25 April 2022

Eyeopener

Strong ending of the first quarter

Today Poland's money supply, German Ifo
Emmanuel Macron won presidential elections in France
After strong March data we see 1Q GDP growth closer to 8% than 7%
Government foresees this year's fiscal deficit at 4.4% of GDP

Today in Poland money supply data will be released – we expect a deceleration in both loans and deposits, due to higher incertainty after the start of war in Ukraine. German Ifo index of business climate will be also released.

Flash PMIs for April on Friday have shown on a continuation of activity rebound in euro zone services amid relaxing pandemic restrictions across Europe. Still, it could be a short-lived phenomenon. Manufacturing, more exposed to global factors (war in Ukraine, problems with supply chains) suffered deterioration of sentiment, yet smaller than expected. Indicators of current production went down (in Germany to the lowest level since the early stage of Covid-19) and new orders also worsened.

On Friday we again got to see a set of strong March numbers. **Retail sales** increased by 9.6% y/y, more than expected, and detailed data showed a surprisingly strong sales of durable goods, including cars and household appliances. Also the **construction** has embarked on an upward trend and recorded an output increase by 27.6% y/y, even though housing construction is showing declining numbers of new house starts. **Business climate** indicators showed some improvement in April after the decline in March, but companies are reporting negative effects of the war, mostly rising costs and disruption in supply chains (especially in manufacturing, construction and wholesale trade). Every tenth company in construction, restaurants/hotels and wholesale trade is worried that their financial stability is threatened. At the same time, companies are reporting strong two-way flows of labour force to and from Ukraine. Outflow is dominating in construction, transport and manufacturing, inflow in restaurants/hotels and trade. March data suggest that **GDP growth in 1Q22 was closer to 8% y/y than 7%**, which is also raising the expected path for the entire year. More in our Economic Comment.

According to spring fiscal notification, sent by the government to the Eurostat, **fiscal deficit will rise this year to c.4.4% of GDP** (our estimate: 4.7%), and the cost of debt servicing will be PLN49bn, instead of PLN29bn planned in the budget.

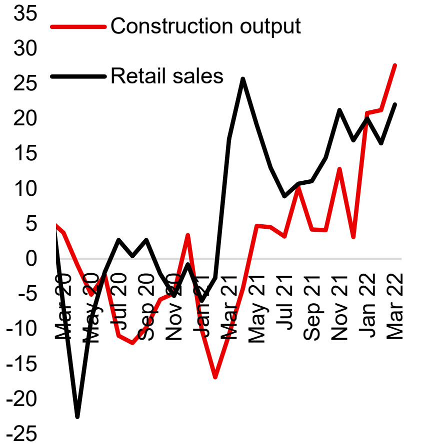
On Friday the key market theme was rising expectations for Fed's interest rate hikes (markets already see Fed funds rate in December c.250bp higher than today). It triggered weakness in equity markets, which this time also affected Europe. **EURUSD**, despite solid PMIs for the euro zone, was testing 1.08 during the day and fell below that level at close. Today initially the euro did not react significantly to Emmanuel Macron's victory in French presidential elections, but now EURUSD is lower, near 1.072.

EURPLN remained stable on Friday – despite another set of surprisingly strong data from the Polish economy. Note that the stability of PLN last week was a quite positive result compared to the losses of many non-CEE EM currencies. This morning EURPLN temporarily breached 4.65, but we do not see factors that could break the horizontal trend in the coming days, at least before CPI data (apart from a potential military escalation in Ukraine after information that Vladimir Putin lost interest in diplomatic solution).

Other CEE currencies: EURCZK held on to a downside trend, something EURHUF did not manage to achieve after hitting and rebounding from a technical level of 370. Tomorrow the Hungarian central bank holds a meeting and the markets expects a 100bp rate hike. On Friday also the Russian central bank will be deciding on rates (the market sees a 200bp cut here).

On the **interest rate market** after the streak od stronger-than-expected Polish data the market pricing of future interest rate hikes increased even more (FRA6x9 is already at 7.3%). The rise of domestic bond yields is also stimulated by the trend of weaker core market bonds. It is hard to point to factors that could materially change the situation before Friday. Only a downside surprise in local inflation might stop the rise of expectations about the MPC's next moves. On Friday on core bond markets there was mostly a rise of 2Y yields, while in Poland the whole curve went up by 8-10bp. What is important, it was another day when IRS rates moved more than bond yields. Aa a result asset swap spreads narrowed significantly, e.g. 5Y ASW which was recently around 90bp , on Friday was at 55bp.

Selected measures of economic activity in Poland, % y/y



Source: GUS, 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 Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4.6485	CZKPLN	0.1907
USDPLN	4.3252	HUFPLN*	1.2391
EURUSD	1.0742	RUBPLN	0.0578
CHFPLN	4.4975	NOKPLN	0.4804
GBPPLN	5.5265	DKKPLN	0.6250
USDCNY	6.5489	SEKPLN	0.4502

*for 100HUF

Last session in the FX market 22/04/2022

	min	max	open	close	fixing
EURPLN	4.627	4.649	4.637	4.647	4.636
USDPLN	4.268	4.313	4.275	4.306	4.294
EURUSD	1.077	1.085	1.084	1.079	-

Interest rate market 22/04/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.57	0
DS0726 (5Y)	6.79	8
DS0432 (10Y)	6.32	10

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	7.13	21	2.41	5	0.17	8
2L	6.96	25	2.93	-4	0.93	10
3L	6.70	24	3.02	-4	1.23	10
4L	6.42	21	3.00	-5	1.36	8
5L	6.25	21	2.97	-4	1.44	7
8L	5.89	14	2.93	-4	1.59	5
10L	5.77	18	2.93	-1	1.68	4

WIBOR rates

Term	%	Change (bps)
O/N	4.25	-7
T/N	4.53	2
SW	4.58	0
2W	4.75	8
1M	4.93	3
3M	5.74	6
6M	5.93	2
1Y	6.15	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.86	17
3x6	7.35	24
6x9	7.37	27
9x12	7.37	30
3x9	7.58	24
6x12	7.58	29

Measures of fiscal risk

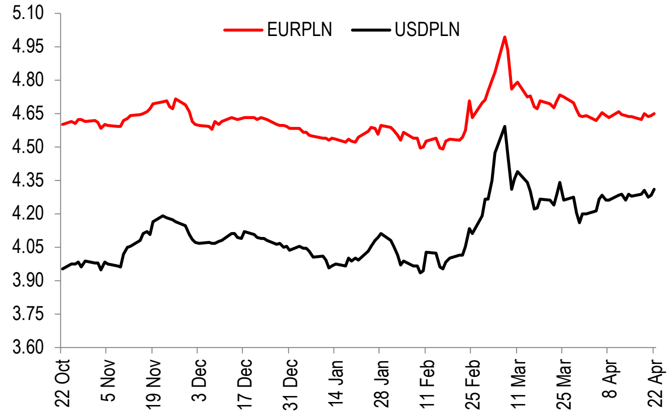
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	82	0	540	10
France	13	0	49	3
Hungary	107	0	596	2
Spain	45	3	101	5
Italy	55	3	174	9
Portugal	31	1	107	6
Ireland	12	0	64	4
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

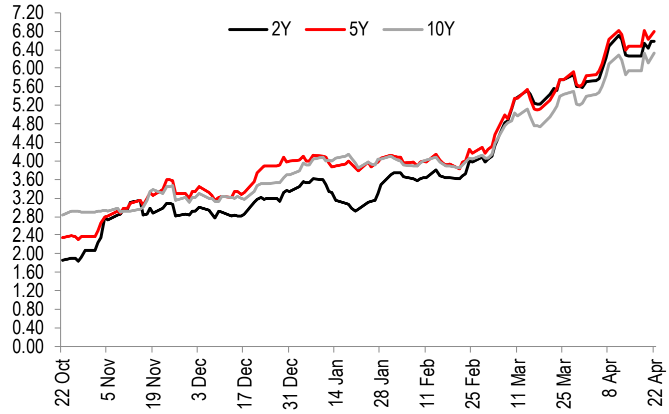
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

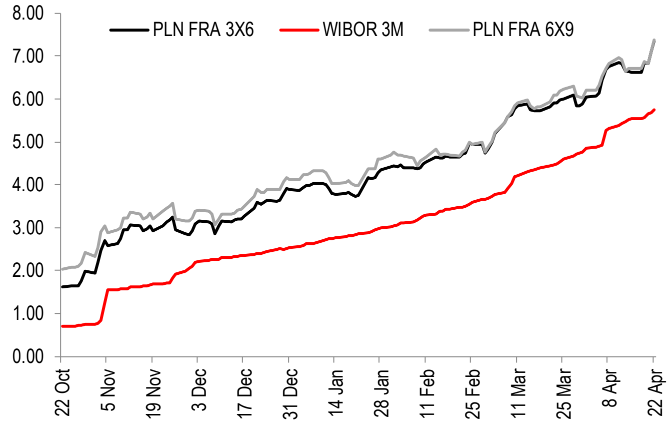
Zloty exchange rate



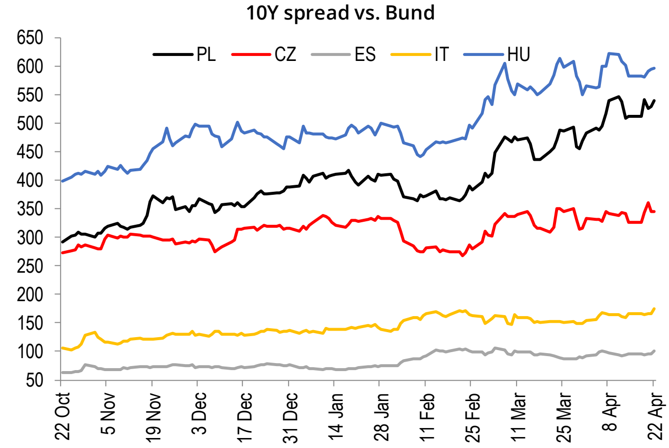
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (22 April)					
09:30	DE	Germany Manufacturing PMI	Apr	pts	54.5	-	54.1	56.9
09:30	DE	Markit Germany Services PMI	Apr	pts	55.3	-	57.9	56.1
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	54.9	-	55.3	56.5
10:00	EZ	Eurozone Services PMI	Apr	pts	55.0	-	57.7	55.6
10:00	**PL**	**Construction Output**	**Mar**	**% y/y**	**13.8**	**15.5**	**27.6**	**21.2**
10:00	**PL**	**Retail Sales Real**	**Mar**	**% y/y**	**8.8**	**7.8**	**9.6**	**8.1**
			MONDAY (25 April)					
10:00	DE	IFO Business Climate	Apr	pts	89.1	-	-	90.8
14:00	**PL**	**Money Supply M3**	**Mar**	**% y/y**	**7.8**	**7.6**	**-**	**8.0**
			TUESDAY (26 April)					
10:00	**PL**	**Unemployment Rate**	**Mar**	**%**	**5.4**	**5.4**	**-**	**5.5**
14:00	HU	Central Bank Rate Decision	Apr.22	%	5.40	-	-	4.40
14:30	US	Durable Goods Orders	Mar	% m/m	1.0	-	-	-2.1
16:00	US	Consumer Conference Board	Apr	pts	108.0	-	-	107.2
16:00	US	New Home Sales	Mar	% m/m	0.4	-	-	-2.0
			WEDNESDAY (27 April)					
16:00	US	Pending Home Sales	Mar	% m/m	-0.5	-	-	-4.1
			THURSDAY (28 April)					
11:00	EZ	ESI	Apr	pct.	108.0	-	-	108.5
14:00	DE	HICP	Apr	% y/y	7.6	-	-	7.6
14:30	US	GDP Annualized	1Q	% q/q	1.0	-	-	6.9
14:30	US	Initial Jobless Claims		k	180	-	-	184
			FRIDAY (29 April)					
09:00	CZ	GDP SA	1Q	% y/y	4.3	-	-	3.6
10:00	**PL**	**CPI**	**Apr**	**% y/y**	**11.3**	**11.5**	**-**	**11.0**
10:00	DE	GDP WDA	1Q	% y/y	3.6	-	-	1.8
11:00	EZ	Flash HICP	Apr	% y/y	7.5	-	-	7.5
11:00	EZ	GDP SA	1Q	% y/y	5.1	-	-	4.7
14:30	US	Personal Spending	Mar	% m/m	0.6	-	-	0.2
14:30	US	Personal Income	Mar	% m/m	0.4	-	-	0.5
14:30	US	PCE Deflator SA	Mar	% m/m	6.7	-	-	6.4
16:00	US	Michigan index	Apr	pts	65.7	-	-	59.4

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*

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.