

Eyeopener

Deeper deficit on the current account

Today an important step in possible reelection of NBP head Glapiński, C/A data MPC's Sura and Kotecki: rates will go higher even more Bonds stronger, sales on auction at the upper limit

Today the parliament's Public Finance Committee will discuss the Adam Glapiński's candidacy for the second round as the NBP chairman. It cannot be ruled out that the Sejm's vote will take place even before Easter. The balance of payments for February, to be released in the afternoon, is likely to show another big deterioration of current account – our forecast - €2.4bn, consensus -€2bn; 12M moving sum at c. -1.6% of GDP. Weak result is not only the effect of worsening trade deficit and lower services surplus, but also slowing inflow of EU funds to Poland. In February the net flow of EU money was negative (we paid more than received) at -€280m, the lowest since December 2015. It is only one day before the ECB meeting and then Easter (in some countries Friday is already market holiday) so market activity is likely to decrease.

MPC's Rafał Sura and Ludwik Kotecki said yesterday that interest rate hikes will be continued in the coming months. According to Kotecki inflation will be higher than predicted by the NBP (the projection saw average inflation at 10.8% in 2022) and Sura said that fiscal easing, including "anti-inflation" measures are moving the target interest rate higher. We expect two more interest rate hikes by 50bp this year.

US CPI inflation increased in March 1.2% m/m, in line with market expectations. Other important measures missed forecasts but did not give a clear signal for Fed: CPI at 8.5% y/y was a notch higher than expected, while core inflation at 6.5% y/y just below consensus. Energy prices soared 11% m/m. Amid rising inflation, the average real weekly wage fell in March from -2.2% y/y to -3.6% y/y, which should help taming core inflation in 2H22. Already in 2Q22, the base effect should start lowering inflation rate. **German inflation** confirmed the flash estimate at 7.3% y/y, while core inflation moved from 3.0% y/y to 3.4% y/y and the risk is it may go further up as rising energy and food prices will be passing through to other products and services.

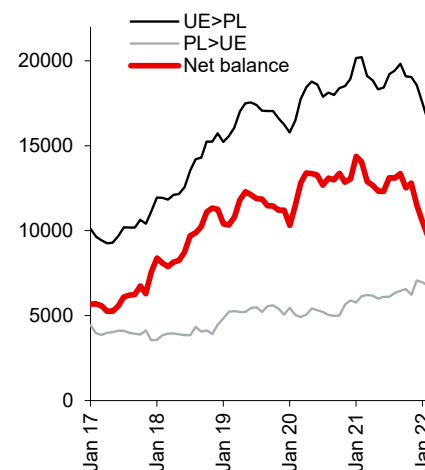
German ZEW fell less than expected, but still showed the weakest assessment of current situation since May 2021. The report shows that investors assume stabilisation in the looming inflation data from the euro zone, Germany, USA and China. Expectations regarding short-term interest rates was at the highest level in over 10 years in case of euro zone, and the highest since 2004 in case of USA. Sentiment among small US firms also deteriorated. **NFIB index** was lower only in the worst month of the pandemic (April 2020) and the report saw a record drop in the share of firms that see positive economic outlook (by 49pp). The survey suggests that geopolitics and high inflation still take a toll on domestic demand and on the US GDP growth.

EURUSD stayed close to 1.09, but EURCHF continued to fall, crossing 1.01 this time. Other symptoms of risk aversion were weak stock exchanges, rebounding prices of gold (by more than 1%), silver (3%) and oil (more than 6%, a barrel of Brent back above US\$105) – usually negative news tend to depress the oil price, but if the reason for worries are news about the war in Ukraine possibly leading to more sanctions on Russia, an important global energy commodity supplier, then the response of the oil price is often to the upside. The reason for risk aversion were signals from Russia that the negotiations with Ukraine reached a dead end and more news that a major Russian offensive may start within days from the East. Somehow the market worries did not translate to CEE FX. Bonds also had a more positive day.

EURPLN returned to 4.64. Today the C/A data might carry a negative message for the zloty. Other CEE currencies: EURHUF and EURCZK were stable.

On the interest rate market, for a change, bonds strengthened in Poland and on the core markets. The US curve dropped by 10-14bp, the Polish one by c.10bp, the German one by 3-6bp. The pricing of future Polish interest rate levels also eased – FRA rates reaching a year ahead and farther dropped by some 15 bp. The sales at the yesterday bond auction reached the upper limit of the planned range announced earlier by the Ministry of Finance, PLN4bn and additional PLN0.6bn of non-competitive bids were covered, also reaching the limit of 15% of the value of regular sales. Before of the auction, seeing the negative sentiment on POLGBs, we were worried about demand. There was plenty of demand at the auction and we did not get an impression that the market got heavy after it, which is a good sign. However the general sentiment regards bonds - core, Polish, and also across the region - was positive yesterday.

Financial flows between Poland and EU, 12M moving sum, EURm



Source: Finance Ministry, Santander

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FX market

Today's opening			
EURPLN	4.6402	CZKPLN	0.1895
USDPLN	4.2783	HUFPLN*	1.2182
EURUSD	1.0836	RUBPLN	0.0516
CHFPLN	4.5898	NOKPLN	0.4863
GBPPLN	5.5692	DKKPLN	0.6237
USDCNY	6.3663	SEKPLN	0.4496

*for 100HUF

Last session in the FX market						12/04/2022
	min	max	open	close	fixing	
EURPLN	4.634	4.668	4.657	4.638	4.663	
USDPLN	4.259	4.298	4.280	4.272	4.293	
EURUSD	1.085	1.090	1.088	1.085	-	

Interest rate market 12/04/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.62	-9
DS0726 (5Y)	6.72	-9
DS0432 (10Y)	6.18	-11

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.66	-2	2.07	-3	-0.02	-2
2L	6.58	-7	2.64	-8	0.73	-5
3L	6.33	-8	2.74	-10	1.03	-6
4L	6.08	-8	2.74	-10	1.17	-5
5L	5.90	-9	2.73	-10	1.25	-3
8L	5.51	-6	2.75	-7	1.40	-1
10L	5.35	-9	2.75	-7	1.49	0

WIBOR rates

Term	%	Change (bps)
O/N	4.25	-2
T/N	4.48	-3
SW	4.57	-1
2W	4.59	0
1M	4.70	3
3M	5.43	6
6M	5.73	8
1Y	5.92	7

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.44	5
3x6	6.84	-1
6x9	6.91	-4
9x12	6.86	-6
3x9	7.09	0
6x12	7.12	-4

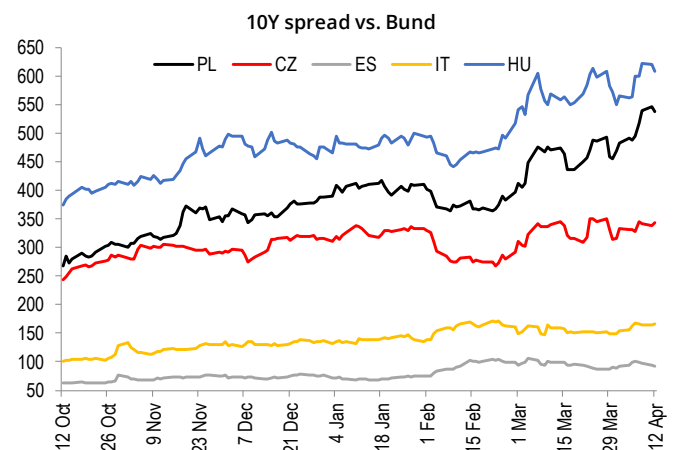
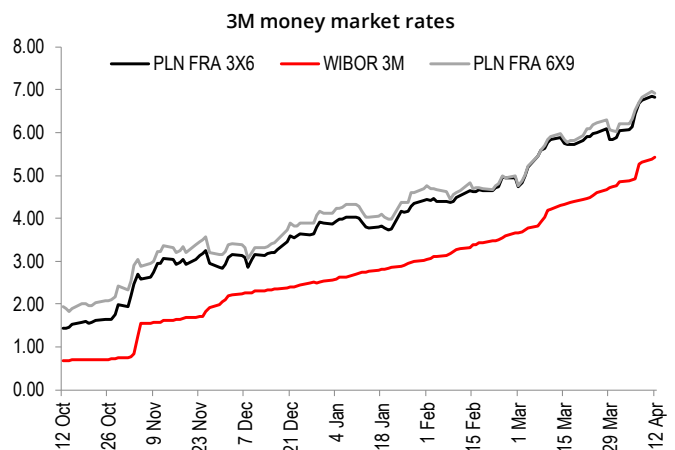
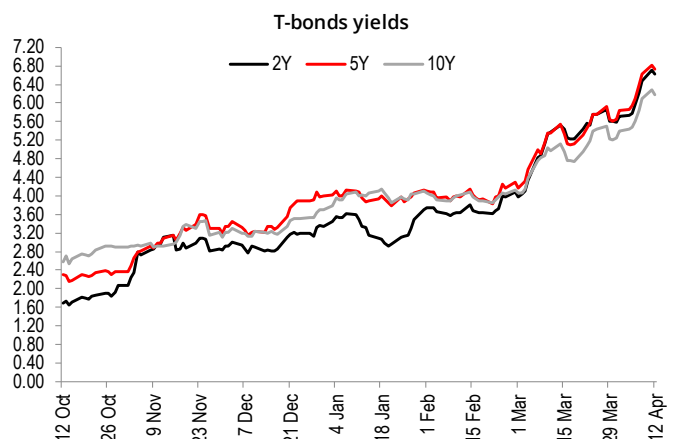
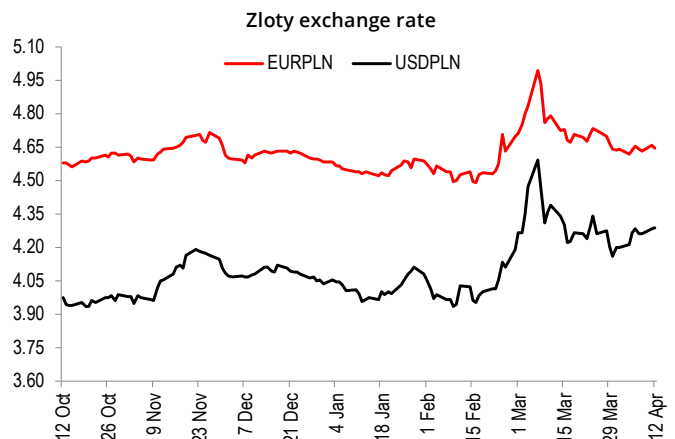
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	78	0	539	-8
France	14	0	51	1
Hungary	97	0	608	-12
Spain	42	-1	92	-2
Italy	52	-1	167	2
Portugal	30	0	87	-3
Ireland	14	0	61	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 (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	-	12.7	11.1
TUESDAY (12 April)								
08:00	DE	HICP	Mar	% m/m	2.5	-	2.5	0.9
11:00	DE	ZEW Survey Current Situation	Apr	pts	-35.0	-	-30.8	-21.4
14:30	US	CPI	Mar	% m/m	1.2	-	1.2	0.8
WEDNESDAY (13 April)								
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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