

11 May 2022

Eyeopener

CEE inflation above forecasts

Today Focus on the Sejm: bills concerning rule-of-law
Government showed his bill on support for debtors
Inflation in the CEE region way above forecasts

Today the Sejm's session begins, at which the re-election of NBP president Adam Glapiński will be voted (it has been scheduled for tomorrow afternoon). Today at 10:30 the justice committee will resume work on the judiciary bills, which are key for unlocking the recovery fund for Poland. The **final inflation in Germany** in April was in line with the flash reading at 7.4% y/y (CPI) and 7.8% y/y (HICP). Later today the **US CPI** data for April will be released, where market expects to see a decline due to high base effect (large energy price spike one year ago).

The government has published the **draft bill on support for borrowers**. It assumes introduction of credit holiday for PLN mortgage owners: four months between July and December 2022 (two in each quarter) and four in 2023 (one per quarter). According to the document, the cost for the banks will be PLN4bn per year. Moreover, the government plans to replace the WIBOR as a reference rate for mortgage loans for different, lower indicator, since 1 January 2023. If such new indicator is not agreed by the banks, POLONIA rate will be used. Estimated cost for banks: PLN1bn per year. Banks will also have to contribute PLN1.4bn more to the (already existing) fund for borrowers' support, so the fund will total PLN2bn. We think the first proposal is very controversial. Introduction of credit holidays available for all borrowers implies a clear weakening of the monetary transmission mechanism, which in our view may contribute to higher inflation and NBP interest rates in the end. In particular, in 2H22 borrowers will be paying only one in three loan instalments, so their costs related to the mortgage debt will be even lower than they were when NBP reference rate was at 0.1%.

EURUSD remains in 1.05-1.06 range. The German ZEW index describing economic sentiment as seen by investors showed in May a slightly better result when it comes to the economic outlook (-34.3 pts vs. -42 pts consensus and -41 pts a month ago). However, this was not enough to support the euro, which is still depressed by more aggressive rate hike plans by Fed than by ECB and the geopolitical risk linked to the war in Ukraine – the consequences of which are potentially more harmful to the Eurozone than to the USA.

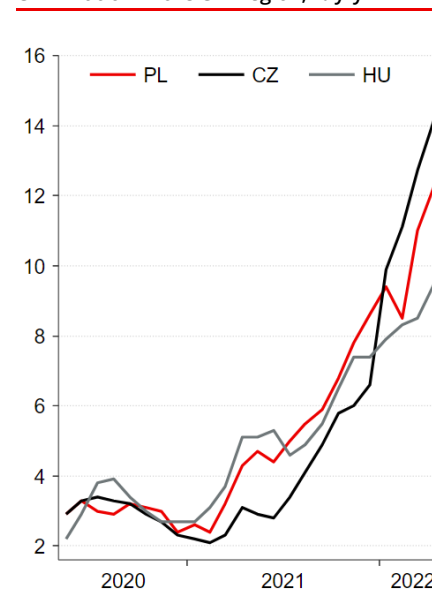
EURPLN ended the Tuesday session around the opening levels, close to 4.68. The appreciation of the zloty which happened since the start of the week due to no escalation of the Russian aggression (some feared a formal declaration of war on the 9 May Victory Day). However the Monday appreciation did not extend to Tuesday due to lack of reasons (the slightly better ZEW print was not enough). The zloty remains depressed by geopolitics and the uncertainty related to the parliamentary votes on the new NBP governor and the liquidation of the Disciplinary Chamber – which could unlock Poland's recovery plan.

Other CEE currencies: April readings of CPI in Czechia and Hungary went not only above the market median but also above the highest of the forecasts gathered by Bloomberg. Yet, there was no response of CZK or HUF, which stayed close to the levels from previous sessions (EURCZK near 25.0, EURHUF close to 380). The Czech inflation was last seen surprising to the downside in May 2021 and the latest reading beat the consensus by 0.9pp (only once in the history dating back to 1998 the deviation was higher than this, in January 2008). Today the Czech president is to name the new central bank head who will replace Jiri Rusnok on 1 July. The Hungarian inflation was 0.6pp above market median – it is the fourth largest upside deviation in history (since 2005).

Debt markets: domestic yields fell despite upward inflation surprises in the region. Bond prices got support from further oil prices decrease (Brent fell almost 3% d/d). Decrease of yields was also observed on the core markets, however, in Germany the whole yield curve moved lower (including 10Y by 10bp), in the US the belly rose slightly higher and the longer end fell by 7bp.

Our brand **new MACROscope Lite** titled "Groundhog Year" was published yesterday. We wrote about an ungrateful task of forecasting inflation, the risk of technical recession in the second half of the year and further rate hikes in Poland.

CPI inflation in the CEE region, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.6724	CZKPLN	0.1872
USDPLN	4.4308	HUFPLN*	1.2284
EURUSD	1.0547	RUBPLN	0.0651
CHFPLN	4.4629	NOKPLN	0.4575
GBPPLN	5.4686	DKKPLN	0.6327
USDCNY	6.7218	SEKPLN	0.4419

*for 100HUF

Last session in the FX market 10/05/2022

	min	max	open	close	fixing
EURPLN	4.669	4.694	4.690	4.678	4.676
USDPLN	4.417	4.447	4.434	4.440	4.422
EURUSD	1.052	1.059	1.057	1.053	-

Interest rate market 10/05/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.77	-4
DS0726 (5Y)	7.32	-4
DS0432 (10Y)	6.97	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.62	0	2.45	4	0.25	-2
2L	7.46	1	2.87	1	0.93	-8
3L	7.21	-2	2.94	-1	1.22	-8
4L	7.01	-3	2.96	-2	1.39	-8
5L	6.88	-3	2.97	-3	1.50	-8
8L	6.61	-3	3.01	-5	1.73	-9
10L	6.55	-2	3.04	-4	1.86	-9

WIBOR rates

Term	%	Change (bps)
O/N	5.01	-7
T/N	5.19	-5
SW	5.34	1
2W	5.37	2
1M	5.43	3
3M	6.36	5
6M	6.62	3
1Y	6.79	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.11	1
3x6	7.71	-1
6x9	7.78	-2
9x12	7.78	-2
3x9	7.94	-1
6x12	8.01	0

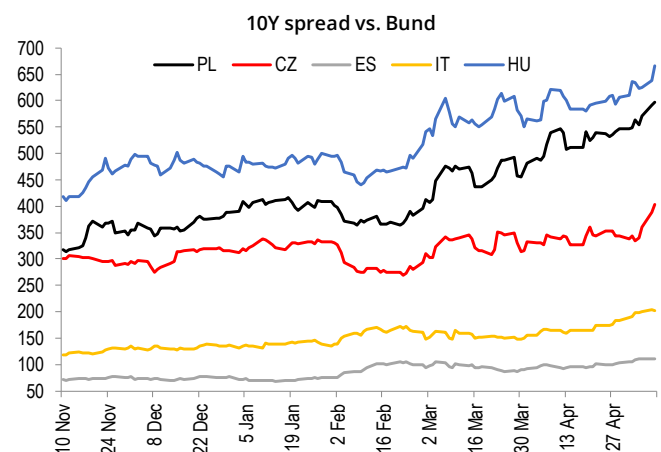
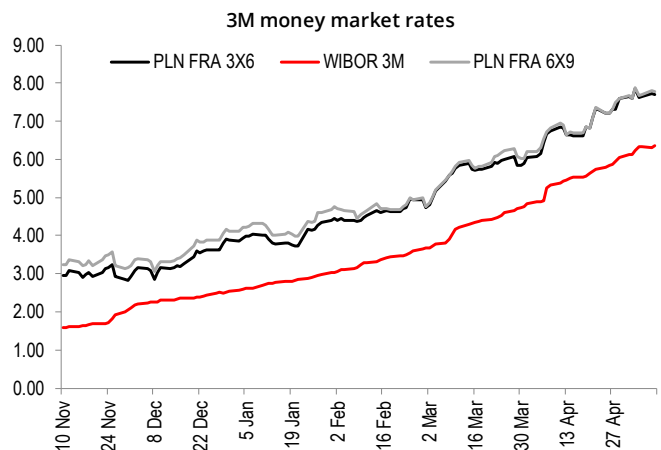
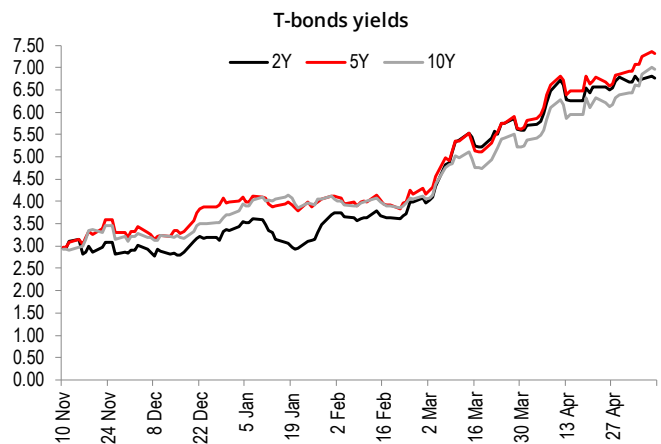
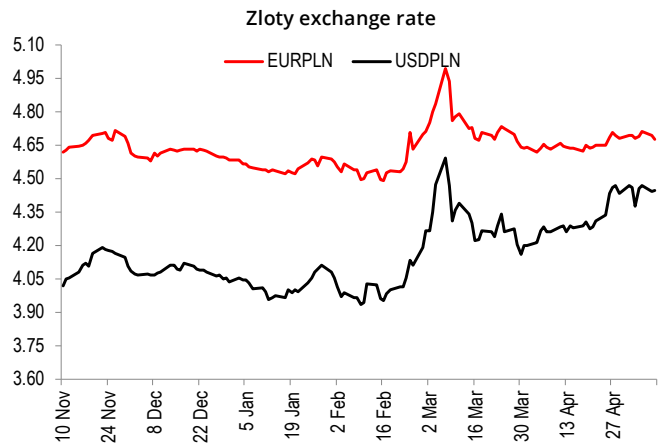
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	95	0	596	6
France	12	0	63	9
Hungary	122	0	666	27
Spain	53	-3	111	-1
Italy	65	-3	201	-3
Portugal	40	0	116	0
Ireland	13	0	68	-6
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 (6 May)								
08:00	DE	Industrial Production SA	Mar	% m/m	-1.3	-	-3.9	0.1
09:00	HU	Industrial Production SA	Mar	% y/y	3.1	-	4.2	4.8
14:30	US	Change in Nonfarm Payrolls	Apr	k	380	-	428	431
14:30	US	Unemployment Rate	Apr	%	3.5	-	3.6	3.6
MONDAY (9 May)								
09:00	CZ	Industrial Production	Mar	% y/y	-2.8	-	-	-0.3
TUESDAY (10 May)								
09:00	CZ	CPI	Apr	% y/y	13.2	-	14.2	12.7
09:00	HU	CPI	Apr	% y/y	8.9	-	9.5	8.5
11:00	DE	ZEW Survey Current Situation	May	pts	-35.0	-	-36.5	-30.8
WEDNESDAY (11 May)								
08:00	DE	HICP	Apr	% y/y	7.8	-	7.8	7.6
14:30	US	CPI	Apr	% y/y	8.1	-	-	8.5
THURSDAY (12 May)								
14:30	US	Initial Jobless Claims		k	-	-	-	200
FRIDAY (13 May)								
10:00	PL	CPI	Apr	% y/y	12.3	12.3	-	11.0
11:00	EZ	Industrial Production SA	Mar	% m/m	-0.7	-	-	0.7
14:00	PL	Current Account Balance	Mar	€mn	-2935	-2478	-	-2871
14:00	PL	Trade Balance	Mar	€mn	-2194	-1836	-	-1741
14:00	PL	Exports	Mar	€mn	26259	25950	-	25270
14:00	PL	Imports	Mar	€mn	28919	28038	-	27011
16:00	US	Michigan index	May	pts	63.7	-	-	65.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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