

Eyeopener

Markets calm despite Fed's more hawkish tone

FOMC kept rates on hold, doubled the tapering speed

Market reaction calm: equities up, EURUSD and UST yields slightly higher

EURPLN fell to 4.62 before FOMC and stabilised afterwards

Today core inflation in Poland, decisions of ECB, BoE, SNB, flash PMI, US production

On Wednesday before the FOMC meeting markets were stable and it referred to main equity indices and 10Y UST (1.44%), Bund (-0.37%) or crude oil (Brent \$72.7). US Empire index for manufacturing surprised to the upside in December (31.9 vs expected 25.0) while November's retail sales disappointed slightly.

FOMC did not change interest rates and doubled the pace of asset purchases reduction (to \$20bn for bonds and \$10bp for MBS monthly). New forecasts of PCE inflation are 5.3% for 2021 and 2.6% for 2022 and for core PCE 4.4% and 2.7%, respectively. Dot plot moved higher and FOMC members now expect three interest rate hikes in 2022 (one more than market anticipated) and three in 2023. Four of the current FOMC members currently included in the dot plot will soon end their job at the Committee and will no longer decide about the policy rates. At the press conference Jerome Powell said that inflation will remain elevated next year and that he does not expect "very extensive wait" between the end of QE and the start of rate hikes. Market reacted to Fed decision with calm: US equity markets rose, UST yield curve moved up slightly and flattened, US dollar gained very little and EM currencies remained stable.

November CPI inflation was revised higher to 7.8% y/y from the flash reading at 7.7% y/y and versus 6.8% y/y in October. Inflation was driven higher by food prices (6.4% y/y vs 5.0% y/y last month, driven especially by oils, bakery, fish and dairy products), energy (13.6% y/y vs 10.5% y/y in October with solid fuels rising by whopping 16.4% m/m), fuels (36.6% y/y vs 33.9% y/y in October) and core inflation (our estimate at 4.8% y/y vs 4.5% y/y in October). We are expecting CPI to go above 8% y/y in December and then to decline towards 6.5% in January due to effect of "anti-inflation shield" (temporary cuts in taxes, deducting about 1.5pp from inflation in 1Q22, but then pushing inflation higher in 2023), then to return to almost 8% in mid-2022 and start declining gradually in 2H to reach 4.7% y/y at the year-end (2022 average at 6.5%). Core inflation is unlikely to be affected by tax cuts so it will continue to push higher, even to 6% in 1H22. High inflation will encourage the MPC to bring the main NBP rate to 3.0% in 2Q22, in our view, with +50bp move already in January.

The GUS (Stat Office) data about the **Polish foreign trade** showed that in October exports increased by 5.4% y/y and by 13.0% vs October 2019 (in the previous month: 18.6%). Due to the very high base the exports to Germany did not rise in y/y terms. Imports increased by 17.3% y/y and by 18.0% vs October 2019, this includes a whopping 120.0% y/y increase in imports from Russia. What is also not typical, import from the US (+70% m/m, first time in history worth more than EUR 1bn) was higher than the one from Czech Republic, France or Holland.

MPC Grażyna Ancyparowicz said that if consumer credit keeps rising, she would allow hiking interest rates by another 50bp in January (in her view the hike by 25bp makes no sense). Earlier on the same day she said, however, that too fast tightening is dangerous for the economy and might slow it, and later in TV interview that interest rate hikes are fuelling inflation.

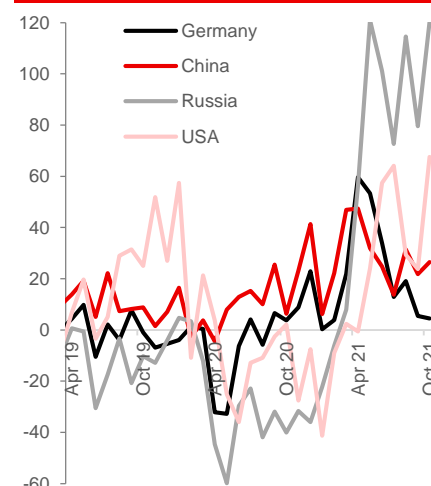
EURUSD ahead of the FOMC meeting was moving within 1.1260-1.1280 range. After the decision the exchange rate rose to 1.1290 and this is where it started today's session.

EURPLN dropped intraday (before the FOMC) to 4.62, by 0.01PLN, possibly due to the upside November CPI revision by 0.1pp to 7.8% y/y. In the evening the FX rate was stable and this morning was still close to 4.62.

Other CEE FX: EURHUF rose by 0.5% to 369.6, not far from the key level of 370.0 (all time high). Such poor performance of the forint despite the MNB rate hikes (the recent one and the pre-commitment to deliver more) means difficult times for the currency going forward. EURCZK dropped to 25.25 (by 0.2% yesterday and by 0.7% in the last two days). USDRUB started to move up and reached 74.0 on Wednesday. The response of the currencies to the Fed decision was very mild, no important changes were recorded.

On the **fixed income markets** the bond yield curve was de facto stable (with 10Y at 3.22%). The IRS curve moved higher noticeably by 3-5bp, which seems strange given the stability of the core market yields (before FOMC) as well as Polish bonds. 5Y IRS closed the day at 3.22%.

Poland's import from selected countries, in EUR, %y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6205	CZKPLN	0.1816
USDPLN	4.0887	HUFPLN*	1.2398
EURUSD	1.1296	RUBPLN	0.0556
CHFPLN	4.4355	NOKPLN	0.4516
GBPPLN	5.4295	DKKPLN	0.6207
USDCNY	6.3653	SEKPLN	0.4500

*for 100HUF

Last session in the FX market						15/12/2021
	min	max	open	close	fixing	
EURPLN	4.611	4.633	4.624	4.627	4.621	
USDPLN	4.090	4.116	4.103	4.109	4.100	
EURUSD	1.125	1.128	1.127	1.126	-	

Interest rate market 15/12/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.80	-3
DS0726 (5Y)	3.35	0
DS0432 (10Y)	3.24	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.11	4	0.46	2	-0.51	1
2L	3.26	3	0.85	0	-0.34	2
3L	3.25	2	1.13	2	-0.23	2
4L	3.23	4	1.24	1	-0.16	2
5L	3.21	4	1.32	1	-0.12	1
8L	3.14	4	1.46	1	0.02	1
10L	3.13	4	1.52	1	0.11	2

WIBOR rates

Term	%	Change (bps)
O/N	1.42	1
T/N	1.55	1
SW	1.78	0
2W	1.80	0
1M	1.93	0
3M	2.33	1
6M	2.60	0
1Y	2.81	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	2.79	-1
3x6	3.21	4
6x9	3.40	6
9x12	3.33	2
3x9	3.42	5
6x12	3.52	5

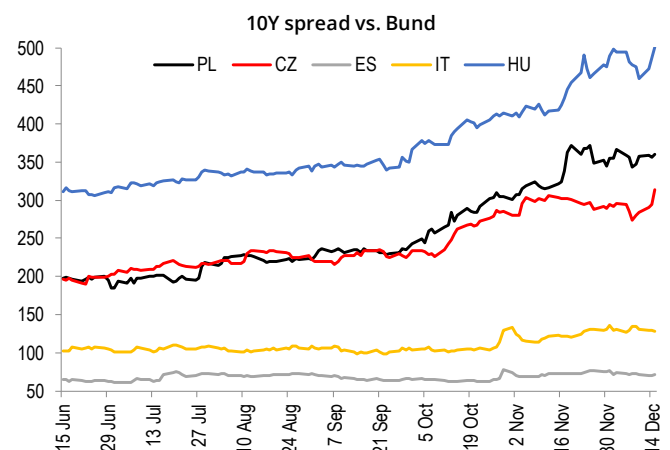
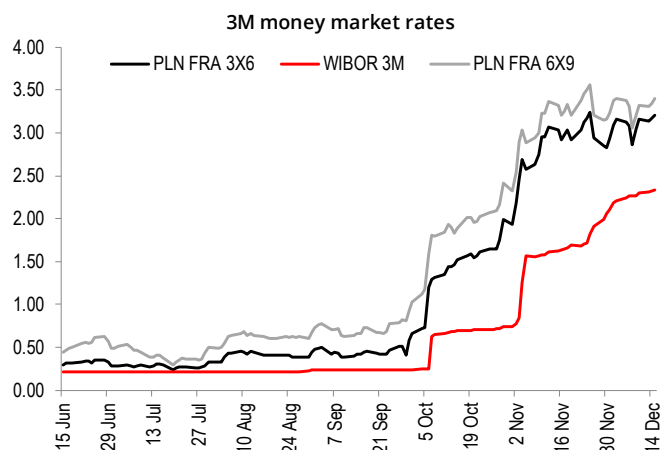
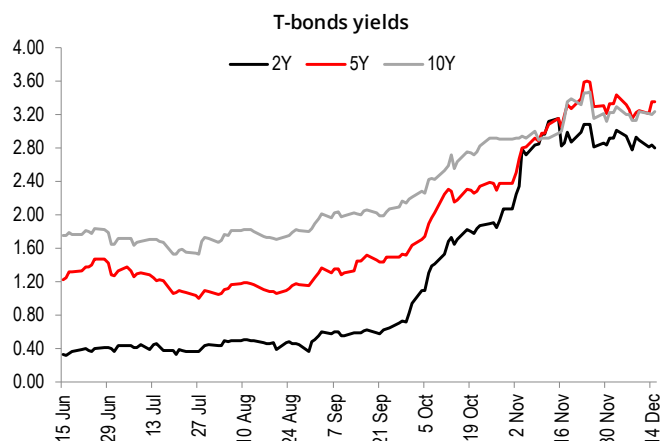
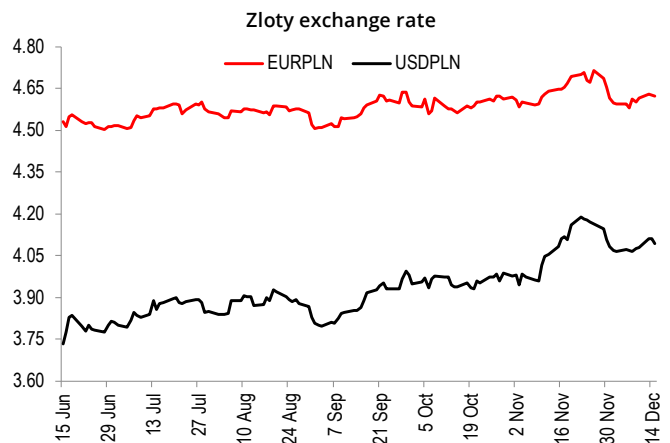
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	360	4
France	9	0	35	0
Hungary	51	-3	501	14
Spain	35	0	71	1
Italy	49	-3	128	-1
Portugal	23	0	63	0
Ireland	11	0	41	-2
Germany	7	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 (10 December)							
08:00	DE	HICP	Nov	% m/m	0.3	0.3	0.3
09:00	CZ	CPI	Nov	% y/y	6.0	6.0	5.8
14:30	US	CPI	Nov	% m/m	0.7	0.8	0.9
16:00	US	Michigan index	Dec	pts	68.0	70.4	67.4
TUESDAY (14 December)							
11:00	EZ	Industrial Production SA	Oct	% m/m	1.2	1.1	-0.2
14:00	HU	Central Bank Rate Decision		%	2.5	2.4	2.1
14:00	PL	Current Account Balance	Oct	€mn	-1204.0	-1274.0	-1791.0
14:00	PL	Trade Balance	Oct	€mn	112.0	-471.0	-822.0
14:00	PL	Exports	Oct	€mn	25526.0	25632.0	24982.0
14:00	PL	Imports	Oct	€mn	25351.0	26103.0	25804.0
WEDNESDAY (15 December)							
10:00	PL	CPI	Nov	% y/y	7.7	7.7	7.8
14:30	US	Retail Sales Advance	Nov	% m/m	0.8	0.3	1.7
20:00	US	FOMC decision			0.25	0.25	0.25
THURSDAY (16 December)							
09:30	DE	Germany Manufacturing PMI	Dec	pts	57.3	-	57.4
09:30	DE	Markit Germany Services PMI	Dec	pts	51.8	-	52.7
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	58.1	-	58.4
10:00	EZ	Eurozone Services PMI	Dec	pts	54.9	-	55.9
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0
14:00	PL	CPI Core	Nov	% y/y	4.7	4.7	-
14:30	US	Initial Jobless Claims		k	-	-	184.0
14:30	US	Housing Starts	Nov	% m/m	3.3	-	-0.7
14:30	US	Index Philly Fed	Dec		27.0	-	39.0
15:15	US	Industrial Production	Nov	% m/m	0.7	-	1.6
FRIDAY (17 December)							
10:00	DE	IFO Business Climate	Dec	pts	95.0	-	96.5
10:00	PL	Employment in corporate sector	Nov	% y/y	0.5	0.5	-
10:00	PL	Average Gross Wages	Nov	% y/y	9.0	8.8	-
11:00	EZ	HICP	Nov	% y/y	4.9	-	4.9

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

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