

25 March 2022

Eyeopener

Corrections in PIT

Government proposing further changes in PIT
Flash March PMI down, but less than the market expected
Zloty easily gave away its profit from last two weeks

Today the US president visits Poland and it is the second day of the EU summit (with more voices from participants that one should not expect any new set of sanctions against Russia to be approved). We will also get to see the Ifo index for March, but since the flash PMIs did not show a serious collapse of business sentiment, then most likely the Ifo index will not do it too. Unlike PMIs, the Ifo survey also provides information on trade and construction sectors.

PMIs for Germany and the Eurozone dropped m/m in March, but by less than the market had assumed. Despite this, the release did not pour optimism to the market and around that time the CEE currencies started to weaken. It seems what the market saw in the PMI reports was the repeating assessment that the European economy has been hit by a severe supply shock pushing much higher the costs and strengthening the view that inflation is going to be high and lasting. In turn the PMIs for the USA were stronger than expected and rose m/m to the highest levels in more than half a year. The US report signalled the rise of the new orders index to the highest level in nine months and their inflow was so strong that it caused a jump in backlog of work among businesses. Job creation occurred at the highest pace in almost a year. At the same time, similar to the European reports, stress was put on the heightened cost pressure, boosted by the war in Ukraine.

At the G7 summit it was agreed to act towards constraining Russia's ability to use its gold reserves and to close loopholes in the current sanctions. Joe Biden said that the sanctions against Russia may be kept in place for a whole year and announced a new packet of restrictions – cutting many companies of Russian arms industry from US financing and technology, personal sanctions on Russian MPs and the Sberbank head (the latter was not targeted earlier due to the importance of the bank in Russia's energy commodities trade with Europe).

Yesterday PM Morawiecki announced a **proposal of PIT changes**, to be introduced on 1 July (but would cover revenues for the whole 2022). In the case of taxpayers holding job contracts the so-called 'middle class reduction' will be gone, but the tax rate in the first income bracket will go down from 17% to 12%. Our calculations show that compared to the Polish Deal tax reform introduced this year this would be beneficial to employees earning more than PLN3k a month (neutral for lower pays), and compared to the 2021 tax system employees earning up to PLN18k/month would gain. Other proposed changes include joint tax declaration with a child for single parents and removal of health system contribution from the tax base of entrepreneurs. The annual cost estimate of the proposal is PLN15bn.

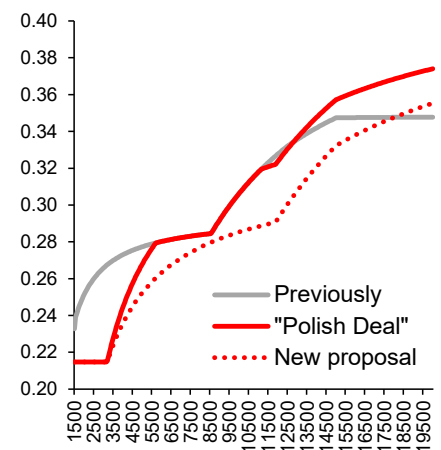
On Thursday the Brent oil price went down by 3%, as the new sanctions did not apply to this commodity. EURUSD remained at 1.10.

EURPLN moved yesterday to 4.75 from 4.70 without any trouble, which reminds us how fragile the stabilisation over the last two weeks was (with yesterday's move the zloty gave away its entire profit from the last two weeks). Similarly as one week ago on Friday, we think that it is safer to assume a zloty weakening today as the market may be reducing exposure for the region ahead of the weekend.

Other CEE currencies also weakened but less than the zloty. Hike in weekly deposit rate by 30bp to 6.15% in Hungary coincided with sell-off of CEE currencies so its result, decline of EURHUF by 2 forints, was temporary.

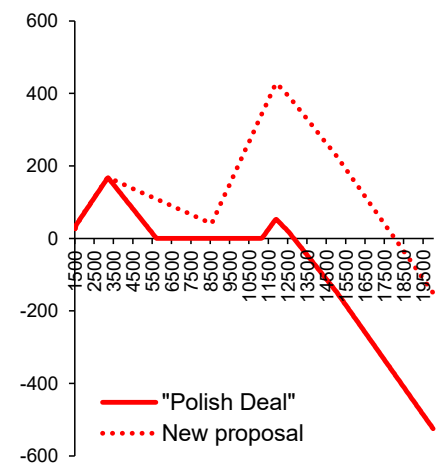
The domestic interest rate market: the bond auction saw sales of PLN3bn (the lower boundary of range indicated earlier by the Ministry of Finance) amid total demand at PLN4bn, putting the total financing of 2022 borrowing needs at 57%. 5- and 10Y fixed-coupon bonds were in biggest demand and Ministry sold over PLN1bn worth of each. In general the day was marked by a sell-off of Polish bonds and this tendency even strengthened after the auction. The curve shifted up by 20 bp. At the same time the swap curve moved less pronouncedly, only by 5bp on the front end. Core markets also saw rising yields suggesting that this was not a global risk-off but rather growing worries about higher and more persistent inflation. In the USA pricing of incoming hikes became closer to 8 moves by 25bp that 7 moves and in Poland another more distant FRA contract (12x15, up by 40bp in one week) surpassed 6%.

Average tax rate as function of monthly salary



Source: MF, Santander

Change in net monthly salary as compared to 2021 law



Source: MF, Santander

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FX market

Today's opening			
EURPLN	4.7555	CZKPLN	0.1923
USDPLN	4.3119	HUFPLN*	1.2560
EURUSD	1.1026	RUBPLN	0.0436
CHFPLN	4.6475	NOKPLN	0.4976
GBPPLN	5.6898	DKKPLN	0.6387
USDCNY	6.3640	SEKPLN	0.4586

*for 100HUF

Last session in the FX market						24/03/2022
	min	max	open	close	fixing	
EURPLN	4.702	4.761	4.717	4.748	4.759	
USDPLN	4.280	4.329	4.296	4.321	4.331	
EURUSD	1.096	1.101	1.098	1.098	-	

Interest rate market 24/03/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.76	24
DS0726 (5Y)	5.76	20
DS0432 (10Y)	5.40	21

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.83	8	1.87	5	-0.18	3
2L	5.89	4	2.40	7	0.41	5
3L	5.72	6	2.50	8	0.67	7
4L	5.54	12	2.49	8	0.80	7
5L	5.41	14	2.46	9	0.88	8
8L	5.13	16	2.45	8	1.05	7
10L	5.05	15	2.46	9	1.14	6

WIBOR rates

Term	%	Change (bps)
O/N	3.33	-2
T/N	3.50	0
SW	3.55	0
2W	3.66	4
1M	3.90	4
3M	4.52	4
6M	4.87	3
1Y	4.97	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.33	4
3x6	5.97	7
6x9	6.18	8
9x12	6.19	7
3x9	6.22	6
6x12	6.39	3

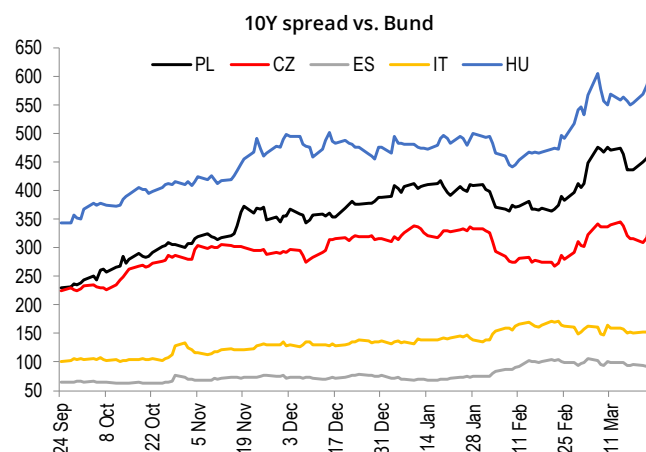
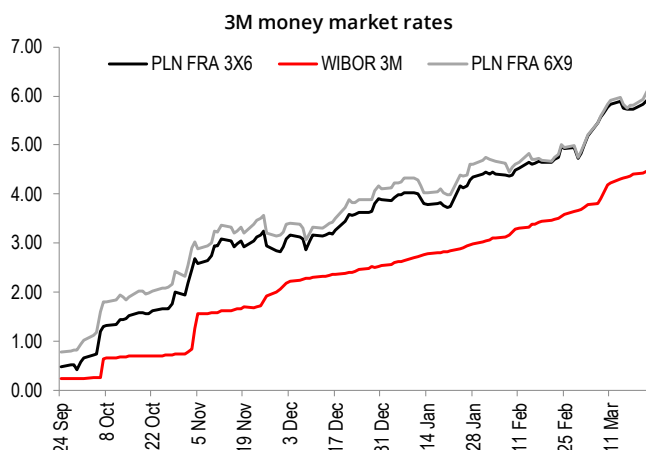
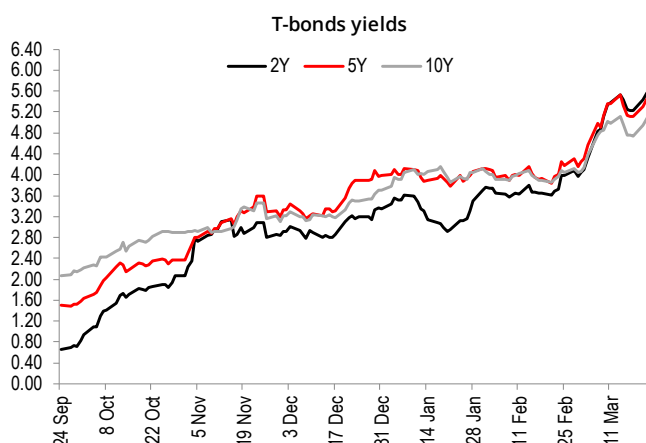
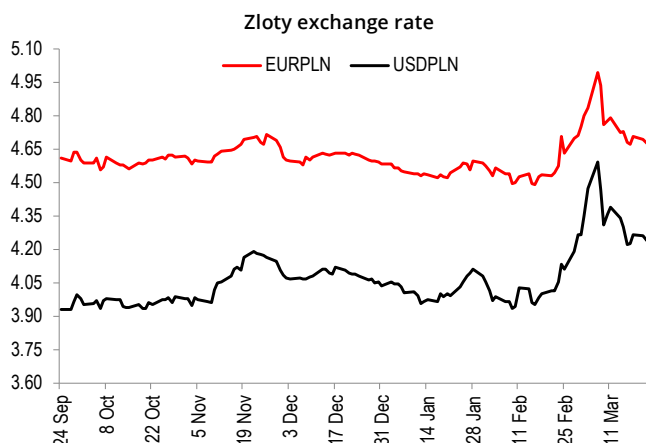
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	83	0	488	17
France	14	1	45	-1
Hungary	97	0	613	10
Spain	42	-1	89	-2
Italy	52	0	153	1
Portugal	31	0	78	-2
Ireland	15	0	59	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 (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	5.5
15:00	US	New Home Sales	Feb	% m/m	1.1	-	-2.0	-8.4
THURSDAY (24 March)								
09:30	CH	SNB rate decision		%	-0.75	-	-0.75	-0.75
09:30	DE	Germany Manufacturing PMI	Mar	pts	56.0	-	57.6	58.4
09:30	DE	Markit Germany Services PMI	Mar	pts	53.7	-	55.0	55.8
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	56.0	-	57.0	58.2
10:00	EZ	Eurozone Services PMI	Mar	pts	54.3	-	54.8	55.5
13:30	US	Durable Goods Orders	Feb	% m/m	-0.6	-	-2.2	1.6
13:30	US	Initial Jobless Claims	Mar.22	k	210	-	187	215
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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