

7 April 2022

Eyeopener

Terminal interest rate going up

MPC raised interest rates by 100bp, today NBP president's press conference
 FOMC minutes revealed support for 50bp rate hikes
 Clear, yet short-lived zloty strengthening after MPC decision

Today at 15:00 CET the NBP governor Adam Glapiński holds a press conference, explaining the arguments behind the unexpectedly large interest rate hike by the MPC. We also hope to hear if we should read it as a sign that there is still much room for more tightening or a sign that the Council wants to quickly reach the target rate level it considers justified by the circumstances and switch to 'wait and see'. Yesterday's reaction of the zloty (sudden appreciation and its equally fast reversal) suggests that there is no clarity on the market on what to expect next from the MPC.

Polish Monetary Policy Council surprised the market with a 100bp hike (we: 75bp, market: 50bp), bringing the NBP reference rate to 4.50%. This was the largest step taken by the MPC so far in this cycle. The post-meeting statement did not change much, future decisions still depend on incoming data and there is no indication that the end of the cycle is nearing. It seems that the MPC wanted to confirm earlier words of NBP Governor Adam Glapiński (that they are a cauldron of hawks) and thus decided to increase the scale of monetary adjustment after strong rise in inflation in March (to 10.9% y/y). If the goal of the surprisingly strong move was to trigger further PLN appreciation, then it turned out not very effective. EURPLN did drop, but only for a brief period. The decision on the large rate hike seems well justified, in our view, but it is interesting to note that the MPC delivered it now when the zloty is already much stronger and not a month ago at the peak of the PLN sell-off. We keep getting the impression that the central bank is still behind the curve (or that its goal is to keep surprising the market, as once suggested by the governor). It seems that the terminal rate will be higher than we were expecting (5.00%), but we are waiting for today's press conference of NBP Governor Adam Glapiński for a more precise call. FRA-market is expecting 6.50% at the year-end.

The Sejm's Justice Committee did not reach any conclusion on two **bills on the Disciplinary Chamber of the Supreme Court** and will continue work after Easter. The presidential bill is the base one and it could be amended with MP's ideas and parts of the PiS bill. Apparently the legislative process has not been put on the fast track, but it may still end up facilitating the approval of Polish recovery plan by the EC.

FOMC minutes from the March meeting revealed that many Fed members thought that at least one 50bp rate hike was justified at the upcoming meetings and the start of balance sheet reduction may start at the nearest meeting in May. German industrial production in February was in line with expectations. UK and USA announced new sanctions on Russia: on individuals and banks (transactions concerning energy are still excluded) plus a ban on new investments in this country. EU is still discussing on the new sanctions package.

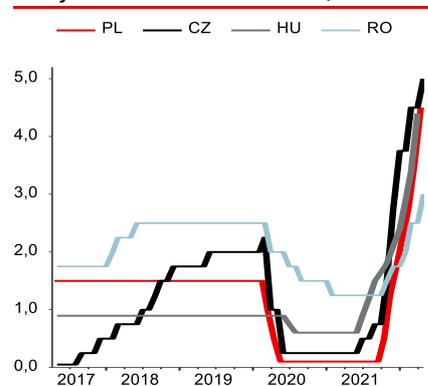
The atmosphere of stronger sanctions and upcoming major monetary tightening in the USA caused 1-2% declines on European and US stock markets. Release of Fed minutes even undermined equities even more, yet temporarily. The downward trend of **EURUSD** remains valid despite rebound above 1.09 in the second part of the day. A broad strengthening of the dollar helped bring the oil price down below 105\$ per barrel.

EURPLN was awaiting the MPC decision near 4.65. The surprising scale of MPC hike brought it quickly to 4.61 and then the pair returned to the starting point. We can imagine that investors who were betting a stronger zloty wanted to quickly take profits after this decision, as they knew that bills aimed at unblocking the Recovery Fund are not moving forward at a fast pace.

Other CEE currencies: another negative day for the forint, as it lost versus the euro markedly more than the zloty or the Czech koruna (this week the forint lost already 3.2%). This happened despite hawkish message of the MNB minutes (during the last meeting they voted unanimously for the biggest of considered hikes) and surprisingly strong reading of retail sales in February (9.8% y/y vs expectations 4pp lower, boosted by tax returns for families with children and payment of 13. Pension). Czech industrial output returned to negative annual growth rate given problems with car manufacture.

On the **domestic interest rate market** the MPC decision was an incentive to sell-off Polish bonds – the curve went up by over 12bp (mostly on the short end, 16bp). On the core markets only 10Y papers saw rising bonds. The MPC rate hike also pushed higher the FRA market, which saw a rise by 20-30bp and expectations for the next move were set at 100bp. Today the interest market can be stabilising ahead of the NBP president's press conference in the afternoon.

Policy rates of CEE central banks, %



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.6462	CZKPLN	0.1897
USDPLN	4.2512	HUFPLN*	1.2260
EURUSD	1.0925	RUBPLN	0.0521
CHFPLN	4.5583	NOKPLN	0.4839
GBPPLN	5.5631	DKKPLN	0.6244
USDCNY	6.3586	SEKPLN	0.4494

*for 100HUF

Last session in the FX market						06/04/2022
	min	max	open	close	fixing	
EURPLN	4.571	4.658	4.652	4.643	4.654	
USDPLN	4.211	4.275	4.269	4.264	4.261	
EURUSD	1.087	1.094	1.090	1.091	-	

Interest rate market 06/04/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	5.96	18
DS0726 (5Y)	6.10	15
DS0432 (10Y)	5.60	12

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.24	20	2.06	0	-0.09	0
2L	6.23	21	2.70	-1	0.61	0
3L	5.97	19	2.80	-1	0.90	0
4L	5.72	17	2.76	-3	1.03	1
5L	5.56	17	2.71	-2	1.10	1
8L	5.18	13	2.65	4	1.24	4
10L	5.06	13	2.63	5	1.32	5

WIBOR rates

Term	%	Change (bps)
O/N	3.71	6
T/N	4.23	49
SW	4.25	5
2W	4.26	8
1M	4.30	1
3M	4.92	2
6M	5.19	4
1Y	5.30	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.97	36
3x6	6.44	29
6x9	6.54	22
9x12	6.52	22
3x9	6.68	33
6x12	6.77	26

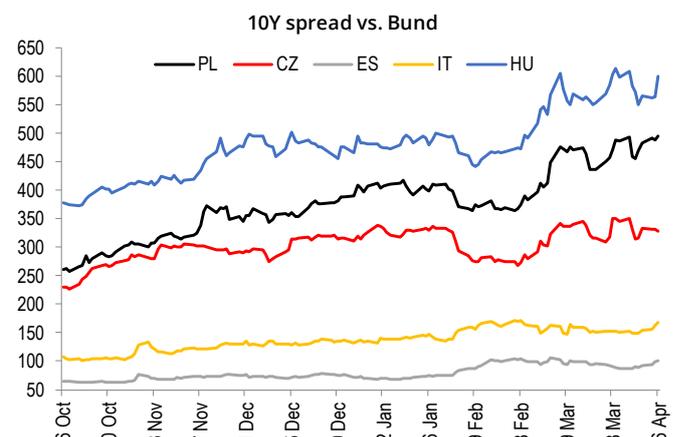
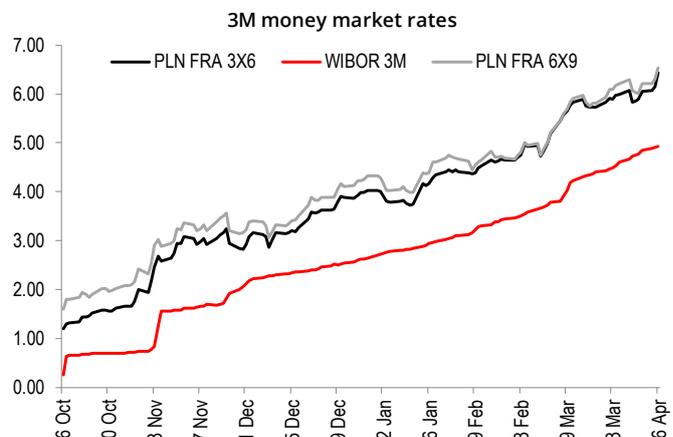
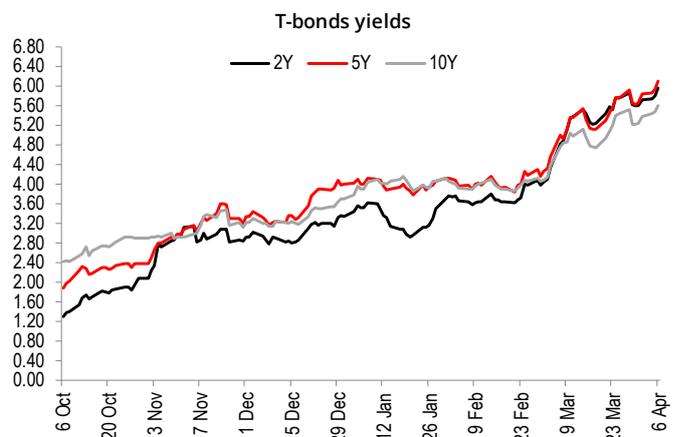
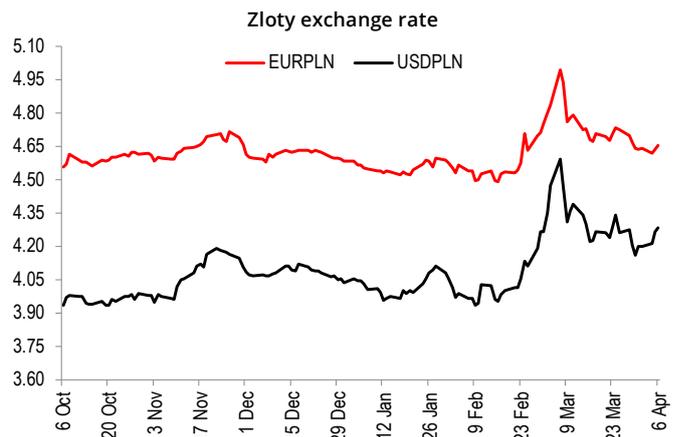
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	76	0	495	8
France	14	0	54	0
Hungary	97	0	599	37
Spain	43	0	100	2
Italy	54	0	167	4
Portugal	30	0	93	3
Ireland	14	0	65	15
Germany	10	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 (1 April)								
09:00	PL	Poland Manufacturing PMI	Mar	pts	53.1	52.0	52.7	54.7
09:55	DE	Germany Manufacturing PMI	Mar	pts	57.6	-	56.9	58.4
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	57.0	-	56.5	58.2
10:00	PL	CPI	Mar	% y/y	10.1	10.0	10.9	8.5
11:00	EZ	Flash HICP	Mar	% y/y	6.7	-	7.5	5.9
14:30	US	Change in Nonfarm Payrolls	Mar	k	490	-	431	750
14:30	US	Unemployment Rate	Mar	%	3.7	-	3.6	3.8
16:00	US	ISM manufacturing	Mar	pts	58.5	-	57.1	58.6
MONDAY (4 April)								
08:00	DE	Exports SA	Feb	% m/m	2.0	-	6.4	-3.0
16:00	US	Durable Goods Orders	Feb	% m/m	-2.2	-	-2.1	-2.2
16:00	US	Factory Orders	Feb	% m/m	-0.6	-	-0.5	1.5
TUESDAY (5 April)								
09:00	HU	Industrial Production SA	Feb	% y/y	1.9	-	4.5	7.1
09:55	DE	Markit Germany Services PMI	Mar	pts	55.0	-	56.1	55.8
10:00	EZ	Eurozone Services PMI	Mar	pts	54.8	-	55.6	55.5
16:00	US	ISM services	Mar	pts	58.6	-	58.3	56.5
WEDNESDAY (6 April)								
	PL	MPC decision		%	4.00	4.25	4.50	3.50
03:45	CN	Caixin China PMI Services	Mar	pts	49.8	-	42.0	50.2
08:00	DE	Factory Orders	Feb	% m/m	-0.1	-	-2.2	2.3
09:00	CZ	Industrial Production	Feb	% y/y	2.5	-	-0.3	4.0
20:00	US	FOMC Meeting Minutes	16 mar					
THURSDAY (7 April)								
08:00	DE	Industrial Production SA	Feb	% m/m	0.2	-	-	2.7
11:00	EZ	Retail Sales	Feb	% m/m	0.6	-	-	0.2
14:30	US	Initial Jobless Claims	week	k	199	-	-	202
15:00	PL	NBP governor's press conference						
FRIDAY (8 April)								
09:00	HU	CPI	Mar	% y/y	8.8	-	-	8.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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