

Eyeopener

Europe readies embargo on Russian oil

Today FOMC decision, new European sanctions on Russia
 Polish inflation jumped to 12.3% y/y in April, well above forecast again
 Manufacturing PMI slightly lower, ESI slightly higher in April
 Dollar stronger, zloty weaker, bond yields still elevated

Today the US Fed decides about interest rates. Most analysts expect a rate hike by 50bp and this conviction was not weakened by the unexpected fall of US GDP in 1Q (domestic demand remained strong and the price pressure was still high). The recent US data were surprisingly strong (personal revenue and spending released on Friday, as well as yesterday's factory orders, durable goods, JOLTS). Reserve Bank of Australia hiked interest rates by 25bp yesterday. The European Commission will propose the new package of sanctions on Russia today, including embargo on oil imports. It is supposed to take 6-8 months until the imports are stopped; Slovakia and Hungary are to be excluded from the ban.

Moody's confirmed on Friday Poland's sovereign rating at A2 with stable outlook.

Polish Flash CPI jumped to 12.3% y/y in April after 2.0% m/m change of prices. Our forecast and market consensus was at 11.5% y/y. The main source of surprise is food prices, which jumped 4.2% m/m – almost twice as much as we expected. Also energy prices (+2.4% m/m) and fuel prices (-0.8% m/m) were a bit higher than we thought. But core inflation is also on the rise – according to our estimate, core inflation (ex food and energy) soared in April to 7.4% y/y, the new all-time high. The CPI data is another strong argument for decisive monetary tightening (after the set of solid macro data for March). We think that the MPC will hike interest rates by 100bp (to 5.5%) at the meeting next week (May 5).

Poland's manufacturing PMI fell only slightly in April, to 52.4, beating forecasts. New orders have clearly worsened, including foreign ones. Firms reported weaker demand and deepening supply chain disruptions due to war in Ukraine. Cost pressure remained high and firms continued hiring. Forecasts remained weak, although slightly better than in March. In turn, ESI indicator for Poland improved slightly to 98.6 (despite drop in the euro zone and entire EU). Improvement took place in manufacturing, services and retail trade, while construction and consumer confidence deteriorated.

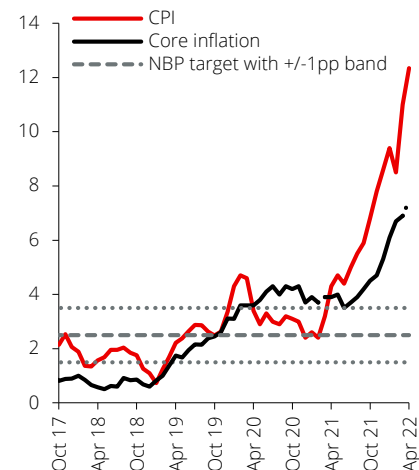
EURUSD after a series of declines, did not try to break through 1.05 just before the long May weekend and jumped up on Friday. Not for long, though and on Monday-Tuesday it struggled again with 1.05 level, although it failed to break it for good.

EURPLN slumped to almost 4.65 just after Polish CPI data release, offsetting most of the Tuesday's jump to 4.70, which occurred after the information that the Russian gas supply to Poland has been cut off. Fast rebound above 4.67, however, showed that, so far, the market has no sufficient arguments for sustainable EURPLN return to the range of 4.61-4.65 in which the rate has been hovering in the last few weeks. On Monday-Tuesday EURPLN approached the level of 4.70 again. NBP rate hike expectations are supportive for the zloty, but on the other hand there are some important risks: Fed rate hike and further appreciation of the dollar, geopolitics, but also local politics (the prolonged clinch in the rule-of-law issue, unstable ruling coalition).

Other CEE currencies, similar to the zloty, were weakening in the first days of May due to the stronger dollar and poor global market sentiment. EURHUF stopped for a while before the May holidays having reached the upper bound of its April trading range, but after the weekend it broke through 380. The Czech koruna lost somewhat on Friday – the positive surprise with 1Q GDP was treated by the market as temporary with the next quarters seen severely weakened by the war – and continued to lose after the weekend. The central bank of Russia cut rates by 300bp, the same size as in early April, instead of the 200bp the market had expected and yet the ruble got stronger vs. the dollar.

On the **interest rate market**, on Friday another upside surprise by CPI sent up bond yields, IRS rates and FRA rates (the 2Y part of the yield curve moved the least due to its already high pricing). The rise of domestic yields was smaller than on core bond markets and even allowed for some tightening of asset swap spreads. We still do not see any factors that could stop the upward trend in yields on the horizon of the nearest weeks. The Ministry of Finance plans to hold one regular bond auction in May (26 May, indicative supply of PLN3-7bn) and one switching auction (12 May). According to ministry's data, in March foreign investors increased their POLGB holdings in net terms by PLN3bn to PLN130bn.

Inflation vs. inflation target in Poland, % y/y



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

FX market

Today's opening			
EURPLN	4.6947	CZKPLN	0.1901
USDPLN	4.4659	HUFPLN*	1.2223
EURUSD	1.0507	RUBPLN	0.0674
CHFPLN	4.5598	NOKPLN	0.4743
GBPPLN	5.5703	DKKPLN	0.6309
USDCNY	6.6080	SEKPLN	0.4513

*for 100HUF

Last session in the FX market						03/05/2022
	min	max	open	close	fixing	
EURPLN	4.680	4.707	4.686	4.688	4.681	
USDPLN	4.438	4.486	4.464	4.450	4.445	
EURUSD	1.049	1.058	1.050	1.053	-	

Interest rate market 03/05/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.67	0
DS0726 (5Y)	6.92	0
DS0432 (10Y)	6.43	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.43	-1	2.57	5	0.28	3
2L	7.21	0	3.05	1	1.02	6
3L	6.94	2	3.13	0	1.29	6
4L	6.67	-2	3.15	3	1.40	2
5L	6.46	-3	3.11	2	1.52	6
8L	6.08	-3	3.05	0	1.66	0
10L	5.95	-1	3.03	-2	1.76	0

WIBOR rates

Term	%	Change (bps)
O/N	4.69	30
T/N	4.66	5
SW	5.24	16
2W	5.32	13
1M	5.37	11
3M	6.14	9
6M	6.34	9
1Y	6.57	17

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.04	4
3x6	7.59	-5
6x9	7.61	-5
9x12	7.61	-3
3x9	7.86	0
6x12	7.87	2

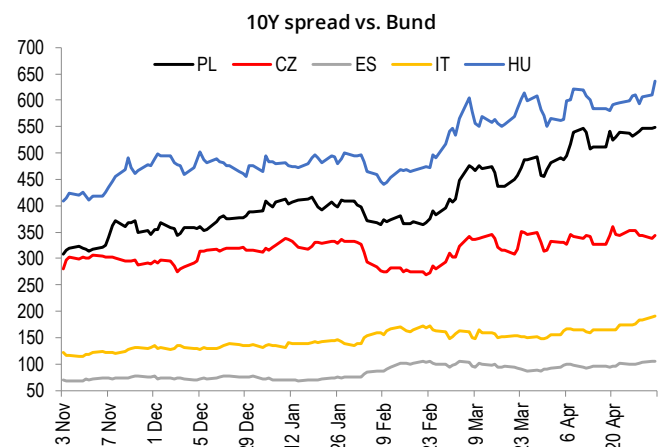
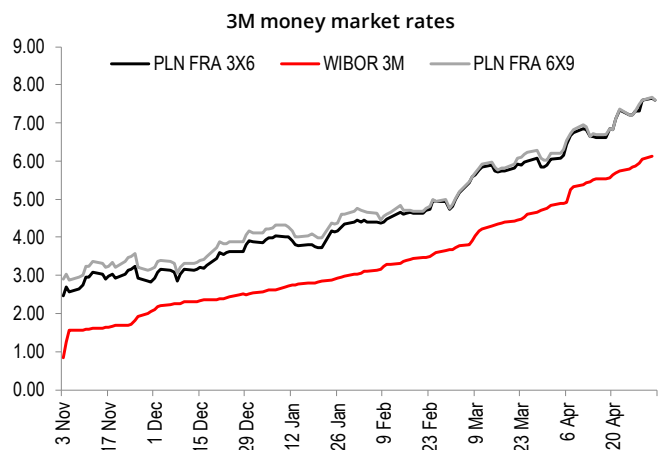
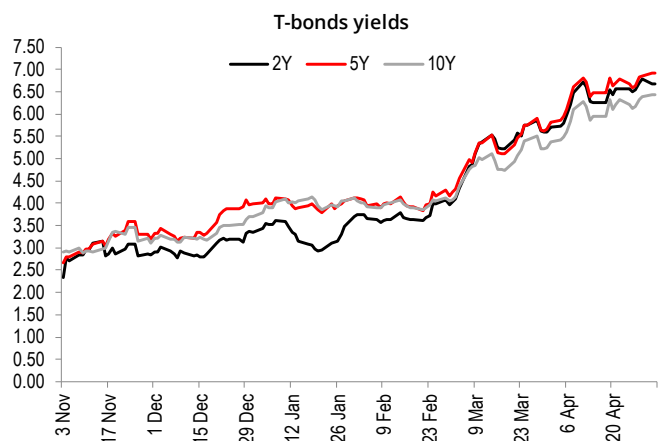
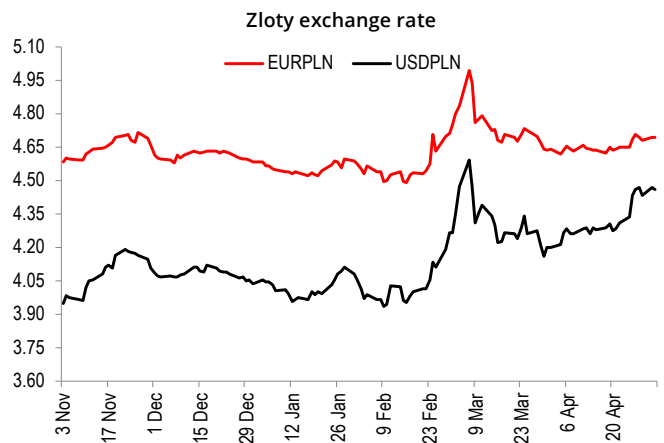
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	0	548	1
France	12	0	52	-1
Hungary	112	0	636	26
Spain	50	3	105	0
Italy	63	3	190	1
Portugal	35	3	111	-1
Ireland	12	0	69	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 (29 April)								
09:00	CZ	GDP SA	1Q	% y/y	4.3	-	4.6	3.6
10:00	PL	CPI	Apr	% y/y	11.4	11.5	12.3	11.0
10:00	DE	GDP WDA	1Q	% y/y	3.6	-	3.7	1.8
11:00	EZ	Flash HICP	Apr	% y/y	7.5	-	7.5	7.5
11:00	EZ	GDP SA	1Q	% y/y	5.0	-	5.0	4.7
14:30	US	Personal Spending	Mar	% m/m	0.6	-	1.1	0.6
14:30	US	Personal Income	Mar	% m/m	0.4	-	0.5	0.7
14:30	US	PCE Deflator SA	Mar	% m/m	0.9	-	0.9	0.5
16:00	US	Michigan index	Apr	pts	65.7	-	65.2	65.7
MONDAY (2 May)								
09:00	PL	Poland Manufacturing PMI	Apr	pts	51.4	51.5	52.4	52.7
09:55	DE	Germany Manufacturing PMI	Apr	pts	54.1	-	54.6	56.9
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	55.3	-	55.5	56.5
11:00	EZ	ESI	Apr	pct.	108.0	-	105.0	108.5
16:00	US	ISM manufacturing	Apr	pts	57.7	-	55.4	57.1
TUESDAY (3 May)								
11:00	EZ	Unemployment Rate	Mar	%	6.7	-	-	6.8
16:00	US	Durable Goods Orders	Mar	% m/m	-	-	-	0.8
16:00	US	Factory Orders	Mar	% m/m	1.1	-	-	-0.5
WEDNESDAY (4 May)								
08:00	DE	Exports SA	Mar	% m/m	-2.0	-	-	6.4
09:55	DE	Markit Germany Services PMI	Apr	pts	57.9	-	-	56.1
10:00	EZ	Eurozone Services PMI	Apr	pts	57.7	-	-	55.6
11:00	EZ	Retail Sales	Mar	% m/m	-0.1	-	-	0.3
14:15	US	ADP report	Apr	k	385.0	-	-	455.1
16:00	US	ISM services	Apr	pts	58.7	-	-	58.3
20:00	US	FOMC decision	May.22	%	1.00	-	-	0.50
THURSDAY (5 May)								
	PL	MPC decision		%	5.50	5.50	-	4.50
03:45	CN	Caixin China PMI Services	Apr	pts	41.0	-	-	42.0
08:00	DE	Factory Orders	Mar	% m/m	-0.9	-	-	-2.2
14:30	US	Initial Jobless Claims		k	-	-	-	180.0
14:30	CZ	Central Bank Rate Decision	May.22		5.50	-	-	5.00
FRIDAY (6 May)								
08:00	DE	Industrial Production SA	Mar	% m/m	-1.0	-	-	0.2
09:00	HU	Industrial Production SA	Mar	% y/y	-	-	-	4.5
14:30	US	Change in Nonfarm Payrolls	Apr	k	390	-	-	431
14:30	US	Unemployment Rate	Apr	%	3.6	-	-	3.6

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

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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.