

Eyeopener

Signals from Istanbul supported the markets

Today ADP report, German inflation
CEE currencies much stronger
Domestic yield curve and pricing of further rates hikes down some 25bp

Today ADP data on US labour market are due for release. Market is eyeing these numbers as forecast on non-farm payrolls, but recently these two gauges were rather not aligned. Moreover: CPI and HICP inflation in Germany (a further increase is expected), ESI business climate. We already got to see the first regional inflation in Germany (North Rhine-Westphalia): CPI increased by 2.3pp and m/m growth was at 2.7%. Meanwhile, expectations for the country-wide headline are +1.1pp for the annual gauge and 1.6% monthly growth. Bank of Japan is still announcing big government bond purchases in order to stop the yield rise.

Yesterday market focused on signals from Istanbul, where negotiations between Ukraine and Russia are being held. Russians declared that they will scale down military activity near Kyiv and Chernihiv as an act of good will. This caused a rise in market optimism. Moreover the Kremlin spokesperson said that Russia will use nuclear weapons only if there is a threat to existence of the country, and any result of war in Ukraine is not a reason to use them. Overnight the Pentagon spokesman warned that "we ought not be fooling, and nobody should be fooling ourselves, by the Kremlin's now-recent claim that it will suddenly just reduce military attacks near Kyiv, or any reports that it's gonna withdraw all its forces" and that Russian army is just repositioning. New JOLTS jobs openings were somewhat better than expected, similarly as the Conference Board consumer confidence index (yet last reading was revised down).

The **S&P** agency has cut GDP growth forecast for Poland to 3.6% in 2022 (from 5.0%) and to 3.1% in 2023. This revision was due to the Russian aggression on Ukraine. According to the S&P the Polish manufacturing will suffer from disruptions in European supply chains and from lower demand from Europe. The agency is expecting CPI inflation at 9.0% in 2022 and 5.4% in 2023. This Friday the agency might revise Poland's rating.

Government spokesman Piotr Müller: said there are works **block Russian coal imports**.

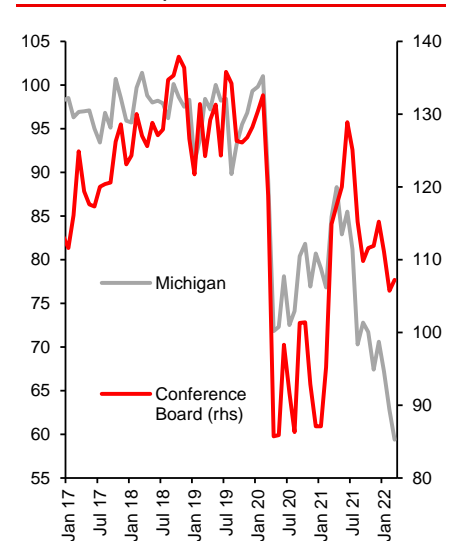
On Tuesday **markets** were excited by positive news about Russia-Ukraine negotiations. Rises of main European stock indices exceeded 2% and 10Y Bund, which was rising by over 10bp in the first part of the day, recovered from all this loss. 10Y US Treasury yield declined by 5bp and EURUSD jumped above 1.11 in no time. Precious metals and oil prices fell markedly (Brent below 106\$ per barrel), but signals that the military declarations of Russia may not mean any material change caused these moves to reverse overnight.

CEE currencies were outperforming others on the FX market Tuesday, which confirmed that they are still heavily affected by the perception of geopolitical risk. **EURPLN** managed to drop below 4.65 and USDPLN below 4.20, which they earlier failed to do on the wave of massive appreciation in the second decade of March. We doubt that the conflict in Ukraine is as close to an end as the market started anticipating and it seems that the Pentagon's recent comment may lower the optimism somehow. However the chance for the first meeting of Russia and Ukraine leaders since the beginning of the war could leave big enough hope for markets to avoid an immediate switch back to 'risk-off'. In the coming days EURPLN could hold the range 4.60-4.65 that we have indicated. China's zero-Covid policy (today another big city was locked) and its possible global economic consequences may not allow for a bigger appreciation.

Among **other CEE currencies** the Russian ruble made the biggest move, gaining c.8% vs dollar in one day and almost 16% since Friday. The forint strengthened yesterday by almost 3% vs. dollar, zloty by 1.8%, Czech koruna by 1.5%. EURCZK has clearly departed from 24.6 and EURHUF has cut through the entire band of its fluctuations from the last two weeks and fell to 368. Hungarian central bank secured the extension until mid-January 2023 of the line with the ECB, allowing to draw EUR4bn in repo operations.

On the **interest rate market** there was a clear decline of the entire yield curve of Polish bonds, by 25-30bp, amid German curve moving higher by c.7bp and continued flattening of US curve (short end up by 6bp, long end lower by 2bp, as a result the spread between them narrowed to 5bp). Even though the spread vs 10Y German Bund narrowed by a massive 30bp (below 460bp), the asset swap spread narrowed merely by 2-6bp. It seems that hopes for soon end of war in Ukraine result in trimming inflation expectations and expected size of future interest rate hikes. Although in the morning another FRA rate (15x18) arrived to 6%, at the end of the day the pricing of interest rate hikes was 25bp lower than on Monday. Debt market sentiment was not spoiled by information about the issuance of several series of bonds outside market, directly to Reprivatisation Fund (PLN4.9bn vs. PLN3bn placed at the last outright auction). The name of the fund is not a significant constraint for government where to spend its money – so far it has been used, among others, to support the construction of Polish electric vehicle.

US consumer optimism indices



Source: Refinitiv Santander

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FX market

Today's opening			
EURPLN	4.6560	CZKPLN	0.1896
USDPLN	4.1913	HUFPLN*	1.2667
EURUSD	1.1116	RUBPLN	0.0519
CHFPLN	4.5117	NOKPLN	0.4841
GBPPLN	5.4964	DKKPLN	0.6258
USDCNY	6.3561	SEKPLN	0.4499

*for 100HUF

Last session in the FX market						29.03.2022
	min	max	open	close	fixing	
EURPLN	4.631	4.715	4.692	4.664	4.714	
USDPLN	4.169	4.294	4.270	4.199	4.292	
EURUSD	1.097	1.114	1.098	1.111	-	

Interest rate market 29.03.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.61	-24
DS0726 (5Y)	5.65	-26
DS0432 (10Y)	5.22	-29

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.80	-15	1.96	-3	-0.10	4
2L	5.80	-20	2.59	0	0.55	6
3L	5.57	-23	2.68	-3	0.86	9
4L	5.35	-25	2.62	-4	0.97	7
5L	5.21	-24	2.55	-7	1.04	7
8L	4.91	-23	2.48	-8	1.17	6
10L	4.80	-24	2.46	-7	1.25	5

WIBOR rates

Term	%	Change (bps)
O/N	3.28	3
T/N	3.49	6
SW	3.57	2
2W	3.84	6
1M	4.05	6
3M	4.72	6
6M	4.99	3
1Y	5.10	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.42	-5
3x6	5.84	-24
6x9	6.07	-22
9x12	6.06	-26
3x9	6.11	-26
6x12	6.27	-27

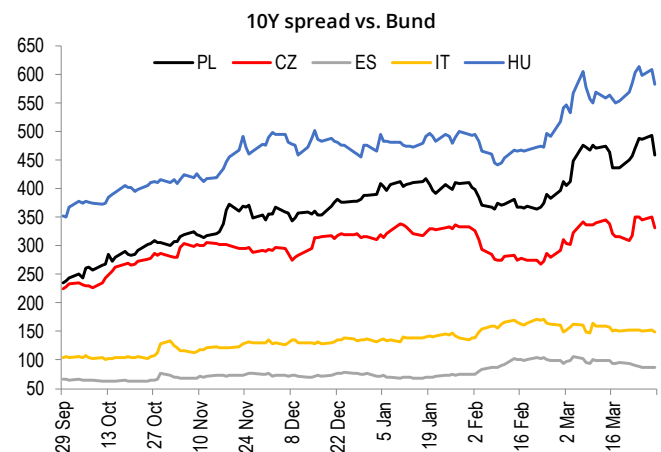
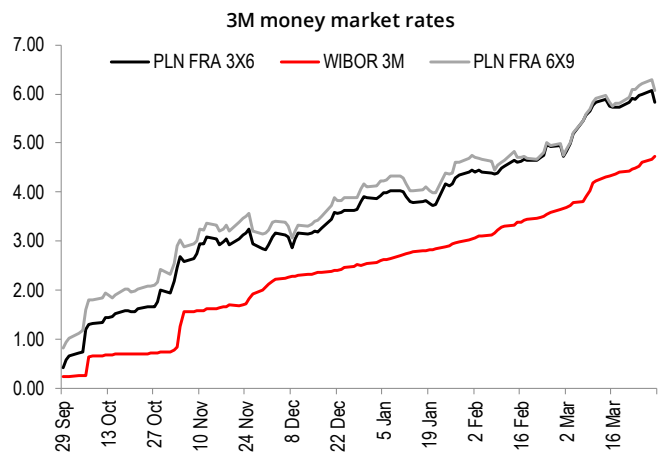
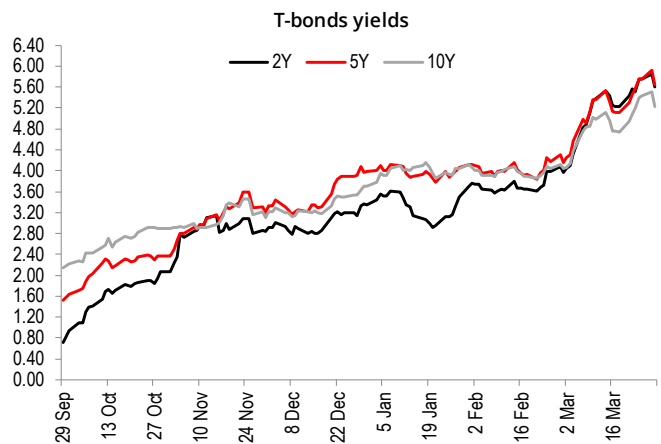
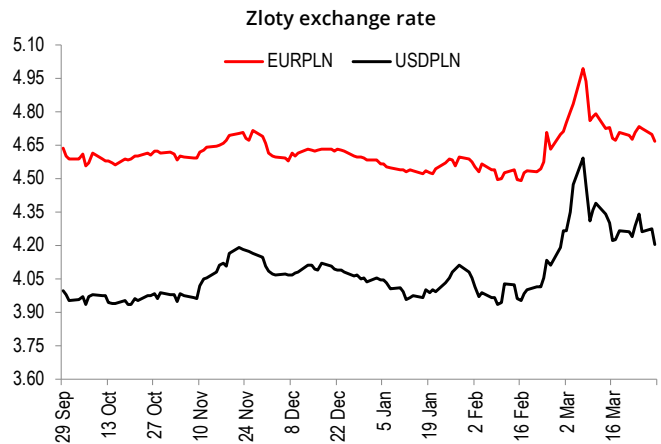
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	81	0	458	-34
France	14	0	42	0
Hungary	97	0	582	-26
Spain	42	0	87	0
Italy	51	0	149	-4
Portugal	31	0	77	0
Ireland	15	0	56	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 (25 March)								
10:00	DE	IFO Business Climate	Mar	pts	94.1	-	90.8	98.9
15:00	US	Michigan index	Mar	pts	59.7	-	59.4	59.7
15:00	US	Pending Home Sales	Feb	% m/m	1.0	-	-4.1	-5.7
MONDAY (28 March)								
No important data releases								
TUESDAY (29 March)								
16:00	US	Consumer Conference Board	Mar	pts	106.9	-	107.2	105.7
WEDNESDAY (30 March)								
11:00	EZ	ESI	Mar	pct.	109.7	-		114.0
14:00	DE	HICP	Mar	% y/y	6.6	-		5.5
14:15	US	ADP report	Mar	k	425.0	-		475
14:30	US	GDP Annualized	4Q	% Q/Q	7.1	-		2.3
THURSDAY (31 March)								
03:30	CN	China Manufacturing PMI	Mar	pts	50.0			50.2
08:00	DE	Retail sales	Feb	% y/y	6.1			10.4
09:00	CZ	GDP SA	4Q	% y/y	3.6	-		3.5
11:00	EZ	Unemployment Rate	Feb	%	6.7	-		6.8
13:30	US	Initial Jobless Claims		k	200.0	-		187
14:30	US	Personal Spending	Feb	% m/m	0.5	-		2.1
14:30	US	Personal Income	Feb	% m/m	0.5	-		0.0
14:30	CZ	Central Bank Rate Decision			5.0	-		4.5
FRIDAY (1 April)								
09:00	PL	Poland Manufacturing PMI	Mar	pts	52.7	52.0		54.7
09:30	DE	Germany Manufacturing PMI		pts	57.6	-		57.6
10:00	EZ	Eurozone Manufacturing PMI		pts	57.0	-		57.0
10:00	PL	CPI	Mar	% y/y	9.8	10.0		8.5
11:00	EZ	Flash HICP	Mar	% y/y	6.5	-		5.8
14:30	US	Change in Nonfarm Payrolls	Mar	k	475	-		678
14:30	US	Unemployment Rate	Mar	%	3.7	-		3.8
16:00	US	ISM manufacturing	Mar	pts	58.4	-		58.6
	PL	Poland's rating review by S&P						

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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