

23 March 2022

Eyeopener

Big minus in central budget in February

Today consumer sentiments, including inflation expectations in March
Economic sentiment worse in March, but no collapse
Big minus in central budget in February after strong January
Hungary hiked rates by 100 bp

Today data on consumer confidence for March. The survey was conducted in the period of quickly growing fears about the spread of war in Ukraine, fast depreciation of the zloty and fuel prices going up fast every day. We think that the circumstances led to worse consumer sentiment and its current situation indicator dropped to the lowest level since May 2020. We will also see the reaction of consumer inflation expectations – if they were stable after the first month of active anti-inflation shield despite the highly inflationary environment. GUS will also show data on corporate results of companies employing 50+ persons for 4Q21 – these will be interesting because despite the high cost pressure the two previous readings had record high profits and historically high levels of average profit margins.

According to the Minister of Development and Technology Piotr Nowak “there is political consent in the European Commission to approve **the Polish recovery plan**” and this should happen soon. The government spokesman denied and said there is still no EC decision on this.

M3 money supply rose in February by 8.0% y/y, close to our expectations (8.1% y/y). The Russian invasion on Ukraine made many deposit holders withdraw cash, making cash in circulation accelerate to 13.6% y/y from 9.4% y/y. The amount of cash in circulation rose by PLN15.7bn m/m, much less than in the record March 2020 (PLN26.3bn). We think that the withdrawals were also large in March. Due to the cash demand deposit growth eased in February to 6.8% y/y from 7.4% y/y. Household deposits slowed down to 4.7% y/y from 6.5% y/y, but corporate deposits went from 7.6% y/y to 7.9% y/y. There was also a distinct rise of the share of FX deposits in total deposits (to 13.5% from 13.0%). Credit growth adjusted for FX changes went to 4.8% y/y from 4.1%. Loans to individuals decelerated to 4.7% y/y from 5.0% y/y with all sub-categories slowing down. This slowdown can extend to next months on the uncertainty caused by the war. Corporate credit accelerated to 5.9% y/y from 3.3%, with working capital loans up to 15.9% y/y from 12.9% y/y and investment loans up to 2.0% y/y from 1.2% y/y.

In March **business sentiment indicators** for most of the sectors worsened in response to the outbreak of the war in Ukraine. The indicator for transport dropped the most, by 9.3pts, while the ones for manufacturing, construction, retail trade and finance went down by more than 6pts. The monthly declines were significant but not as striking as in April 2020 in response to the outbreak of the pandemic (down 40pts on average). Business sentiment in hotels and restaurants remained unchanged and this was the only sector showing no deterioration.

The central budget had a record PLN22.3bn surplus in January but in February there was a record deficit of PLN11bn in monthly terms (excluding Decembers). This means that the budget is still in PLN11.3bn surplus after February. In our view the reasons for this were the introduction of the anti-inflation shield, corrections of excessive PIT tax collection in the first month of the Polish Deal reform (e.g. PIT revenues dropped by 1.9% y/y in February after a rise by 51.8% y/y in January). Also the social security fund received a large subsidy of PLN6.4bn vs. PLN0.3bn a year earlier and PLN3bn on average in Februaries of the previous years.

MPC's Cezary Kochalski thought there was still room for gradual rate hikes. We are expecting rates to go to 5% in two moves by 75bp.

The Fitch rating agency lowered Poland's GDP growth forecast for 2022 and 2023 to 3.3% from 4.3% and 3.5%, respectively. At the end of 2022 inflation is expected at 10% and at 6.5% at the end of 2023. The agency expects the NBP to raise rates to 5% this year already and to maintain rates unchanged through 2023.

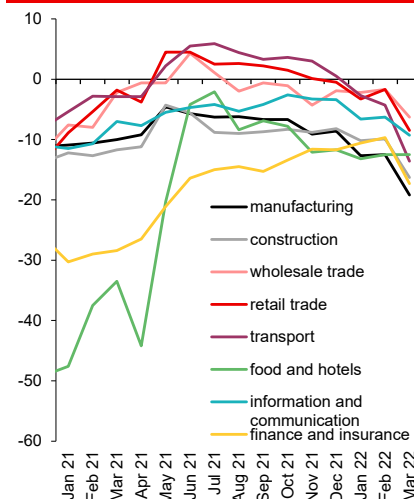
On Tuesday stock indices went up despite further hawkish comments from the Fed (Bullard, but also Daly), Brent price stopped at 115\$ per barrel. EURUSD failed to stay below 1.10 until the end of the day.

EURPLN gained 0.4% versus the euro and is on the way to enter 4.60-65 range, which we were highlighting recently.

Other CEE currencies: EURCZK was stable at 24.7. The forint gained 0.9% versus the euro. The Hungarian central bank (MNB) increased interest rates by 100bp, with the main rate reaching 4.40%, after two consecutive hikes by 50bp. Total scale of rate hikes since May 2021 is 380bp. Bank's inflation forecasts moved from 4.7-5.1% to 7.5-9.8% and GDP growth forecasts went down to 2.5-4.5% from 4-5%. Still, fighting inflation is a crucial task for the MNB, thus the declaration to increase the scale and time span of the hiking cycle.

The interest rate market again saw sell-off of bonds, so the yield curve moved upwards by 15bp. Core market yields also moved up (by 3bp for 10Y Bund and 9bp for 10Y UST). Daily change in IRS rates was stronger than in yields and this was rather unusual. Qualitatively speaking, this upward move was driven by other factors than last week's sell-offs – rising ASW spreads and against gaining German and US papers. The Finance Ministry narrowed its indicative offer for the Friday's auction to PLN3-5bn from PLN3.7bn.

Sectoral business sentiment, SA



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6738	CZKPLN	0.1887
USDPLN	4.2423	HUFPLN*	1.2484
EURUSD	1.1022	RUBPLN	0.0408
CHFPLN	4.5351	NOKPLN	0.4835
GBPPLN	5.6226	DKKPLN	0.6281
USDCNY	6.3754	SEKPLN	0.4488

*for 100HUF

Last session in the FX market						22/03/2022
	min	max	open	close	fixing	
EURPLN	4.672	4.702	4.697	4.679	4.698	
USDPLN	4.237	4.283	4.277	4.246	4.272	
EURUSD	1.096	1.105	1.098	1.102	-	

Interest rate market 22/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.57	14
DS0726 (5Y)	5.46	15
DS0432 (10Y)	5.08	13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.74	11	1.83	4	-0.20	1
2L	5.81	15	2.39	6	0.38	5
3L	5.62	16	2.50	6	0.63	6
4L	5.38	16	2.49	8	0.76	6
5L	5.22	19	2.45	6	0.85	4
8L	4.91	19	2.45	10	1.02	4
10L	4.83	19	2.46	7	1.13	3

WIBOR rates

Term	%	Change (bps)
O/N	3.34	-12
T/N	3.50	1
SW	3.55	0
2W	3.60	1
1M	3.81	-1
3M	4.46	3
6M	4.81	2
1Y	4.92	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.29	9
3x6	5.92	9
6x9	6.09	16
9x12	6.12	19
3x9	6.19	8
6x12	6.31	16

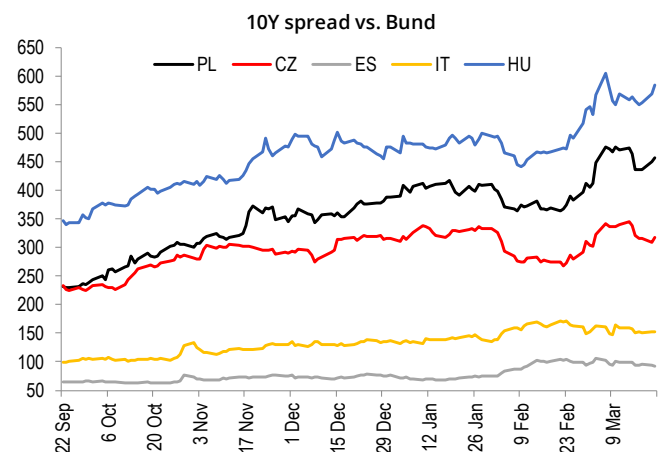
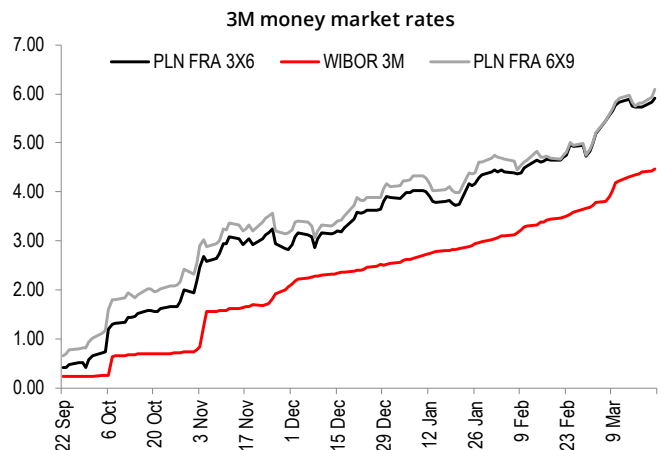
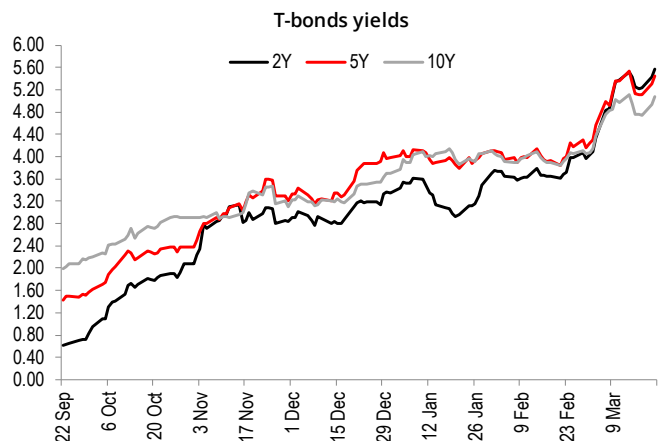
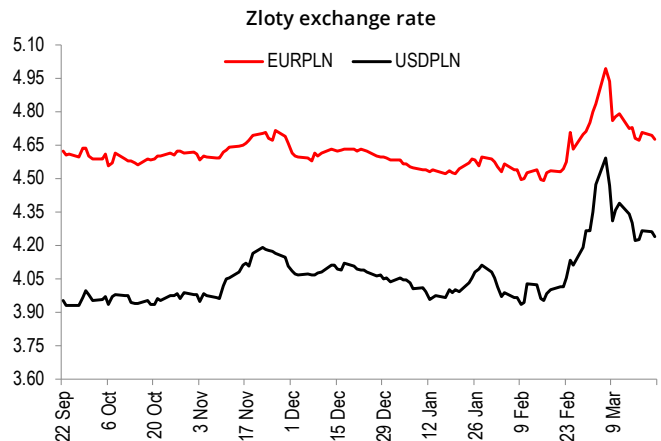
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	83	0	457	7
France	13	2	46	0
Hungary	97	0	583	14
Spain	41	-1	93	-2
Italy	52	4	153	0
Portugal	31	0	80	-1
Ireland	15	0	57	-2
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	-	4.40	3.40
14:00	PL	Money Supply M3	Feb	% y/y	7.9	8.1	8.0	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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