intensify in the coming months. The labour market situation will be more complex, as the huge inflow of migrants (at this stage mainly women and children) may imply that some sectors of the economy (probably mainly services) will be flooded by new job candidates, while in others, relying mainly on male workforce (in the first place construction, transport, logistics, heavy industries), the shortage of staff may even deepen as thousands of male Ukrainians went back to their country to fight. From the central bank's point of view, the data support continuation of monetary tightening cycle. More in [Economic Comment](#).

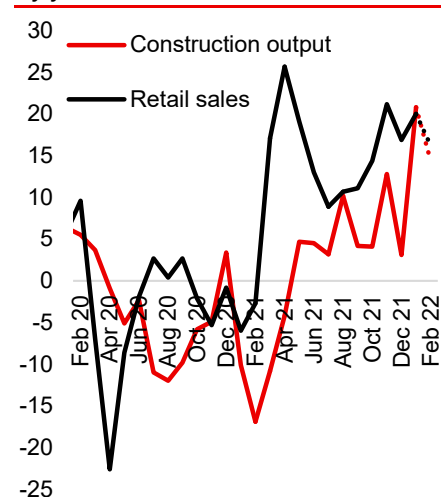
**Friday's** talks Biden-Xi did not trigger any major market move. Several hawkish comments of FOMC members appeared but – just like after the Wednesday's Fed decision and Powell's press conference – the market perversely reacted to them by weakening dollar and rebound in equities. Bullard would like to hike rates this year above 3% (market is pricing-in 2%), Waller said the data require 50bp rate hike but geopolitics stands in way, Barkin said he was open for 50bp rate moves, and even dovish so far Kashkari would back rate hikes to 1.75%-2%. EURUSD did not stay at 1.11 but also did not show large downward momentum (1.105 at the end of the day, similar today in the morning).

**EURPLN** moved up on Friday morning to 4.70-4.72 range. We do not know how the conflict develops and if or when Russia decides to escalate it. If it does not happen, the zloty may gain even more, possibly returning to 4.60-4.65 vs. the euro, where it was in late 2021. The appreciation would be even more likely if there is confirmation of the approval of Polish recovery plan by the EC and there are credible signals that the legislation liquidating the Disciplinary Chamber has the green light in the parliament.

**Other CEE currencies** also suffered from investors' retreat, which could have resulted from closing open positions before the weekend. As a result, they underperformed other EM currencies on Friday (CZK lost 0.5% vs euro, HUF 1%). Central bank of Russia kept main interest rate at 20%. Forint is preparing for tomorrow's MNB decision and judging by range of expectations: between 50bp and 100bp rate hike, it must not be a calm anticipation.

On the **domestic interest rate market** bond yields declined again, leading to further narrowing of spread vs. Bund and asset swap spread for 5Y and 10Y (both below 20bp). If PLN strengthens (working against inflation), then expectations about the scale of NBP rate hikes should go down, which would support POLGBs. Room for the fall of domestic yields may be limited by the prospects of more supply of government bonds due to higher fiscal deficit (costs of anti-inflation measures, helping migrants).

Polish construction output and retail sales, %y/y



Source: GUS, Santander

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**FX market**

Today's opening			
EURPLN	4.6982	CZKPLN	0.1892
USDPLN	4.2510	HUFPLN*	1.2423
EURUSD	1.1049	RUBPLN	0.0405
CHFPLN	4.5748	NOKPLN	0.4870
GBPPLN	5.6102	DKKPLN	0.6327
USDCNY	6.3624	SEKPLN	0.4523

\*for 100HUF

Last session in the FX market						18/03/2022
	min	max	open	close	fixing	
EURPLN	4.676	4.733	4.687	4.704	4.722	
USDPLN	4.216	4.286	4.228	4.253	4.271	
EURUSD	1.100	1.109	1.108	1.106	-	

**Interest rate market** 18/03/2022

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.23	1
DS0726 (5Y)	5.12	1
DS0432 (10Y)	4.74	-2

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.55	1	1.66	4	-0.22	2
2L	5.56	1	2.17	2	0.27	1
3L	5.36	2	2.28	4	0.49	0
4L	5.11	3	2.25	2	0.63	0
5L	4.92	3	2.22	0	0.73	0
8L	4.61	3	2.21	-2	0.91	0
10L	4.52	0	2.24	-2	1.01	0

**WIBOR rates**

Term	%	Change (bps)
O/N	3.44	22
T/N	3.50	0
SW	3.55	0
2W	3.57	0
1M	3.78	4
3M	4.40	3
6M	4.77	2
1Y	4.87	2

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	5.16	3
3x6	5.73	0
6x9	5.82	0
9x12	5.83	0
3x9	6.00	0
6x12	6.03	2

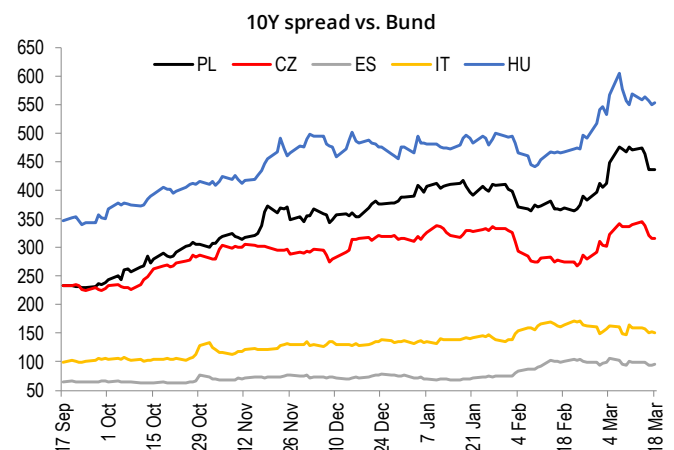
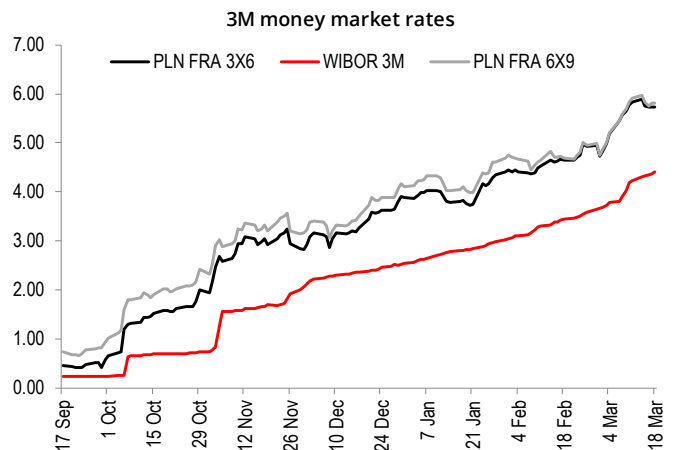
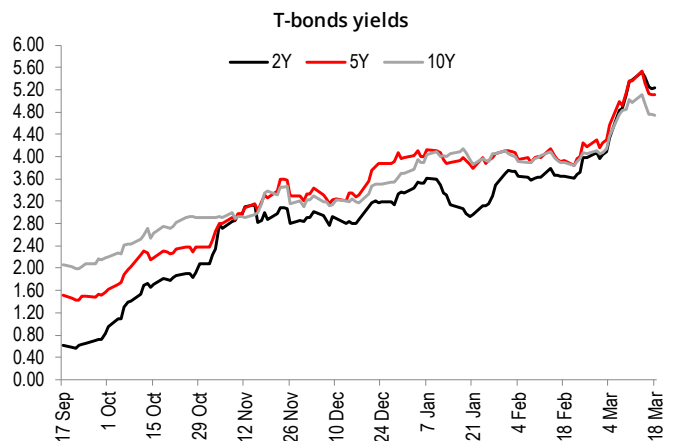
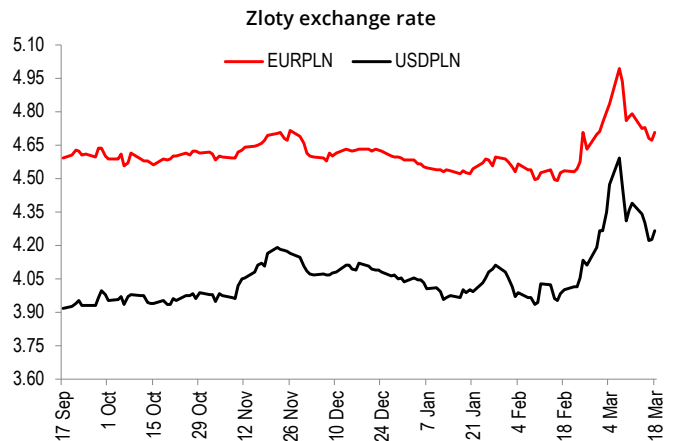
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	437	0
France	10	0	46	1
Hungary	100	0	554	4
Spain	38	0	95	0
Italy	48	0	151	-1
Portugal	28	0	82	-1
Ireland	14	0	60	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		
<b>FRIDAY (18 March)</b>								
10:00	PL	Employment in corporate sector	Feb	% y/y	2.15	2.2	2.2	2.3
10:00	PL	Sold Industrial Output	Feb	% y/y	16.8	17.7	17.6	19.2
10:00	PL	PPI	Feb	% y/y	15.2	15.5	15.9	16.1
10:00	PL	Average Gross Wages	Feb	% y/y	9.9	10.1	11.7	9.5
15:00	US	Existing Home Sales	Feb	% m/m	-6.2	-	-7.2	6.6
<b>MONDAY (21 March)</b>								
10:00	PL	Construction Output	Feb	% y/y	23.7	14.4	-	20.8
10:00	PL	Retail Sales Real	Feb	% y/y	8.3	8.2	-	10.6
<b>TUESDAY (22 March)</b>								
14:00	HU	Central Bank Rate Decision	Mar.22	%	4.40	-	-	3.40
14:00	PL	Money Supply M3	Feb	% y/y	7.9	8.1	-	7.7
<b>WEDNESDAY (23 March)</b>								
10:00	PL	Unemployment Rate	Feb	%	5.5	5.5	-	5.5
15:00	US	New Home Sales	Feb	% m/m	1.8	-	-	-4.5
<b>THURSDAY (24 March)</b>								
09:30	CH	SNB rate decision		%	-0.75			-0.75
09:30	DE	Germany Manufacturing PMI	Mar	pts	56.3	-	-	58.4
09:30	DE	Markit Germany Services PMI	Mar	pts	54.8	-	-	55.8
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	57.5	-	-	58.2
10:00	EZ	Eurozone Services PMI	Mar	pts	55.0	-	-	55.5
13:30	US	Durable Goods Orders	Feb	% m/m	-0.6	-	-	1.6
13:30	US	Initial Jobless Claims	Mar.22	k	220	-	-	214
<b>FRIDAY (25 March)</b>								
10:00	DE	IFO Business Climate	Mar	pts	94.1	-	-	98.9
15:00	US	Michigan index	Mar	pts	59.7	-	-	59.7
15:00	US	Pending Home Sales	Feb	% m/m	1.0	-	-	-5.7

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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