

Eyeopener

Another interest rate hike today

Today MPC decision, draft bill improving rule of law in parliament's commission
EU heralds new sanctions on Russia and launches conditionality mechanism against Hungary
Lower than expected unemployment drop in March, solid local investments

Today the MPC is making decision on interest rates (as usually, we do not know when the decision will be published, but last five decisions were announced between 15:50 and 16:10). Tomorrow the NBP Governor's press conference is scheduled for 15:00 CET. One month ago, when the zloty was under strong pressure connected to spike in risk aversion shortly after start of war in Ukraine, MPC hiked rates by 75bp and Governor Glapiński presented himself as a "hawk leading a cauldron of hawks". Together with zloty's gains in the following weeks some MPC members thought that a return to smaller steps should be considered (50bp). We think that the very high inflation and increasing scale of fiscal expansion are supporting further moves by 75bp. The FRA market seems to be pricing-in such a scenario as well, but the consensus is pointing to +50bp.

Today at 10:30 CET the Sejm's Justice Committee is to work on two out of three **bills on the Disciplinary Chamber of the Supreme Court** – prepared by the president and by PiS MPs. Last week the meeting was cancelled. If the Commission approves the presidential bill (only this one was unofficially flagged as meeting European Commission's expectations), this will signal rising chances for an agreement with the EU. The legislative process could accelerate at this point – second vote could take place even tomorrow at the Sejm's meeting, two days before Ursula von der Leyen arrives in Poland. However, if the bill is again stuck in the Commission, this will be a sign that the road to Recovery Fund is longer than thought. Von der Leyen said yesterday in the European Parliament that she is not intending to deal with the Recovery Plan during her visit in Warsaw on 9 April, as this will happen only after Poland goes through the whole legislative process of dismissing the Disciplinary Chamber, reinstates suspended judges and independence of the judiciary system.

Final readings of services PMI for Germany and the euro zone surprised yesterday with marked rises in m/m terms (flash readings showed declines). US ISM in services also increased markedly. Meanwhile, this morning the PMI for Chinese services declined much stronger than expected, also orders in German industry were much weaker than expected. The EU is planning to impose a **ban on import** of coal, wood and cement from **Russia**, a ban on export on further goods, to stop accepting Russian ships in EU ports and land transport of Russian and Belarusian companies in the EU. Works on ban of Russian oil imports are also to start. The US government prohibited their banks from realising Russian debt payments.

In 4Q21 **local government's investment** proved higher than we expected and rose by 18.7% y/y nominally. This was the first positive reading in annual terms since 2Q20. Despite positive result of investment in total, the EU-funded investment declined by 37.3% y/y and was the lowest since 2017. Even though 4Q21 headline data surprised to the upside, we remain rather sceptical as regards investment outlays of local governments this year – negative factors include delay in Recovery Fund, PIT cuts, hitting their incomes and inflow of immigrants, increasing costs.

The registered unemployment rate amounted to 5.4% in March, according to Ministry of Family and Social Policy. The decline by 0.1pp versus February is similar as in 2020-21 and in nominal terms was equal to 18k. Our forecast and market consensus pointed to a decline to 5.3%. Minister Marlena Maląg said that the result was affected by registrations of refugees from Ukraine.

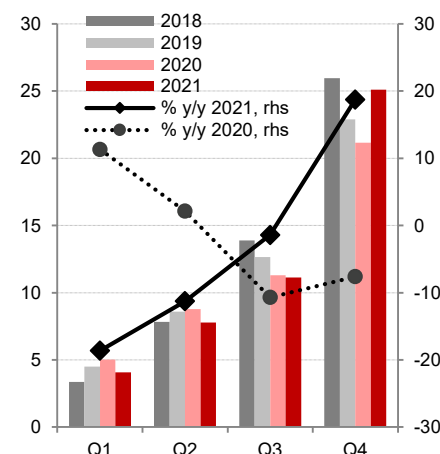
FOMC Lael Brainard reminded markets that another rate hike is probable on 4th May and Fed balance is likely to be reduced at a much faster pace than in 2017-19 period. **EURUSD** declined yesterday to almost 1.09 (the dollar index is the highest since mid-2020) and EURCHF below 1.015, stock markets lost.

EURPLN returned to 4.65. Launching the conditionality mechanism against Hungary by the EC has negatively affected not only forint but also the zloty, due to the persisting rule of law conflict with EU. The multi-step procedure related to the mechanism implies that the freeze of EU funds for Hungary may take place after 6-9 months.

Other CEE currencies: EURCZK broke the five-day streak of declines, forint lost 1.8% vs. euro (EURHUF jumped above 375) in reaction to a more realistic scenario of freezing the EU funds after the launch of conditionality mechanism.

On the **interest rate market** bond yields were moving up: in Poland by 6-9bp, 10Y German Bunds by 10bp, 10Y UST by 15bp, amid growing anticipation of Fed interest rate hikes.

Investment in local governments, PLNbn



Source: Finance Ministry, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Marcin Luźniński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.6501 | CZKPLN | 0.1903 |
| USDPLN | 4.2720 | HUFPLN* | 1.2340 |
| EURUSD | 1.0880 | RUBPLN | 0.0509 |
| CHFPLN | 4.5777 | NOKPLN | 0.4864 |
| GBPPLN | 5.5746 | DKKPLN | 0.6248 |
| USDCNY | 6.3692 | SEKPLN | 0.4513 |

*for 100HUF

Last session in the FX market 05/04/2022

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.616 | 4.652 | 4.622 | 4.644 | 4.632 |
| USDPLN | 4.207 | 4.256 | 4.216 | 4.247 | 4.223 |
| EURUSD | 1.092 | 1.099 | 1.096 | 1.092 | - |

Interest rate market 05/04/2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| DS1023 (2Y) | 5.79 | 5 |
| DS0726 (5Y) | 5.94 | 9 |
| DS0432 (10Y) | 5.48 | 6 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 6.04 | 8 | 2.06 | 7 | -0.09 | 3 |
| 2L | 6.02 | 8 | 2.71 | 8 | 0.61 | 7 |
| 3L | 5.78 | 9 | 2.81 | 10 | 0.90 | 9 |
| 4L | 5.56 | 11 | 2.79 | 13 | 1.02 | 10 |
| 5L | 5.40 | 11 | 2.73 | 15 | 1.09 | 11 |
| 8L | 5.06 | 11 | 2.61 | 15 | 1.20 | 11 |
| 10L | 4.94 | 9 | 2.58 | 15 | 1.28 | 11 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 3.65 | 4 |
| T/N | 3.74 | 5 |
| SW | 4.20 | 9 |
| 2W | 4.18 | 7 |
| 1M | 4.29 | 0 |
| 3M | 4.90 | 2 |
| 6M | 5.15 | 2 |
| 1Y | 5.27 | 3 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 5.61 | 3 |
| 3x6 | 6.15 | 7 |
| 6x9 | 6.32 | 11 |
| 9x12 | 6.30 | 11 |
| 3x9 | 6.35 | 5 |
| 6x12 | 6.51 | 12 |

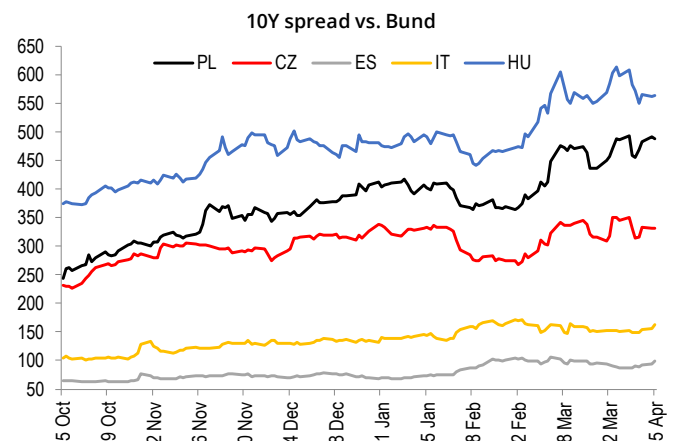
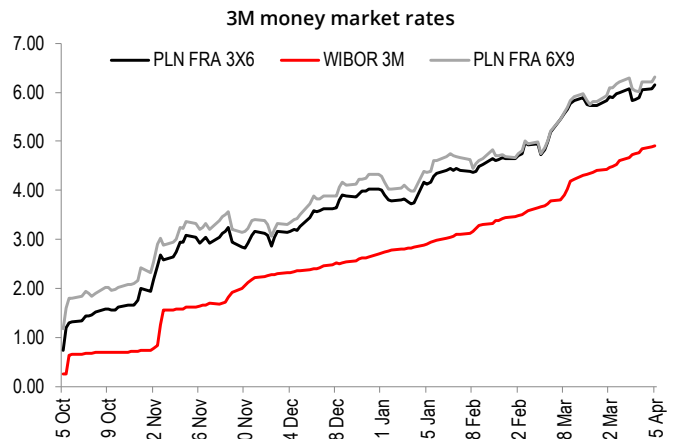
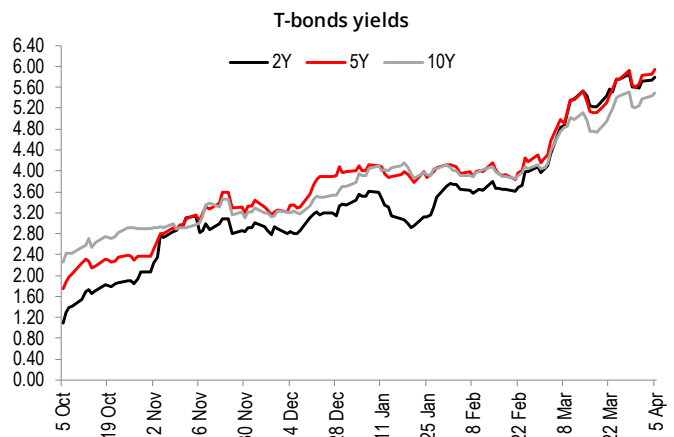
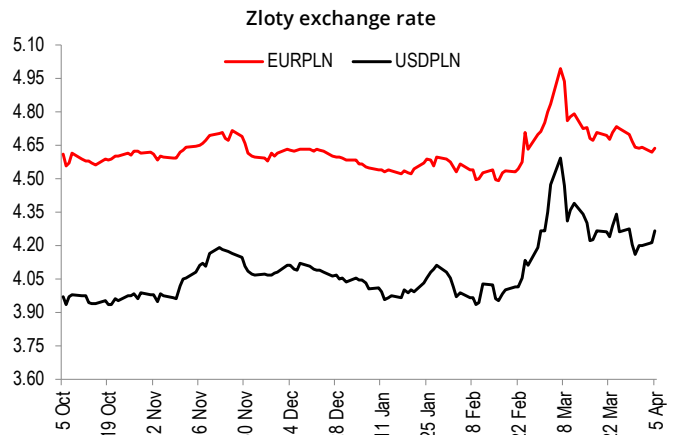
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 76 | 0 | 487 | -4 |
| France | 14 | 0 | 54 | 5 |
| Hungary | 97 | 0 | 563 | 2 |
| Spain | 43 | 2 | 98 | 4 |
| Italy | 54 | 4 | 163 | 7 |
| Portugal | 30 | 0 | 90 | 5 |
| Ireland | 13 | -1 | 51 | -9 |
| 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 | - | -2.1 | -2.2 |
| 16:00 | US | Factory Orders | Feb | % m/m | -0.6 | - | -0.5 | 1.5 |
| TUESDAY (5 April) | | | | | | | | |
| 09:00 | HU | Industrial Production SA | Feb | % y/y | 1.9 | - | 4.5 | 7.1 |
| 09:55 | DE | Markit Germany Services PMI | Mar | pts | 55.0 | - | 56.1 | 55.8 |
| 10:00 | EZ | Eurozone Services PMI | Mar | pts | 54.8 | - | 55.6 | 55.5 |
| 16:00 | US | ISM services | Mar | pts | 58.6 | - | 58.3 | 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 |
| 15:00 | PL | NBP governor's press conference | | | | | | |
| 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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.