

5 January 2022

Eyeopener

Interest rates higher by 50bp again

MPC raised interest rates by 50bp, key fragments of statements unchanged
 Strengthening of CEE3 currencies, EURUSD stable
 Bond yields in Poland and USA higher
 Today press conference of NBP governor, services PMI, ADP, FOMC minutes

On Tuesday European stock indices were still rising strongly, while the US ones took a break. EURUSD remained near 1.13. Both the US dollar and the euro were down vs. the currency basket. CEE currencies, excluding the ruble, were among those which benefitted from this situation. Once again the 10Y US bond yield rose sharply, by more than 15bp, while the Bund yield did not correct lower after a substantial increase (it stayed close to -0.12%), despite the fact that the data seemed bond-positive. US manufacturing ISM report showed a slightly weaker improvement of demand and activity, but also somewhat better availability of commodities and a large drop of production cost index. November JOLTS report showed a 4.6% lower number of vacancies in the US economy than expected. The report on Chinese manufacturing PMI for December mentioned the weakest rise of production input prices in 19 months and the first decline of output prices since April 2020. OPEC+ approved an increase of daily output by 400k barrels, which caused the Brent oil price to rise to US\$80.

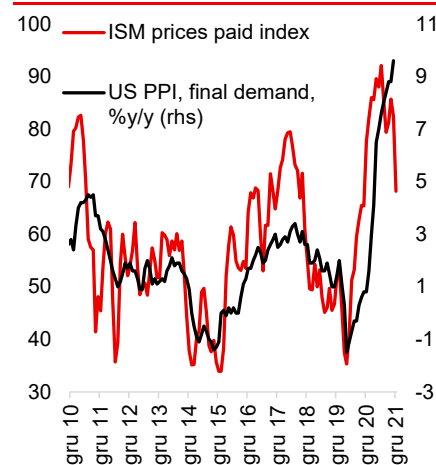
Polish **Monetary Policy Council decided to hike main interest rates by 50bp** (the reference rate up to 2.25%), in line with analysts' expectations. The post-meeting statement was very similar to the one in December, the key fragments remained unchanged. The MPC repeated the sentence that its next decisions will be aimed at lowering inflation to the level consistent with the NBP target in the medium run, at the same time supporting balanced economic growth, and that the total size of monetary adjustment will depend on the incoming data. The door to next interest rate hikes remains wide open, it seems. However, the answer to the question about the precise timing of next moves is not easy. In February the MPC may be tempted to stay on hold, waiting for the next NBP projections (due in March) and the first effects of the government's anti-inflation shield (there will be no flash CPI release for January, as usual). So, a pause in February is possible, in our view, but not certain, as it will be dependent also on other incoming data and information (economic activity, pandemic situation, FX behaviour). We think the target NBP rate in this cycle will be at 3.5% at least (the market is pricing in even more, around 4% in mid-year). The NBP governor's press conference is scheduled today at 15:00 CET. And on Friday at 10:00 the flash CPI for December will be released (our forecast and market consensus at 8.3% y/y). Both may be important for expectations about the next MPC moves.

Senate's Budget and Public Finance Committee endorsed **Ludwik Kotecki and Przemysław Litwitniuk as MPC candidates**. During the hearing before the Committee, Ludwik Kotecki was talking about monetary policy mistakes e.g. of preference for weaker PLN, too late start of interest rate hikes. In his opinion, it is inflation which is the number one problem for the economy, and this should be taken care of possibly quickly. The main aim for the MPC should be bringing down inflation to the inflation target of 2.5% (some comments from the current MPC suggested aiming at 3.5% - the upper end of tolerance band). At the same time Kotecki noted that fighting inflation cannot be made at the high cost for the economy. Przemysław Litwitniuk acknowledged that in the current situation he thinks the tools that should be used first are the ones relating to the PLN exchange rate (so that it can help bring inflation down) and only then a moderate rate increases (not too hurt SME investment and people who took out loans). He wished the MPC worked more closely with the Polish government, NBP management and other agents within the macroeconomic prudential policy - in order to control consumption without slowing down investments.

EURUSD was very stable on Tuesday near 1.13. **EURPLN** was falling up until the MPC decision (-0.3% in total) after which it tried to rebound but failed and stabilized near 4.565. **The other CEE currencies** also gained during the day, EURCZK fell 0.6% to 24.65, EURHUF by 1.2% to 362.5. Rouble lost 0.6% vs the dollar despite the more expensive oil.

The **interest rate market in Poland** was pushing towards higher yields with the yield curve up by 10-17bp (mostly on the longer end). The IRS curve went up by 6-8bp, with 2Y rate reaching 4%. Also FRA rates moved up markedly, but in our view the market was preparing by a more pronounced hike than the one delivered by the MPC and the statement did not suggest that the MPC became more eager to fight inflation.

US Manufacturing ISM, input costs index vs. US PPI inflation



Source: Refinitiv, Santander

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FX market

Today's opening

EURPLN	4.5652	CZKPLN	0.1848
USDPLN	4.0387	HUFPLN*	1.2578
EURUSD	1.1300	RUBPLN	0.0533
CHFPLN	4.4127	NOKPLN	0.4561
GBPPLN	5.4704	DKKPLN	0.6135
USDCNY	6.3705	SEKPLN	0.4446

*for 100HUF

Last session in the FX market

04/01/2022

	min	max	open	close	fixing
EURPLN	4.563	4.582	4.574	4.563	4.574
USDPLN	4.031	4.061	4.045	4.039	4.047
EURUSD	1.127	1.132	1.130	1.129	-

Interest rate market 04/01/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.55	11
DS0726 (5Y)	4.10	9
DS0432 (10Y)	3.95	17

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.78	6	0.52	-2	-0.50	0
2L	4.02	6	0.94	-4	-0.29	-1
3L	4.00	7	1.20	-1	-0.13	-1
4L	3.93	7	1.33	-1	-0.03	-1
5L	3.85	8	1.43	0	0.04	-1
8L	3.67	5	1.61	0	0.22	-1
10L	3.64	6	1.68	1	0.33	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.69	13
T/N	2.05	32
SW	2.26	4
2W	2.29	4
1M	2.30	3
3M	2.59	3
6M	2.90	3
1Y	3.19	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.10	-12
3x6	3.93	6
6x9	4.23	12
9x12	4.19	7
3x9	4.28	7
6x12	4.46	5

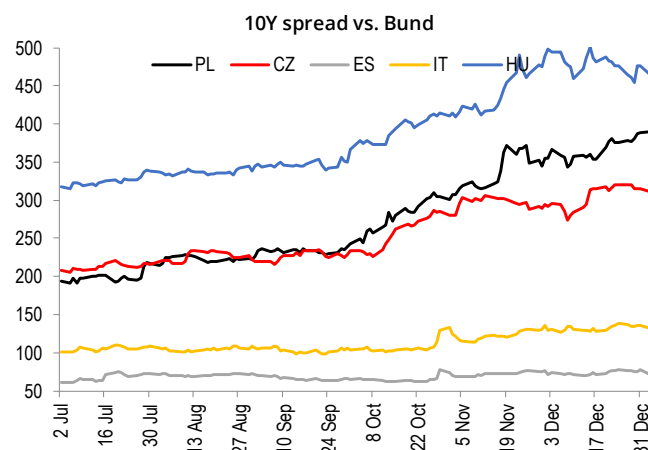
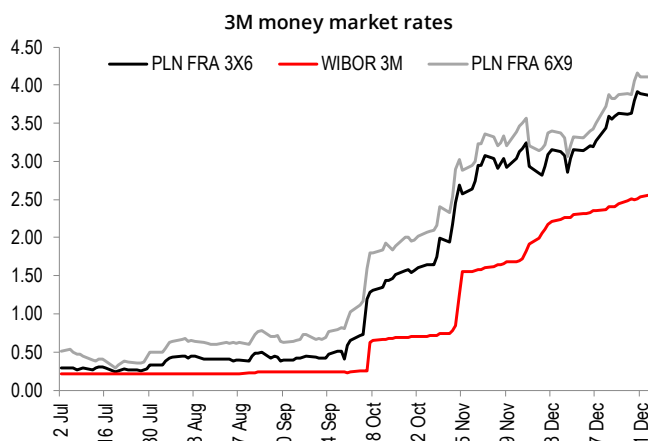
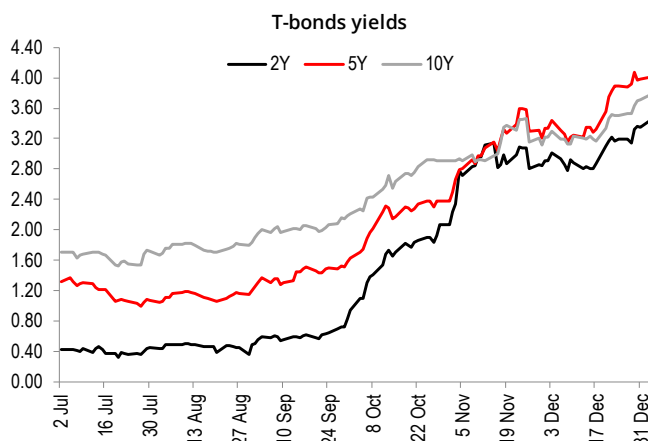
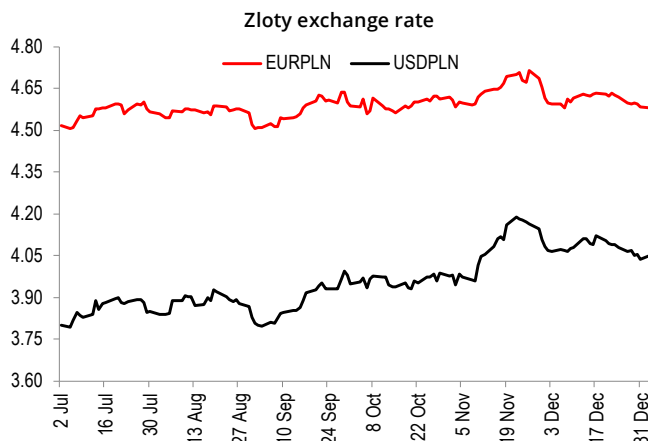
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	41	0	408	18
France	9	0	36	0
Hungary	48	-1	494	29
Spain	33	-2	72	0
Italy	51	-1	135	3
Portugal	22	0	63	-1
Ireland	11	0	42	3
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				
MONDAY (3 January)									
09:00	PL	Poland Manufacturing PMI	Dec	pts	54.0	54.0	56.1	54.4	
09:55	DE	Germany Manufacturing PMI	Dec	pts	57.9		57.4	57.4	
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	58.0		58.0	58.4	
TUESDAY (4 January)									
	PL	MPC decision		%	2.25	2.25	2.25	1.75	
08:00	DE	Retail Sales	Nov	% m/m	-0.5		0.6	0.1	
16:00	US	ISM manufacturing	Dec	pts	60.3		58.7	61.1	
WEDNESDAY (5 January)									
09:55	DE	Markit Germany Services PMI	Dec	pts	48.4		-	48.4	
10:00	EZ	Eurozone Services PMI	Dec	pts	53.3		-	53.3	
14:15	US	ADP report	Dec	k	385.0		-	534.1	
15:00	PL	NBP governor press conference							
20:00	US	FOMC Meeting Minutes	Dec/21						
THURSDAY (6 January)									
	PL	Public holiday							
02:45	CN	Caixin China PMI Services	Dec	pts	51.85		-	52.1	
08:00	DE	Factory Orders	Nov	% m/m	2.4		-	-6.9	
14:00	DE	HICP	Dec	% m/m	0.2		-	0.3	
14:30	US	Initial Jobless Claims		k	206.0		-	205.0	
16:00	US	Durable Goods Orders	Nov	% m/m	0.0		-	2.5	
16:00	US	ISM services	Dec	pts	07/03/1900.0		-	69.1	
16:00	US	Factory Orders	Nov	% m/m	1.5		-	1.0	
FRIDAY (7 January)									
08:00	DE	Exports SA	Nov	% m/m	0.4		-	4.2	
08:00	DE	Industrial Production SA	Nov	% m/m	1.0		-	2.8	
09:00	CZ	GDP SA	3Q	% y/y	3.1		-	3.1	
09:00	CZ	Industrial Production	Nov	% y/y	-0.5		-	-7.4	
09:00	HU	Industrial Production SA	Nov	% y/y	-1.4		-	-2.7	
10:00	PL	CPI flash	Dec	% y/y	8.1	8.3	-	7.8	
11:00	EZ	Flash HICP	Dec	% y/y	4.7		-	4.9	
11:00	EZ	Retail Sales	Nov	% m/m	-0.5		-	0.2	
11:00	EZ	ESI	Dec	pct.	116.2		-	117.5	
14:30	US	Change in Nonfarm Payrolls	Dec	k	400.0		-	210.0	
14:30	US	Unemployment Rate	Dec	%	4.1		-	4.2	

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

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