

Eyeopener

MPC's Litwiniuk warns about high inflation

Today plenty of important domestic data, including March industrial output
MPC's Litwiniuk: CPI can reach 17% y/y, but we are closer to the end of rate hike cycle
ECB's Nagel and Kazaks on possible rate hike already in 3Q.

Today we will see a number of important data releases in Poland: industrial output, wages and employment, PPI, consumer confidence. We will look for any influence of war in Ukraine, which may be visible in particular in production of cars (some factories stopped due to lack of components from Ukraine). The Sejm's Justice Committee will resume work on draft bills introducing changes in judiciary system (in particular, eliminating the Disciplinary Chamber of the Supreme Court). According to media there seems to be a growing consensus in the ruling coalition regarding the next steps in this area, which may allow for progress in legislation that is needed to unblock the Polish recovery and resilience plan. Abroad, euro zone inflation will be released, US new jobless claims and Philly Fed index and in the evening speeches by Jay Powell and Christine Lagarde.

Yesterday's data showed that **euro zone's industrial output** rose 0.7% m/m in February, as expected, even though the January data were revised down. The war in Ukraine implies, however, that in the next months the problems with supply chains, which have just softened, may deepen again. **Czech PPI** inflation surprised to the upside (24.7% y/y, forecast 21.1%). Also, **ECB members' comments** appeared – Martins Kazaks said the bank could start hiking rates already in July due to inflationary risks; Joachim Nagel's message was similar: in his view the ECB may end asset purchases at the end of Q2 and raise rates in Q3.

MPC's Przemysław Litwiniuk said "it is hard to point to any target level of interest rates, but I hope we are close to the end of the hiking cycle". He thinks inflation in Poland will not reach 20% ("it could be 17%, but it is fortune telling") and the peak will take place between July and September. In our view, if inflation indeed jumps to levels indicated by the MPC member, it would be far too early to talk about the end of tightening cycle. Our baseline scenario assumes the CPI peak not much above 11% and NBP rate hikes stopping at 5.5%.

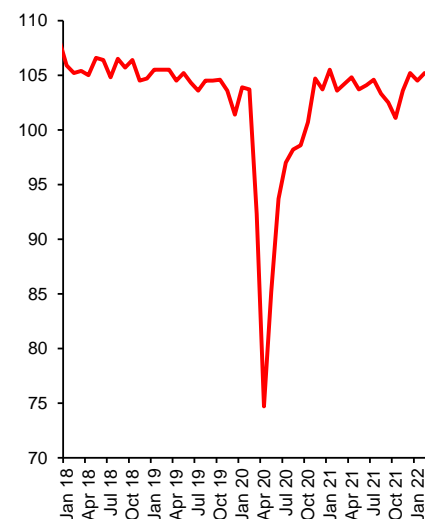
Markets were in a positive sentiment, Tuesday's developments were continued: stock markets went up, **EURUSD** climbed a bit, to 1.085 (this move was somewhat prolonged after evening debate Macon-Le Pen) and EURCHF moved to the highest level since the start of the month, to 1.03. Brent oil declined 2\$ more per barrel. Core bonds markets saw a correction after a strong rise in yields, with 2Y segment in the USA and in Germany staying put and the longer end declining by 7 and 5bp, respectively. We cannot say the market decided that the comment of James Bullard, which triggered a rise in yields one day earlier was only an opinion of radical hawk and does not reflect the Fed bias. Pricing of the upcoming May hike in the USA slightly exceeded 50bp yesterday and pricing of the following hikes to be delivered in 2022 even increased after surpassing 225bp on Tuesday.

EURPLN gained some strength after its Tuesday weakness, which had not been in line with the behaviour of other CEE currencies, and reached 4.64, which seems to be a focal point of the FX pair's April trading.

The Czech koruna and the forint gained slightly versus the euro yesterday, similarly to the zloty. The CNB head Jiri Rusnok said that given inflation which can top 13-14% y/y and the following slowdown at the year-end, on one hand further hikes cannot be ruled out, but on the other they should be merely cosmetic changes. Germany announced it will stop importing Russian oil at the end of 2022 (and cut 50% of imports until summer), and then will move on to planning the resignation from Russian natural gas. USDRUB returned to pre-Easter levels, above 82.

On the **domestic interest rate market** the bond yields went down by 10-15bp and IRS rates by 4-8bp. Still, both are some 15-25bp higher than a week ago despite this correction. A bond auction takes place today, the second one this month. T-bonds worth over PLN22bn are maturing on the auction's settlement date (25 April), so it seems that sales even at the higher bound of the supply (set at PLN3-7bn) will not be problematic, even assuming that the NBP will not reinvest its share worth over PLN7bn. If it is not the case, then it would be a worrying signal about Polish debt market, especially given the expected by us increase in T-bond supply later in the year.

Euro zone industrial output, index 2015 average = 100



Source: Refinitiv, Santander

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FX market

Today's opening

EURPLN	4.6353	CZKPLN	0.1900
USDPLN	4.2697	HUFPLN*	1.2372
EURUSD	1.0854	RUBPLN	0.0525
CHFPLN	4.4948	NOKPLN	0.4849
GBPPLN	5.5757	DKKPLN	0.6229
USDCNY	6.4471	SEKPLN	0.4523

*for 100HUF

Last session in the FX market 20.04.2022

	min	max	open	close	fixing
EURPLN	4.623	4.639	4.634	4.633	4.630
USDPLN	4.258	4.291	4.282	4.268	4.271
EURUSD	1.080	1.087	1.082	1.085	-

Interest rate market 20.04.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.43	-12
DS0726 (5Y)	6.63	-19
DS0432 (10Y)	6.12	-21

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.70	1	2.23	2	-0.01	0
2L	6.52	-5	2.81	-2	0.69	-2
3L	6.27	-5	2.93	-2	1.00	-3
4L	6.03	-9	2.92	-4	1.17	-4
5L	5.89	-6	2.90	-6	1.27	-3
8L	5.57	-3	2.88	-9	1.46	-5
10L	5.47	0	2.86	-12	1.57	-6

WIBOR rates

Term	%	Change (bps)
O/N	4.40	11
T/N	4.49	-2
SW	4.58	0
2W	4.62	1
1M	4.87	5
3M	5.65	8
6M	5.88	5
1Y	6.07	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.51	-7
3x6	6.83	-2
6x9	6.83	-4
9x12	6.81	-3
3x9	7.06	-6
6x12	7.00	-6

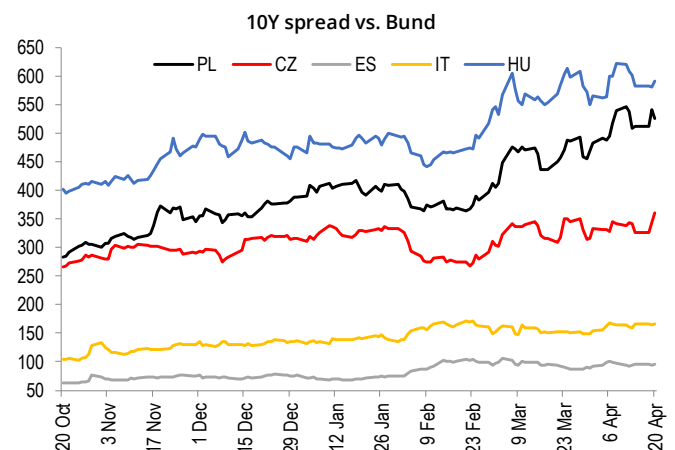
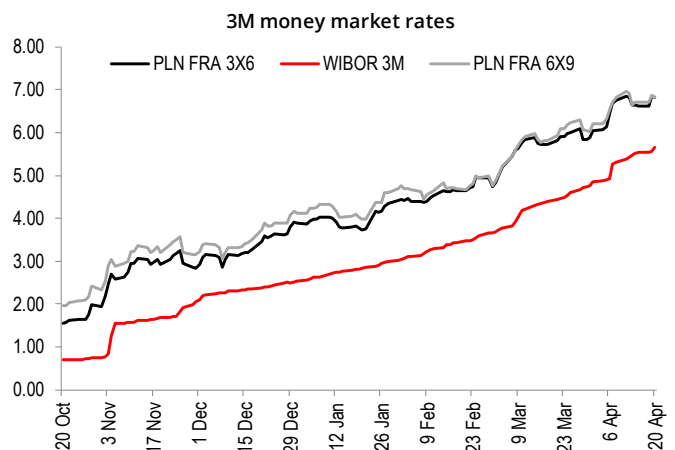
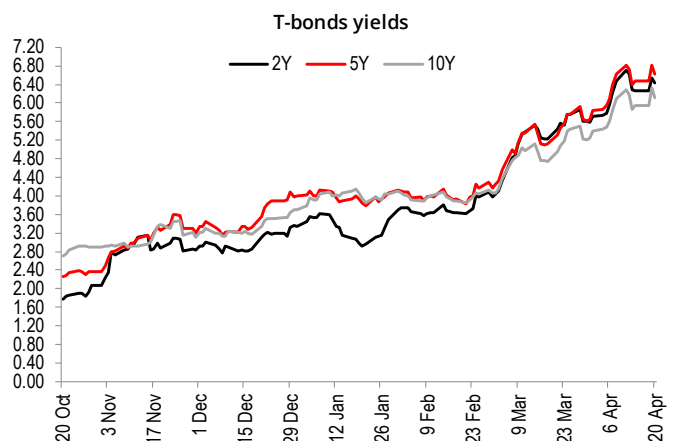
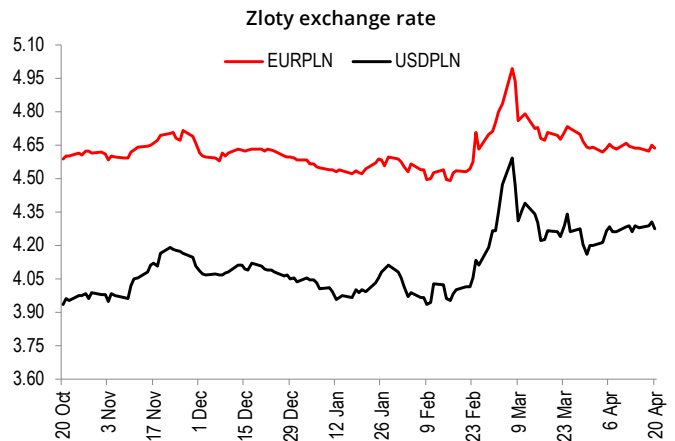
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	80	0	525	-15
France	13	0	48	1
Hungary	107	10	592	12
Spain	43	0	95	2
Italy	53	1	166	2
Portugal	30	0	100	2
Ireland	12	0	59	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 (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	-	0.7	-0.7
16:00	US	Existing Home Sales	Mar	% m/m	-4.2	-	-2.7	-8.6
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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