

Eyeopener

Core CPI did not reach 7% but still record high

Today Eurozone industrial output
IMF cuts growth forecasts
All Polish core inflation measures set new records

Today we will see data about industrial production in the euro zone and home sales in the USA. Market is quite optimistic about the situation in European industry but we should remember the data are for February, when the impact of war in Ukraine was still hardly visible. In the following months manufacturing may struggle with disruptions in supplies of key components due to the war, but also due to the lockdown of cities in China. In France there will be a live debate between Emmanuel Macron and Marine Le Pen. Today in the morning PPI data in Germany showed a sharp jump in prices: 4.9% m/m vs expected 2.7%; the annual growth soared from 25.9% to 30.9%. Instead of the anticipated slight rate cut by 5bp, the Chinese central bank kept 1Y and 5Y loan prime rates on hold.

The **IMF** released its spring edition of economic forecasts. Global GDP growth forecast was revised lower to 3.6% in 2022 and 2023 (from 4.4% and 3.8% in January), mainly due to the Russian invasion on Ukraine. Also the lockdown in China had negative impact on the economic growth outlook. Inflation forecasts went up – to 5.7% from 3.9% for developed economies and to 8.7% from 5.9% for emerging economies. GDP growth forecast for Poland was trimmed from 4.6% to 3.7% in 2022 and from 3.7% to 2.9% in 2023. These expectations are not far from our forecasts for Poland.

In March not only all **core inflation** measures jumped in March but all four of them hit all-time highs. Core inflation ex food and energy prices increased to 6.9% y/y from 6.7% in February and we are expecting it to climb further in the months to come and to approach 8% in mid-2022. Core inflation ex administered prices reached 10.6% y/y vs 8.0% in February, inflation ex most volatile prices was at 7.9% y/y vs 7.5% in February and 15% trimmed mean was at 7.8% y/y vs 7.0% y/y last month.

NBP governor told PAP that the war has lifted the CPI inflation by 2.4pp (out of the entire 2.5pp increase) as compared to February. Our estimate is slightly lower, at 2.0pp. We think inflation will keep climbing in the coming months, but not as quickly as in the recent months. We expect the peak at 11.5% y/y in June. We think the MPC will hike interest rates by 50bp in May and in June.

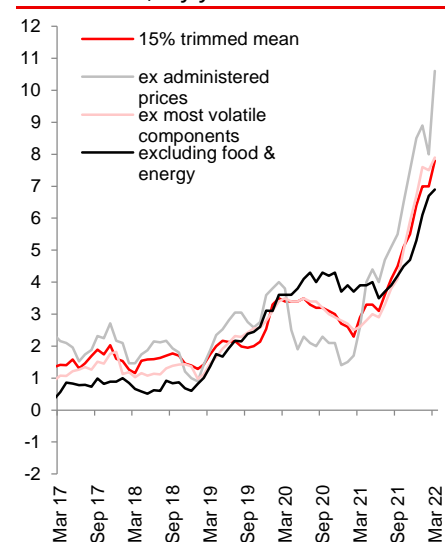
Yesterday the **market** was occupied with returning to pre-Easter levels (Thursday was the last trading day on most global markets), but not all assets managed to do that. S&P500 rebounded by c1.5% quite quickly, the German equity market lost at the opening of the session and tried to make up for the loss for the rest of the day. Brent oil price, which was close to 114\$ per barrel yesterday morning, fell to 108\$ at the end of the day. In general, commodities had to deal with weaker growth prospects presented by the IMF. **EURUSD** went back to 1.08. Another signal affecting the market was the comment of James Bullard we mentioned in the yesterday edition of our daily, who said that the Fed can hike rates by 75bp (last time such a move was applied was in 1994). Core market yields reached to long unseen levels: 10Y UST surpassed 2.90% and was at 3-year peak, while the rise 10Y Bund yield slowed down only upon reaching 0.95%, about 15bp above pre-Easter levels and at the highest level in more than 6 years. Let us note that the new IMF economic growth forecasts showed such a small downward revision for the USA that the forecast for this country for 2023 is above the global average.

The **zloty** was underperforming the CEE region, as it lost 0.5% against the euro. The all-time high core inflation did not help the currency, similarly as the strong MPC hike earlier in April. Still, EURPLN remained in the April's relatively narrow trading range.

Other CEE currencies: EURHUF outperformed the weakening zloty and the stagnant koruna, as it prolonged its downward trend. On Monday the pair managed to break 375 and to close below that level, providing a technical signal for further declines. At the end of the day the rate was at 372 (the forint gained 0.5% versus the euro).

On the **interest rate market** the rising core yields gave a signal for a sell-off of Polish bonds. The domestic curve went up by 30bp (the front end a bit less), amid rise of IRS rates by 15-20bp. On the day when MPC's Henryk Wnrowski said that the main rate might even reach 7.5%, the FRA rates moved up by 20bp. However, the market is still expecting the Council to increase rates by 100bp in its next move. The debt market liquidity remains low and the demand may be additionally withheld by the prospects of a large Thursday's auction (the Finance Ministry fine-tuned its initial plan and wants to offer papers worth PLN3-7bn instead of earlier indication of PLN3-8bn).

Core inflation, % y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.6261	CZKPLN	0.1889
USDPLN	4.2785	HUFPLN*	1.2474
EURUSD	1.0812	RUBPLN	0.0535
CHFPLN	4.4987	NOKPLN	0.4854
GBPPLN	5.5727	DKKPLN	0.6218
USDCNY	6.4017	SEKPLN	0.4500

*for 100HUF

Last session in the FX market						19.04.2022
	min	max	open	close	fixing	
EURPLN	4.610	4.655	4.615	4.643	4.636	
USDPLN	4.275	4.313	4.285	4.303	4.289	
EURUSD	1.077	1.081	1.077	1.079	-	

Interest rate market 19.04.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.55	28
DS0726 (5Y)	6.82	34
DS0432 (10Y)	6.32	37

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.69	18	2.21	8	-0.01	0
2L	6.57	15	2.83	12	0.71	-1
3L	6.32	16	2.95	15	1.04	-1
4L	6.11	19	2.96	14	1.20	2
5L	5.94	18	2.96	14	1.31	2
8L	5.60	18	2.97	8	1.51	4
10L	5.47	17	2.98	10	1.62	4

WIBOR rates

Term	%	Change (bps)
O/N	4.29	-11
T/N	4.51	-2
SW	4.58	0
2W	4.61	1
1M	4.82	4
3M	5.57	3
6M	5.83	3
1Y	6.04	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.57	17
3x6	6.85	22
6x9	6.86	16
9x12	6.83	24
3x9	7.12	23
6x12	7.05	16

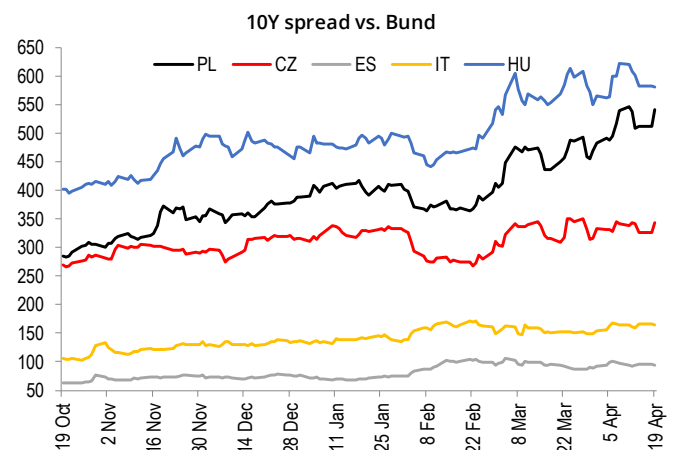
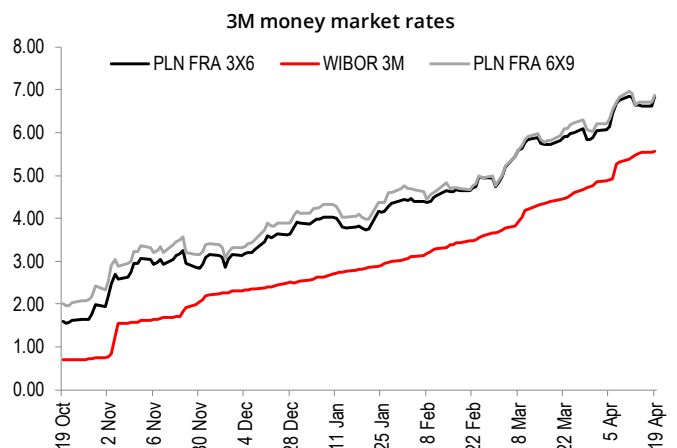
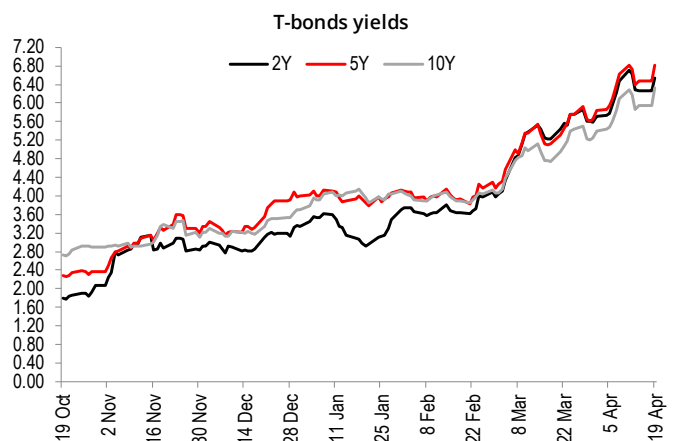
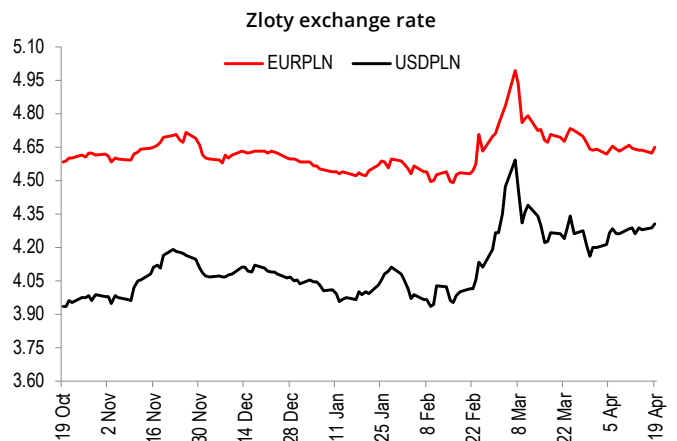
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	540	29
France	13	0	48	-3
Hungary	97	0	580	-3
Spain	43	0	93	-2
Italy	52	0	164	-1
Portugal	30	0	99	-2
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		
FRIDAY (15 April)								
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
MONDAY (18 April)								
04:00	CN	GDP	1Q	% y/y	4.2	'	4.8	4.0
TUESDAY (19 April)								
14:00	PL	CPI Core	Mar	% y/y	7.0	7.0	6.9	6.7
14:30	US	Housing Starts	Mar	% m/m	-1.6	-	0.3	6.8
WEDNESDAY (20 April)								
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
THURSDAY (21 April)								
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
FRIDAY (22 April)								
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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