

19 April 2022

## Eyeopener

### Will core CPI reach 7%?

Today domestic core inflation

March CPI revised higher to 11.0% y/y

NBP had PLN11bn profit in 2021

**Today** we are not getting many important macro data. Core inflation in March is due for release (we are expecting a rise to 6.9-7.0% from 6.7% in February). We will also get to see US housing market data. New Russian offensive was launched in the East and South of Ukraine. Chinese GDP growth rebounded in 1Q22 more than expected, industrial output in March surprised to the upside as well. The spring meetings of IMF and World Bank are being currently held. Today this event includes G20 meeting and a presentation of new IMF forecasts (World Economic Outlook and Global Financial Stability Report), taking into account effects of war in Ukraine. Probably the stagflation risk will be broadly discussed at the meetings.

**March CPI inflation** amounted to 11.0% y/y in the final print vs. the flash reading at 10.9% y/y and February at 8.5% y/y. We estimate that the war-related shock added about 2 percentage points to CPI, mainly through higher fuel prices. Core inflation accelerated as well, to 6.9-7.0% y/y from 6.7% y/y in February, according to our estimates. We expect that in the coming months inflation will be relatively stable above 11% y/y. We expect to see the peak in June above 11.5% y/y. Core inflation should keep rising and may soon cross 7% y/y. We think that in such environment the MPC will continue to hike rates, but may return to steps of 50bp. Read more in [Economic Comment](#).

**MPC's Henryk Wnorowski** said that interest rate hikes would probably be finished by now it was not for the Russian aggression on Ukraine. In his view, hikes will follow the conflict and assumption that the cycle will end at 6.5% seems to be too optimistic, as "markets have to take into consideration rates at 7.5%".

In 2021 the **NBP recorded a PLN11bn profit**. In line with the NBP act, 95% of this sum will be transferred to the central budget. Last year the NBP decided to diversify its reserve assets and purchased Canadian dollars. This happened at the cost of US dollars – their share in reserve assets declined from 51% at the end of 2021 to 36% at the end of 2021. Moreover, the NBP was also investing in stock futures.

According to Friday's GUS statement, the **result of public finance sector** in 2021 reached -PLN49bn, i.e. 1.9% of GDP (at the end of this week GUS is supposed to show revised GDP data for the last years and then the ratio will be officially announced).

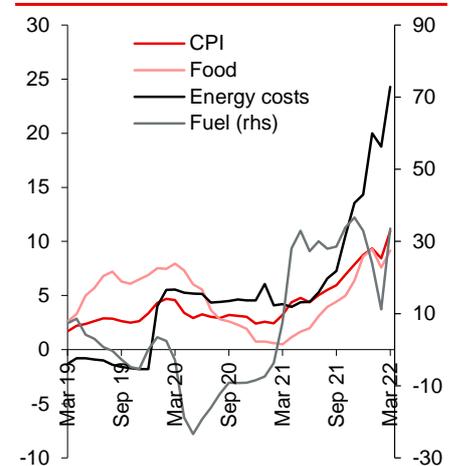
The **ban on importing Russian coal** has been officially introduced. The decision will not be neutral for inflation, but the impact is not easy to calculate. The use of Russian coal (mainly for heating by households and some heat plants) resulted mainly from its lower price. The impact on CPI could reach at least a few tenths of a percentage point.

On Friday the main global financial market hubs were closed due to holiday period, so markets were idle. Data about US industrial production for March - higher than expected and with upward revision of previous month – plus regional business climate indicator US Empire Manufacturing showing the biggest m/m jump since 2001, well above the neutral level, affected markets only yesterday, leading to further dollar strengthening. Another reason for sliding **EURUSD** could be the looming second round of presidential elections in France (next weekend) and the comment from Fed's James Bullard that 75bp rate hike could be under consideration.

**EURPLN** seems to have settled in the range 4.61-4.66 and it may need a strong impulse to break away. The March data releases are unlikely to deliver such impulse, in our view (unless we see strong surprises), thus we assume a continuation of the horizontal trend after Easter.

**Polish debt market** is awaiting another test on Thursday – the bond auction with the supply initially planned at PLN3-8bn.

CPI inflation, % y/y



Source: GUS, Santander

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### FX market

Today's opening			
EURPLN	4.6138	CZKPLN	0.1894
USDPLN	4.2812	HUFPLN*	1.2214
EURUSD	1.0774	RUBPLN	0.0536
CHFPLN	4.5408	NOKPLN	0.4854
GBPPLN	5.5761	DKKPLN	0.6222
USDCNY	6.3734	SEKPLN	0.4492

\*for 100HUF

Last session in the FX market						18.04.2022
	min	max	open	close	fixing	
EURPLN	4.610	4.630	4.630	4.619	4.638	
USDPLN	4.264	4.297	4.291	4.282	4.287	
EURUSD	1.078	1.081	1.079	1.078	-	

### Interest rate market 18.04.2022

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.27	0
DS0726 (5Y)	6.48	0
DS0432 (10Y)	5.95	0

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.51	0	2.13	0	-0.01	-2
2L	6.42	0	2.71	2	0.72	0
3L	6.16	0	2.80	-1	1.05	2
4L	5.93	0	2.82	0	1.19	0
5L	5.76	0	2.83	0	1.28	1
8L	5.42	0	2.89	5	1.47	1
10L	5.30	0	2.88	3	1.58	3

#### WIBOR rates

Term	%	Change (bps)
O/N	4.40	10
T/N	4.53	0
SW	4.58	0
2W	4.60	0
1M	4.78	4
3M	5.54	3
6M	5.80	2
1Y	6.00	3

#### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	6.40	-6
3x6	6.63	0
6x9	6.70	0
9x12	6.59	0
3x9	6.89	0
6x12	6.90	3

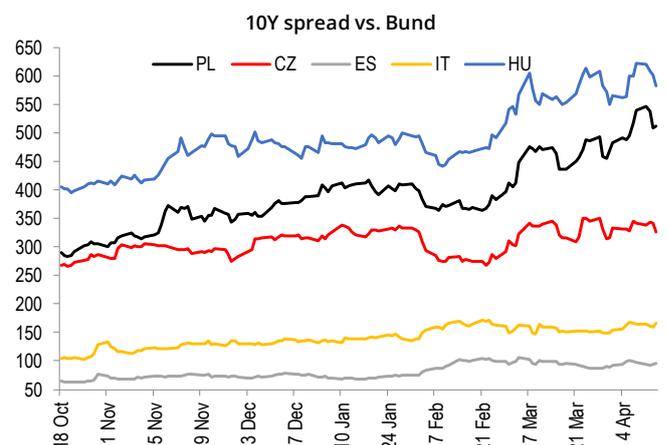
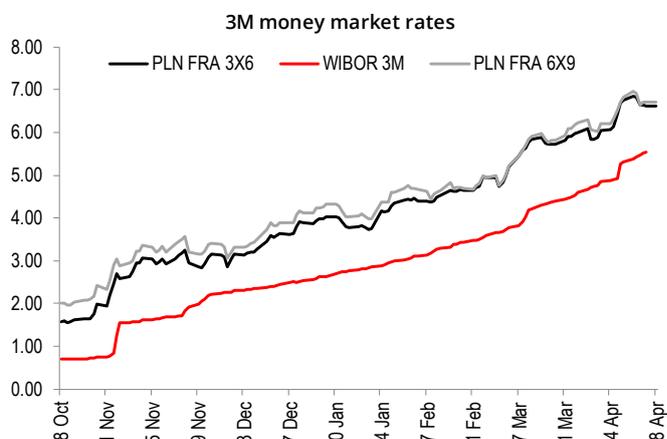
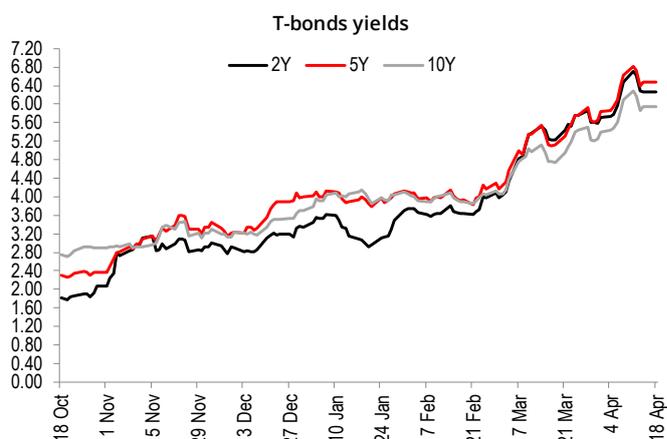
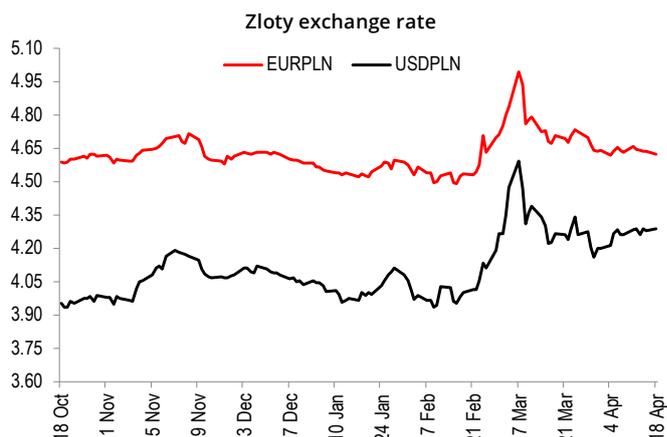
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	511	3
France	13	0	50	0
Hungary	97	0	583	-18
Spain	43	0	95	2
Italy	52	0	165	6
Portugal	30	0	101	0
Ireland	12	0	59	-1
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		
<b>FRIDAY (15 April)</b>								
10:00	PL	CPI	Mar	% y/y	10.9	10.9	11.0	10.9
15:15	US	Industrial Production	Mar	% m/m	0.4	-	0.9	0.9
<b>MONDAY (18 April)</b>								
04:00	CN	GDP	1Q	% y/y	4.2	'	4.8	4.0
<b>TUESDAY (19 April)</b>								
14:00	PL	CPI Core	Mar	% y/y	7.0	7.0	-	6.7
14:30	US	Housing Starts	Mar	% m/m	-1.6	-	-	6.8
<b>WEDNESDAY (20 April)</b>								
11:00	EZ	Industrial Production SA	Feb	% m/m	0.7	-	-	0.0
16:00	US	Existing Home Sales	Mar	% m/m	-4.2	-	-	-7.2
<b>THURSDAY (21 April)</b>								
10:00	PL	Employment in corporate sector	Mar	% y/y	2.4	2.3	-	2.2
10:00	PL	Sold Industrial Output	Mar	% y/y	11.6	13.9	-	17.6
10:00	PL	PPI	Mar	% y/y	18.1	18.1	-	15.9
10:00	PL	Average Gross Wages	Mar	% y/y	10.6	10.6	-	11.7
11:00	EZ	HICP	Mar	% y/y	7.5	-	-	7.5
14:30	US	Initial Jobless Claims		k	180	-	-	185
14:30	US	Index Philly Fed	Apr		20.0	-	-	27.4
<b>FRIDAY (22 April)</b>								
09:30	DE	Germany Manufacturing PMI	Apr	pts	54.5	-	-	56.9
09:30	DE	Markit Germany Services PMI	Apr	pts	55.3	-	-	56.1
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	54.7	-	-	56.5
10:00	EZ	Eurozone Services PMI	Apr	pts	55.0	-	-	55.6
10:00	PL	Construction Output	Mar	% y/y	14.8	15.5	-	21.2
10:00	PL	Retail Sales Real	Mar	% y/y	8.8	7.8	-	8.1

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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