

Eyeopener

Hungary closer to EU funds freeze

Today inflation in Germany, US GDP, possible vote on A.Glapiński's reelection
MPC's Kochalski: interest rates may go up by 100bp next week
EU officially launched conditionality procedure against Hungary

Today is the second day of the Sejm meeting, when re-election of Adam Glapiński as NBP president is likely to be voted. Apart from the broad range of European Commission's business climate indicators for the EU countries we will get to see flash April inflation in Germany – the market is expecting no further acceleration (HICP) or even a small decline (CPI). The first regional indicator, released earlier (North Rhine-Westphalia), suggests that the monthly increase in prices decelerated markedly in April, but the annual indicator was still going up. Also today we will get to see the first (out of three) estimate of US GDP in 1Q22. The market is hoping for a not very spectacular release (burden of omicron, supply disruptions), but at least for a positive one. Also today the Hungarian central bank is setting its weekly deposit rate and it has just announced a move up by 30bp to 6.45% (in line with market expectations) after reference rate hike by 100bp on Tuesday.

MPC member Cezary Kochalski said yesterday that 100bp rate hike is possible at the next meeting on May 5th, but refused to suggest any target interest rate level. In his view, the MPC will stop raising rates when it gets the conviction that CPI will return to the target in the medium run. He thinks that an important source of domestic inflation is overheated labour market and the Russian aggression. In our view, strong data released last week and recent zloty depreciation increase chances that the MPC may lift rates by 100bp next week, instead of 50bp that we used to expect so far. The key factor will be tomorrow's flash CPI.

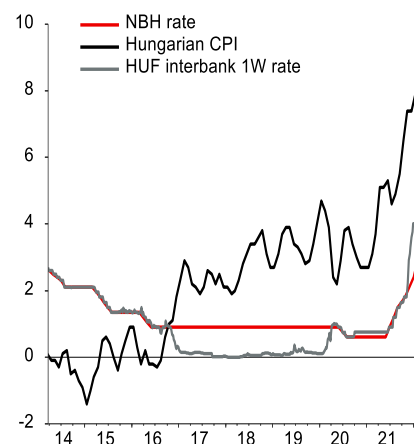
EURUSD reached 1.055 in its downward trend yesterday, unsuccessfully attempting to break through 1.05 during the day. Global market sentiment is supportive for its further decline, but in the short run the pair may be determined by today's data: German inflation and US GDP.

Yesterday **EURPLN** did not try to prolong its sudden Tuesday rise. On the other hand, the pair was stuck between 4.70 and 4.71, as if the market was trying to find a new balance here. We are waiting for Friday flash CPI data – these numbers can decide whether the exchange rate will return to 4.65, where the pair consolidated in April.

Other CEE FX: the Czech koruna and the zloty were gradually recovering from the sudden Tuesday collapse after the information on halted delivery of Russian natural gas to Poland. At the same time the forint kept depreciating despite explanations of the Hungarian foreign affairs minister that the Russian gas will keep flowing to the country without any disturbance because there is a workaround to pay for it in a way accepted by Russia. Viktor Orban a day after the central bank's appeal for tighter fiscal policy decided to extend the cap on fuel and selected foodstuffs until the start of July. The key news for the forint yesterday was however the formal launch by the EC of the budget conditionality procedure, which can lead to a freeze of the inflow of EU funds. Deputy governor of CNB Marek Mora wondered if further rate hikes are needed, observing that the already done tightening is starting to affect domestic demand and inflation is suppressing the growth of real disposable incomes of households. He thinks that interest rates could be left unchanged at the 5 May meeting and while he also mentioned a possibility of a 100bp hike he is tilting towards the former option. Out of 7 board members 2 are regularly voting against rate hikes so even with Mora joining the camp the tightening would not stop yet.

On the **interest rate market** a relatively small rise of Polish bond yields was recorded and the US curve went up by a similar scale of around 5 bp. Bunds strengthened. Asset swap spreads became even a bit tighter which confirms together with no widening of the spread to UST that the rise of Polish yields was not caused by a sell-off of Polish assets due to geopolitics, the way it had worked in the first weeks of the war in Ukraine.

Hungary: CPI vs policy rates



Source: Refinitiv, Santander

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FX market

Today's opening

EURPLN	4.7031	CZKPLN	0.1913
USDPLN	4.4725	HUFPLN*	1.2429
EURUSD	1.0514	RUBPLN	0.0611
CHFPLN	4.6082	NOKPLN	0.4779
GBPPLN	5.5982	DKKPLN	0.6317
USDCNY	6.6016	SEKPLN	0.4527

*for 100HUF

Last session in the FX market

27/04/2022

	min	max	open	close	fixing
EURPLN	4.683	4.716	4.709	4.705	4.708
USDPLN	4.410	4.473	4.423	4.458	4.445
EURUSD	1.051	1.065	1.065	1.054	-

Interest rate market 27/04/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.56	4
DS0726 (5Y)	6.63	4
DS0432 (10Y)	6.16	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.12	6	2.39	7	0.13	2
2L	6.91	4	2.87	11	0.79	-2
3L	6.62	4	2.94	10	1.05	-3
4L	6.37	3	2.92	11	1.19	0
5L	6.19	3	2.89	11	1.27	-2
8L	5.82	6	2.88	12	1.46	0
10L	5.70	6	2.88	13	1.57	1

WIBOR rates

Term	%	Change (bps)
O/N	4.47	-3
T/N	4.53	2
SW	4.65	5
2W	4.89	5
1M	5.06	1
3M	5.88	4
6M	6.10	3
1Y	6.30	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.82	4
3x6	7.32	10
6x9	7.31	9
9x12	7.26	5
3x9	7.55	10
6x12	7.46	7

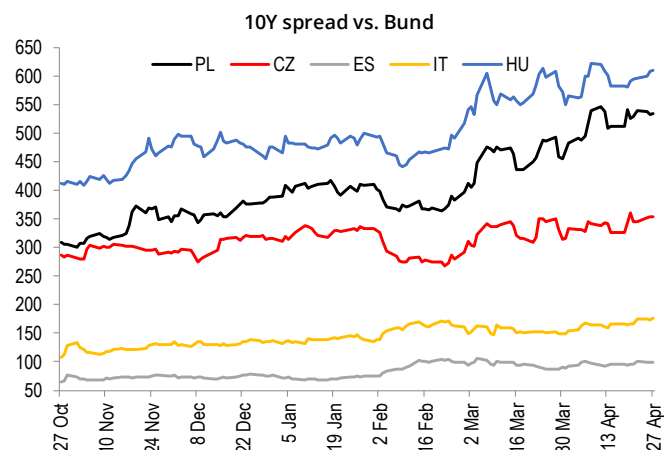
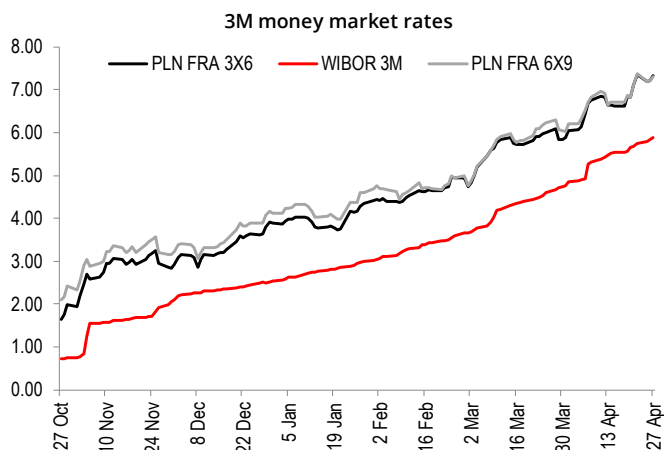
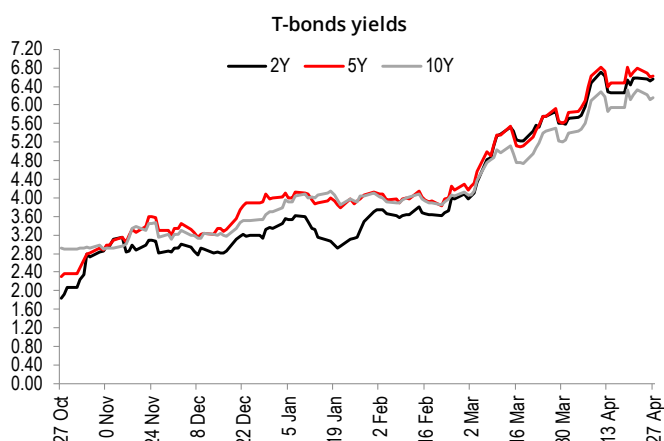
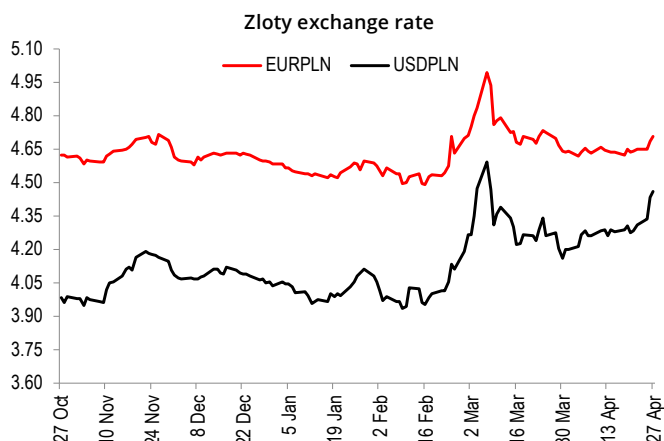
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	82	0	535	3
France	11	0	50	0
Hungary	112	0	610	1
Spain	48	2	99	0
Italy	58	1	177	3
Portugal	33	1	105	0
Ireland	12	0	64	-2
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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
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	-	91.8	90.8
14:00	PL	Money Supply M3	Mar	% y/y	7.8	7.6	7.9	8.0
TUESDAY (26 April)								
10:00	PL	Unemployment Rate	Mar	%	5.4	5.4	5.4	5.5
14:00	HU	Central Bank Rate Decision	Apr.22	%	5.40	-	5.40	4.40
14:30	US	Durable Goods Orders	Mar	% m/m	1.0	-	0.8	-1.7
16:00	US	Consumer Conference Board	Apr	pts	108.0	-	107.3	107.2
16:00	US	New Home Sales	Mar	% m/m	0.4	-	-8.6	-1.2
WEDNESDAY (27 April)								
16:00	US	Pending Home Sales	Mar	% m/m	-0.5	-	-1.2	-4.0
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

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