

22 March 2022

Eyeopener

Weak start of the week for bonds

Today M3 money supply, Hungary taking decision on rates
 Government wants to loosen fiscal rules
 Construction output still strong in February, sales – with some reservations
 Hawkish Powell and rising oil prices affect market sentiments

Today money supply data for February will be released, where we expect to see a rebound after an unexpected slowdown in January. An important factor in this rebound will be the exchange rate, raising the PLN-value of FX loans. Data are also likely to show substantial cash withdrawals at the end of the month.

Yesterday during the meeting with opposition the government proposed to **relax fiscal rules**, justifying it by “the need to reinforce the army”. According to the government spokesman, the proposal assumes to exclude spending on army from the debt limits and “it requires a change of the constitution”. The details have not been shown yet. We think the changes of the key rules regarding safety of the public finances should not be made in a hurry and require a public debate. The rise in military spending resulting from the newly adopted law (to 3% of GDP since 2023) by no means threatens to breach the currently existing debt thresholds without major fiscal expansion in other areas. Public debt according to domestic definition reached probably c. 45% of GDP at the end of 2021 and the military spending alone is not able to push it higher in the environment of nearly 10-percent nominal GDP growth in the next two years. The proposal to tweak fiscal rules in a hurry seems like an attempt to dismantle the fiscal breaks using the excuse of threat from Russia.

In February Polish **retail sales** growth in constant prices was 8.1% y/y. While the headline growth of retail sales was almost in line with expectations we are surprised to see that contribution of fuel was much higher (2.9pp to y/y headline growth instead of 1.2pp), all other key categories were weaker than we had assumed. Next readings will be supported by extra demand due to massive refugee inflow but dampened by the purchasing power erosion due to very high inflation. **Construction output** soared 21.2% y/y in February, similar to the previous reading, but going forward the large outflow of Ukrainian construction workers as well as accessibility and prices of building of materials may prove as significant supply constraints. See more in [Economic comment](#).

On Monday equity markets have not chosen any clear direction – they were stuck between the comments of Jerome Powell speaking in the evening that the outlook for the US economy is solid and his words that more aggressive rate hikes than 25bp at a time are possible if FOMC deems it is needed, and war in Ukraine pushing crude oil price up again (Brent +\$5 per barrel, again above \$115). Core debt markets did pick direction and yields soared by 5-10bp in Germany and 14-18bp in the USA.

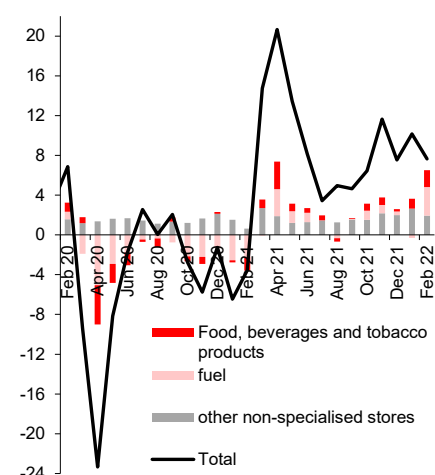
EURUSD was gradually moving lower, today breached 1.10.

EURPLN moved from above 4.71 to below 4.70 after the solid local data, reversing the similar sharp move from Friday which we linked to investors’ need to reduce exposure to the CEE region ahead of the weekend.

Other CEE FX (the forint and the koruna) also performed quite well yesterday, showing gains vs. the euro of 0.4-0.7%, which was enough to place them among the best EM currencies. On the other hand, the ruble was down 2.5% vs. the dollar. The strong entry into the week for the koruna was granted by the weekend remark by CNB head that fx interventions may be used to strengthen CZK and depress inflation. Yesterday Tomas Holub from CNB board seemed less convinced about interventions but admitted he wants to support a rate hike of at least 50bp at the 31 March meeting. Today the Hungarian central bank decides on rates. The market views are split almost in half if it is going to be +50bp (like the previous two decisions) or +100bp.

On the interest rate market the inflow of fresh demand that lead to falling yields in 2H of last week seems to have waned. On Monday there was a significant move in the opposite direction, the whole bond curve rose by over 20bp in yield, with the IRS curve up some 10bp. FRA rates have also started to rise again and the correlation with oil price moves is apparent. The test if the demand seen last week is a sign of different market approach will be this Friday at the bond auction.

Poland retail sales, y/y growth contribution of selected categories



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6919	CZKPLN	0.1892
USDPLN	4.2783	HUFPLN*	1.2547
EURUSD	1.0966	RUBPLN	0.0429
CHFPLN	4.5641	NOKPLN	0.4853
GBPPLN	5.6102	DKKPLN	0.6327
USDCNY	6.3638	SEKPLN	0.4492

*for 100HUF

Last session in the FX market						21/03/2022
	min	max	open	close	fixing	
EURPLN	4.675	4.715	4.708	4.695	4.693	
USDPLN	4.225	4.272	4.264	4.250	4.244	
EURUSD	1.102	1.107	1.104	1.104	-	

Interest rate market 21/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.43	20
DS0726 (5Y)	5.30	19
DS0432 (10Y)	4.94	21

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.63	8	1.80	13	-0.21	2
2L	5.67	11	2.34	16	0.33	6
3L	5.46	10	2.43	15	0.57	7
4L	5.21	11	2.41	16	0.70	7
5L	5.03	11	2.40	17	0.80	7
8L	4.72	12	2.35	14	0.99	8
10L	4.64	12	2.39	14	1.09	8

WIBOR rates

Term	%	Change (bps)
O/N	3.46	2
T/N	3.49	-1
SW	3.55	0
2W	3.59	2
1M	3.82	4
3M	4.43	3
6M	4.79	2
1Y	4.90	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.20	4
3x6	5.82	9
6x9	5.93	11
9x12	5.93	11
3x9	6.11	11
6x12	6.15	12

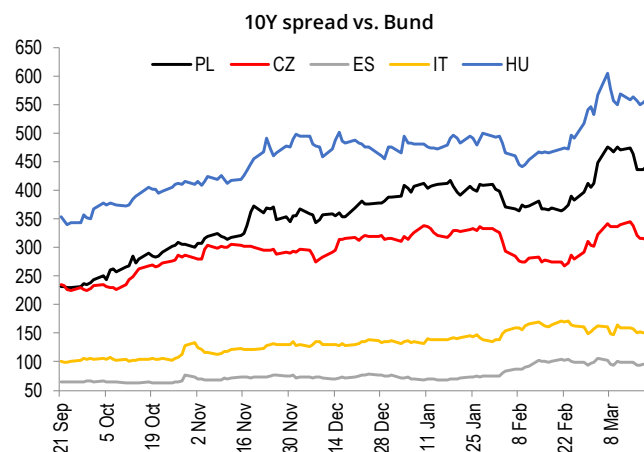
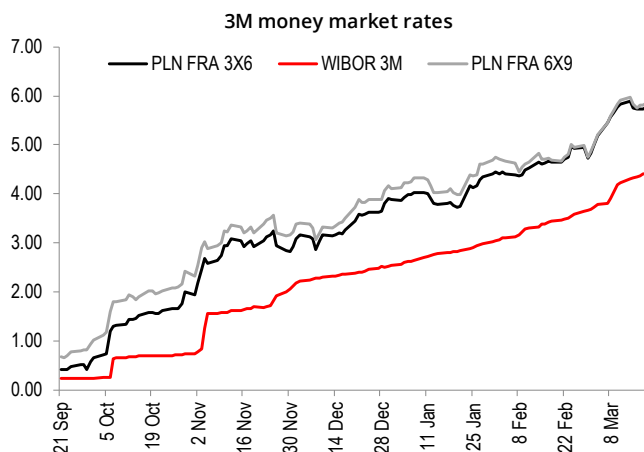
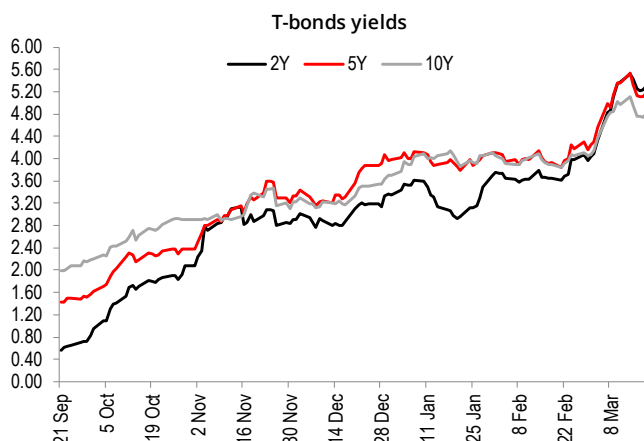
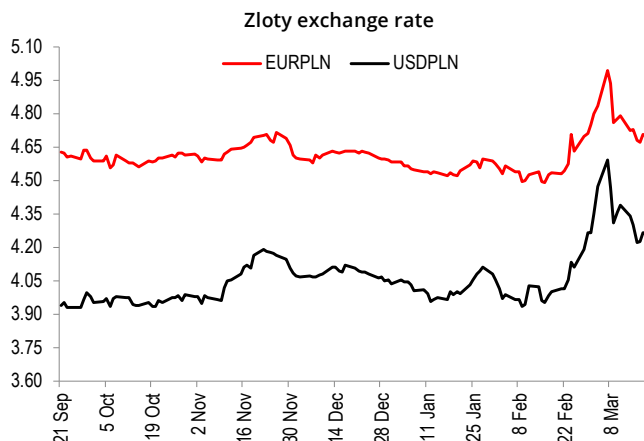
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	83	2	450	13
France	11	1	46	0
Hungary	97	-3	569	15
Spain	42	3	94	-1
Italy	48	0	153	1
Portugal	30	2	81	0
Ireland	15	1	60	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 (18 March)								
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
MONDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	23.7	14.4	21.2	20.8
10:00	PL	Retail Sales Real	Feb	% y/y	8.3	8.2	8.1	10.6
TUESDAY (22 March)								
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
WEDNESDAY (23 March)								
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
THURSDAY (24 March)								
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
FRIDAY (25 March)								
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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