

Eyeopener

Orban stays in power in Hungary

Inflation jump to 10.9% y/y in March supports 75bp rate hike on Wednesday
 S&P confirmed Polish rating at "A-" with stable outlook
 Good data from the US labour market and record-high inflation in Eurozone
 Fidesz wins elections in Hungary again

Today data on German exports, US industrial orders, PPI inflation in the euro zone. Europe can consider tightening sanctions against Russia in reaction to war crimes against civilians around Kyiv. European Commission's proposals on sanctions, put forward over the weekend, were deemed by some countries as insufficient. In China more cities were closed due to the pandemic.

The Viktor Orban's conservative party, **Fidesz has decisively won election in Hungary** and gained constitutional majority again, according to partial results.

The S&P Global Ratings confirmed Poland's rating at A- with stable outlook. According to the report the conflict between Russian and Ukraine will have a significant impact on Polish economy and public finance, but it assessed that the flexible approach of the government, healthy external and fiscal balances and strong EU transfers will help limit the effects of the shock.

CPI inflation jumped to 10.9% y/y in March, surprising once again. Core inflation also increased, to 6.8-6.9% y/y from 6.7% y/y in February, according to our estimate. CPI monthly change (3.2% m/m) was the highest since mid-90s. The data is strong argument for the central to continue interest rate hikes and supports our expectations for an above-consensus rate hike at the Wednesday MPC meeting (+75bp). Poland's **manufacturing PMI** declined in March to 52.7pts from previous 54.7, affected mainly by the war in Ukraine. According to flash data Poland's **fiscal balance** (GG) improved in 2021 to -1.8% of GDP from -6.9% in 2020. Public debt ended the year at 53.8% of GDP vs. 57.1% in 2020 and 45.6% in 2019. More in [Economic Comment](#).

Final readings of PMI indices for Germany and the euro zone in March proved to be much lower than expected. As a result, the German indicator fell to the lowest level since September 2020 amid export orders indicator falling below 50pts for the first time since June 2020. US ISM for manufacturing also went down to the lowest level since September 2020. Flash March inflation in the euro zone showed 7.5% y/y and this is the new record, with energy contributing 4.9ppts to the result, which is likely to put an upward pressure on other elements further on. Core HICP rose from 2.7% y/y to 3.0% y/y. Spike in US non-farm employment was in line with expectations, if we take into account the upward revisions of previous periods. Still, the US labour market improvement is continued. Unemployment rate fell stronger than expected. US citizens are also returning to the labour market – economic activity rate is rising, but still 1pp below the pre-pandemic level. This means a further rise in wage pressure and thus further Fed hikes.

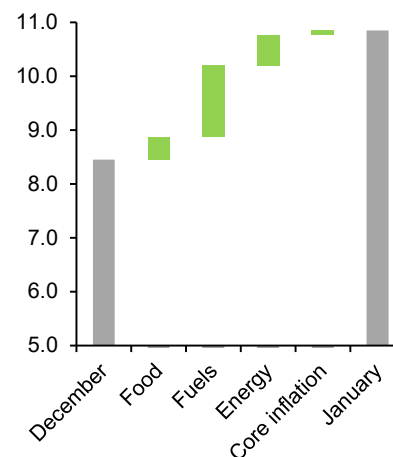
Solid data from the US labour market and high inflation in the euro zone (both suggesting more aggressive monetary tightening) or even the risk of breaks in Russian gas supply to Europe (after Russia demanded payments in rubles) did not cause any major declines in equity markets and most of the US 10Y yield's 10bp increase was cancelled before the end of the day. The FX market was also quite idle. **EURUSD** fell only 0.2%, breaching 1.1050.

Volatility of **EURPLN** was also exceptionally low, despite the important messages carried by PMI and CPI data – in our view these should have allowed a breach of the 4.64 support already on Friday. The level has been broken this morning and it seems investors preferred to start building positions for the new quarter this week. Assuming no escalation in Ukraine EURPLN can attempt to reach the lower boundary of 4.60-4.65 range, especially if there are any signals that the work in parliament on the draft bill dismissing the Disciplinary Chamber is advancing.

Other CEE currencies: EURHUF was equally quiet, but EURCZK deepened the daily low for another day (and again the lowest point was seen in the middle of the day and not at the end of the session). The koruna was strengthened by CNB deputy governor Marek Mora's remark that there is no preset ceiling for interest rates in Czechia. For the ruble this was a day of a more than 5% loss vs the dollar which decreased its massive gain seen last week to 19%.

On the **interest rate market** the whole Polish yield curve rose by 14bp (nevertheless it was down some 5bp week-on-week). The German curve did not move and the US one showed negative slope in its 2-10Y part, with all segments rising day-on-day. The domestic FRA market added on Friday to implied rate hikes the 20bp it had deducted earlier last week. After the temporary relief on the bond market we expect a return of yields to the upside trend, following core markets, pressured by the CPI print and expectations regarding the upcoming MPC meeting.

CPI inflation, growth decomposition, %/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.6391	CZKPLN	0.1898
USDPLN	4.2030	HUFPLN*	1.2502
EURUSD	1.1037	RUBPLN	0.0506
CHFPLN	4.5277	NOKPLN	0.4791
GBPPLN	5.4922	DKKPLN	0.6228
USDCNY	6.3625	SEKPLN	0.4471

*for 100HUF

Last session in the FX market 01/04/2022

	min	max	open	close	fixing
EURPLN	4.635	4.650	4.640	4.643	4.643
USDPLN	4.189	4.211	4.193	4.205	4.198
EURUSD	1.103	1.108	1.106	1.104	-

Interest rate market 01/04/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.71	12
DS0726 (5Y)	5.83	17
DS0432 (10Y)	5.39	14

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.95	18	2.01	7	-0.12	-1
2L	5.94	16	2.67	13	0.55	1
3L	5.70	15	2.76	13	0.82	2
4L	5.46	15	2.70	12	0.94	1
5L	5.31	14	2.59	9	1.00	1
8L	4.99	12	2.50	7	1.12	0
10L	4.89	12	2.42	4	1.20	0

WIBOR rates

Term	%	Change (bps)
O/N	3.51	3
T/N	3.58	3
SW	3.83	5
2W	4.01	4
1M	4.21	9
3M	4.84	7
6M	5.10	5
1Y	5.20	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.56	8
3x6	6.05	16
6x9	6.21	19
9x12	6.19	18
3x9	6.28	20
6x12	6.42	22

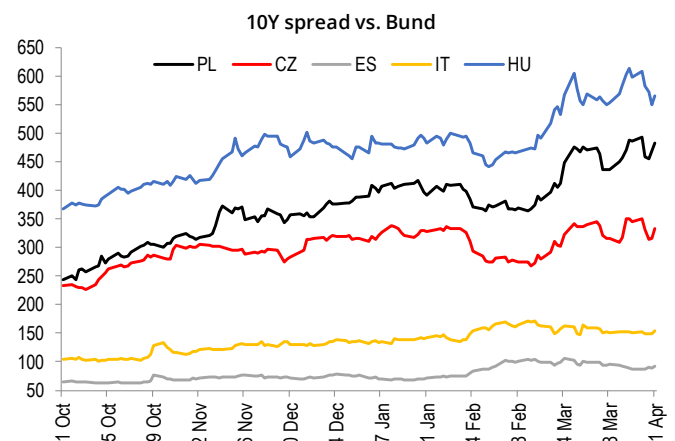
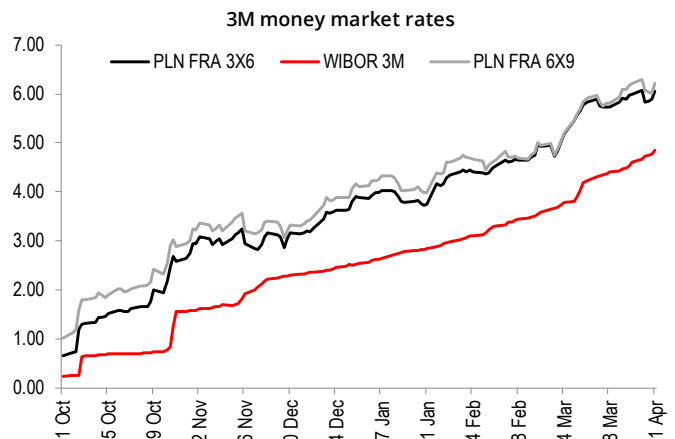
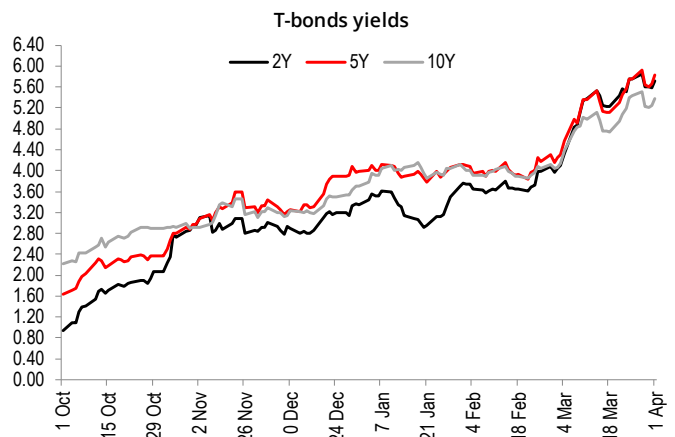
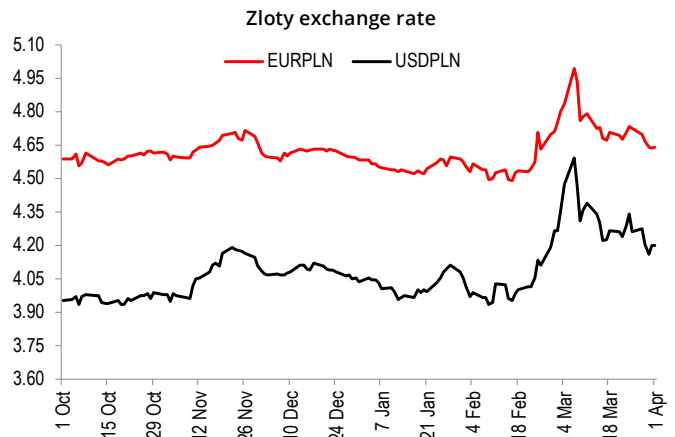
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	81	0	482	13
France	14	0	46	3
Hungary	97	0	565	15
Spain	41	0	92	3
Italy	49	0	155	6
Portugal	30	0	84	2
Ireland	15	0	57	6
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 (1 April)								
09:00	PL	Poland Manufacturing PMI	Mar	pts	53.1	52.0	52.7	54.7
09:55	DE	Germany Manufacturing PMI	Mar	pts	57.6	-	56.9	58.4
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	57.0	-	56.5	58.2
10:00	PL	CPI	Mar	% y/y	10.1	10.0	10.9	8.5
11:00	EZ	Flash HICP	Mar	% y/y	6.7	-	7.5	5.9
14:30	US	Change in Nonfarm Payrolls	Mar	k	490	-	431	750
14:30	US	Unemployment Rate	Mar	%	3.7	-	3.6	3.8
16:00	US	ISM manufacturing	Mar	pts	58.5	-	57.1	58.6
MONDAY (4 April)								
08:00	DE	Exports SA	Feb	% m/m	2.0	-	6.4	-3.0
16:00	US	Durable Goods Orders	Feb	% m/m	-2.2	-	-	-2.2
16:00	US	Factory Orders	Feb	% m/m	-0.6	-	-	1.4
TUESDAY (5 April)								
09:00	HU	Industrial Production SA	Feb	% y/y	1.9	-	-	7.1
09:55	DE	Markit Germany Services PMI	Mar	pts	55.0	-	-	55.8
10:00	EZ	Eurozone Services PMI	Mar	pts	54.8	-	-	55.5
16:00	US	ISM services	Mar	pts	58.6	-	-	56.5
WEDNESDAY (6 April)								
	PL	MPC decision		%	4.00	4.25	-	3.50
03:45	CN	Caixin China PMI Services	Mar	pts	49.8	-	-	50.2
08:00	DE	Factory Orders	Feb	% m/m	-0.1	-	-	1.8
09:00	CZ	Industrial Production	Feb	% y/y	2.5	-	-	3.7
20:00	US	FOMC Meeting Minutes	16 mar					
THURSDAY (7 April)								
08:00	DE	Industrial Production SA	Feb	% m/m	0.2	-	-	2.7
11:00	EZ	Retail Sales	Feb	% m/m	0.6	-	-	0.2
14:30	US	Initial Jobless Claims	week	k	199	-	-	202
FRIDAY (8 April)								
09:00	HU	CPI	Mar	% y/y	8.8	-	-	8.3

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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