

Eyeopener

France delivering some uncertainty

Macron wins the first round in France, but with relatively small lead
Global FAO price index: all-time high after all-time high increase
EURUSD and oil prices lower

Today markets will try to price-in the possible scenarios after the first round of presidential elections in France. Emmanuel Macron won the biggest number of votes (c.28% according to exit polls) but his lead was not big enough to be sure about the result of the second round, when he will probably face Marine Le Pen (c. 23% of votes). According to exit polls Jean-Luc Mélenchon (c. 21% of votes) came third and he still has the chance to be ahead of Le Pen and enter the second round. Both Le Pen and Mélenchon are euro-sceptical candidates with radical views and their victory would be a threat for EU's unity. Therefore, French elections could have significant impact on the exchange rate market. On the other hand, there are several factors that could stabilise markets this week. Today the economic releases calendar is almost empty, with only Czech inflation. We are entering the Easter holiday season, when market activity should be gradually fading. The ECB meeting planned on Thursday also should help to stabilise markets – it will probably bring no major change in the bank's rhetoric (interest rate hikes still distant away), so the volatility may remain low after the decision. A potentially destabilising factor could be the conflict in Ukraine.

S&P downgraded sovereign rating of Russia to selective default, which means the country is not able to regulate all of its obligations.

World Bank reduced its 2022 GDP growth forecast for Poland to 3.9% from 4.7%. The revision results from Russian invasion on Ukraine and the main channels of transmission will be higher commodity prices, lower external demand from the euro zone and lower confidence. Forecast for 2023 shows 3.6% growth. World Bank predicts that GDP in Ukraine may drop by 45% and in Russia by 11%.

Since the **MPC minutes** are being released after subsequent Council meetings, their importance for assessing the policy outlook has clearly decreased. In the document released on Friday we noticed that in March the MPC discussed about negative impact of persistently high inflation on private consumption, considerations about negative and positive impact of war on business climate in Poland (among the positives, they listed higher labour supply and higher demand for goods and services from refugees, additional spending on their accommodation and on defence).

In March **the FAO global food prices** index jumped by 12.6% m/m posting the strongest growth in monthly scale since 1990. All subindices increased, with the strongest gains seen in oils (23.2% m/m) and cereals (17.1% m/m), which is connected to the fact that Ukraine and Russia are major exporters of products pertaining to these groups. Rising global food prices will be carrying into food prices in Poland, which will be showing double digit-growth rates throughout the year, in our view.

At the end of the week we good to see minor changes of main stock market indices. **EURUSD** prolonged its downward move to 1.085. EURCHF again managed to stay above 1.05. Oil prices was trying to decline below 100\$ per barrel, but today in the morning it is 2 dollars above this mark.

EURPLN after the Thursday close below 4.64, remained on Friday mostly below the level and its attempt to rise above it was futile. The exchange rate has been hovering in a range 4.61-4.66 for over a week. Also the zloty's attempts to get stronger proved not very successful and short-lived. We think that risks for the coming week are tilted more towards weaker than stronger zloty: weak balance of payments data, ECB delaying the policy tilt and earlier potentially negative for euro results of French elections.

Other CEE FX: CZK i HUF gained vs. the euro despite having rationale for showing weakness. Hungarian CPI for March surprised to the downside for the first time since July 2021. CNB meeting minutes showed on Friday that only one board member, Vojtech Benda, shared the governor Jiri Rusnok's view that to make inflation drop earlier one should deliberately strengthen koruna via fx interventions. The remaining five members did not see such a need and two abstained from supporting the delivered 50bp rate hike. Despite this the koruna was slightly stronger than the euro, the forint and the zloty. EURHUF did not set a higher daily high. The Russian central bank cut rates by 300bp the main one to 17% (it was at 9.5% before the war). In spite of the ongoing Russian aggression on Ukraine and the regular additions to the sanctions list the ruble returned to the trading range from January and even showed some gains on Friday.

On the interest rate market the POLGB sell-off continued (yields up 23-27bp, Bund spread up 20bp to 534bp). The money market saw an aggressive rise of further rate hike expectations and somewhat larger pricing of the cuts that would follow – the difference between FRA21x24 and FRA1x4 dropped in a week from -23bp to -29bp. On the bond market it is difficult to point what exactly could stop the upward trend in yields. Market expectations for NBP rate hikes have strengthened, bonds in the core markets are weakening. Tomorrow the Finance Ministry's bond auction takes place, which will be an important test of market sentiment. The planned quite cautiously set supply of PLN2-4bn has been decreased by the ministry to PLN1-4bn.

FAO global food prices, index 2014-2016
=100 multiplied by USDPLN



Source: FAO, Bloomberg, 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	4.6337	CZKPLN	0.1893
USDPLN	4.2553	HUFPLN*	1.2160
EURUSD	1.0888	RUBPLN	0.0534
CHFPLN	4.5442	NOKPLN	0.4873
GBPPLN	5.5309	DKKPLN	0.6230
USDCNY	6.3711	SEKPLN	0.4498

*for 100HUF

Last session in the FX market						08/04/2022
	min	max	open	close	fixing	
EURPLN	4.624	4.648	4.635	4.634	4.641	
USDPLN	4.253	4.280	4.269	4.261	4.270	
EURUSD	1.084	1.089	1.085	1.087	-	

Interest rate market 08/04/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.47	26
DS0726 (5Y)	6.62	23
DS0432 (10Y)	6.10	26

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.59	11	2.10	4	-0.02	5
2L	6.58	15	2.75	6	0.72	8
3L	6.32	17	2.85	6	1.02	8
4L	6.07	20	2.83	5	1.14	7
5L	5.89	19	2.79	6	1.20	6
8L	5.47	19	2.76	6	1.32	5
10L	5.33	20	2.73	6	1.40	4

WIBOR rates

Term	%	Change (bps)
O/N	4.40	-5
T/N	4.55	0
SW	4.59	1
2W	4.59	1
1M	4.66	4
3M	5.32	6
6M	5.58	12
1Y	5.75	11

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.30	7
3x6	6.75	8
6x9	6.83	12
9x12	6.83	19
3x9	6.98	10
6x12	7.08	16

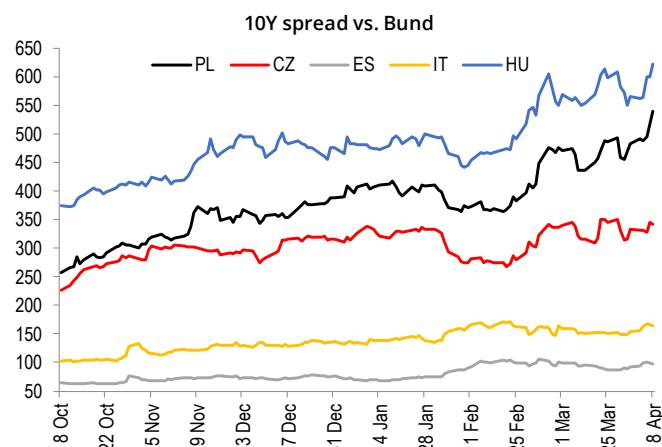
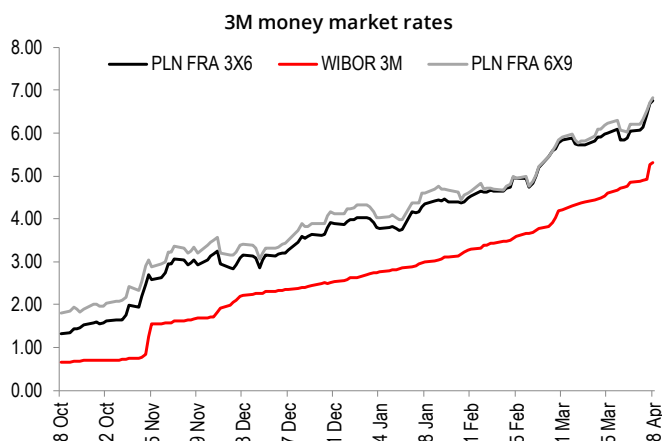
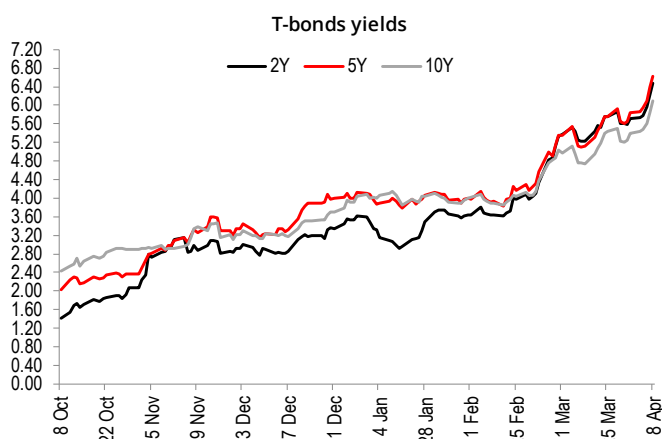
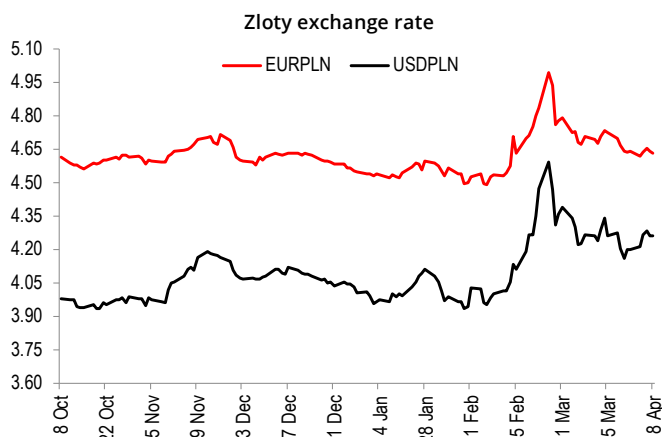
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	76	0	539	22
France	14	0	56	2
Hungary	97	0	622	22
Spain	43	0	98	-1
Italy	54	0	165	-1
Portugal	30	0	93	1
Ireland	14	0	60	-3
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 (8 April)								
09:00	HU	CPI	Mar	% y/y	8.8	-	8.5	8.3
MONDAY (11 April)								
09:00	CZ	CPI	Mar	% y/y	12.2	-	-	11.1
TUESDAY (12 April)								
08:00	DE	HICP	Mar	% m/m	2.5	-	-	0.9
11:00	DE	ZEW Survey Current Situation	Apr	pts	-35.0	-	-	-21.4
14:30	US	CPI	Mar	% m/m	1.2	-	-	0.8
WEDNESDAY (13 April)								
11:00	EZ	Industrial Production SA	Feb	% m/m	0.0	-	-	0.0
14:00	PL	Current Account Balance	Feb	€mn	-2049	-2395	-	-64
14:00	PL	Trade Balance	Feb	€mn	-1541	-1503	-	-1186
14:00	PL	Exports	Feb	€mn	26094	26368	-	24669
14:00	PL	Imports	Feb	€mn	27670	27871	-	25855
THURSDAY (14 April)								
13:45	EZ	ECB Main Refinancing Rate	Apr.22	%	0.0	-	-	0.0
14:30	US	Initial Jobless Claims		k	200.0	-	-	166.0
14:30	US	Retail Sales Advance	Mar	% m/m	0.5	-	-	0.3
16:00	US	Michigan index	Apr	pts	58.8	-	-	59.4
FRIDAY (15 April)								
10:00	PL	CPI	Mar	% y/y	10.9	10.9	-	8.5
15:15	US	Industrial Production	Mar	% m/m	0.4	-	-	0.5

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>.