

Eyeopener

MPC raised interest rates by 75bp

MPC raised interest rates by 75bp, market anticipated 100bp
 EURPLN weakened in response, FRA corrected slightly the priced-in future hikes
 CNB raised rates by 75bp, more than expected, which strengthened koruna
 Today, NBP president's press conference, US labour market data

Today at 15:00 Adam Glapiński's press conference takes place – the last one before the vote in the Sejm (11 or 12 May) to grant him the second term as the central bank governor. Market participants will wait for any explanation what arguments were behind the change of rate hike scale (+75bp in March, +100bp in April, +75bp in May) and what it potentially implies for monetary policy outlook, especially that in the MPC's official statement there is hardly any answer to such questions. Also today the important set of data from the US labour market will be released. Earlier the ADP report and the ISM survey pointed to major problems with hiring new employees and we will see if it shows up also in the monthly payrolls and wages in April. German industrial output data released this morning (-3.9% m/m) completed the image of weakness of the industrial sector in March – earlier we saw worse than expected exports and disappointing new orders.

Polish Monetary Policy Council again surprised the market, yet this time raising rates less than expected (75bp vs forecasts at 100bp). Reference rates is currently at 5.25%. Key elements in the MPC statement remained unchanged: future decisions still depend on incoming data and there is no indication that the end of the cycle is nearing. In our view the lower scale of rate hikes may be showing higher NBP's sensitivity for potential signs of economic downturn than markets had anticipated. The return to a slightly smaller scale of rate hikes may signal the MPC's hope that the target interest rate can be set at a level that would not harm economic growth and cause unemployment. We expect MPC to hike again by 75bp in June and 50bp in July. See more in the [Economic comment](#).

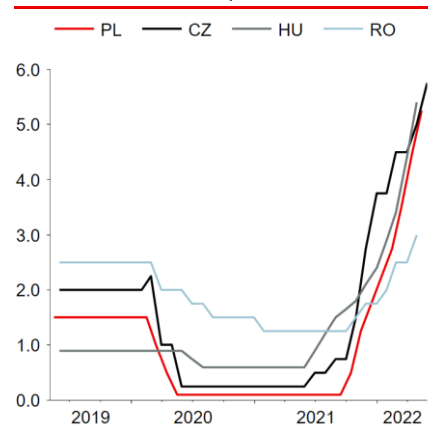
Yesterday the market started to doubt if the latest Fed decision together with J.Powell's rhetoric (ruling out rate hikes of 75bp) give a solid ground for optimism. Main stock markets closed the day with losses, core market yields moved upward and the dollar started to appreciate. **EURUSD** returned to 1.05. BoE raised interest rates by 25bp (main rate to 1%). Updated economic forecasts now assume this year inflation at 10.25% vs. 5.75% previously. Among BoE MPC members, however, two out of nine members refused their support for signalling further hikes. Additionally the GDP forecast for next year was lowered to below zero level. All this together triggered a downward correction of future rate hikes expectations in UK. As a result it was not a fortunate day for British pound – it lost about 1.3% against the dollar.

EURPLN attempted to break below 4.65 during the day and would likely have succeeded in our view if the MPC delivered a 100bp rate hike. After the lower-than-expected hike the zloty lost some 1% vs. the euro in no time. Generally EURPLN should now be stable awaiting the NBP governor's speech scheduled today in the afternoon and some explanation about the motives of the Council and the outlook for monetary policy. The strengthening US dollar may however be pushing EURPLN towards the peak reached a week ago after the news that Russia cut off gas deliveries to Poland.

Other CEE currencies: the weekly interest rate of the Hungarian central bank remained at 6.45%, yet the market is not viewing it as a target level for the main rate (currently at 5.40%, while some FRA contracts are above 8% already) despite suggestions from the central bank that it has such role. EURHUF was above 380 at the end of the day. The Czech central bank hiked rates by 75bp (while the market was betting for 50bp) and suggested that it is intending to raise it further. Jiri Rusnok, the bank's governor said that the hike was still lower than the value suggested by new bank forecasts, which saw 2022 inflation up to 13.1% from 8.5% in the February set of projections and 2023 up to 4.1% from 2.3% (amid target at 2%). Forecast of Czech GDP growth in 2022 was brought down to 0.8% from 3.0%. Surprising scale of interest rate hike helped the EURCZK return to Friday level (24.55).

The MPC decision prevented the **Polish debt** from following the rise in yields on the core markets, with 10Y UST up by 15bps. Domestic 2Y papers saw a decline in yield by 11bp, similarly to corresponding IRS rate. Pricing of peak interest rate in Poland went down to around 7.5%. We think that the global environment is not supportive for a more pronounced strengthening of Polish bonds and soon the upward yield trend can prevail.

Reference rates in CEE, %



Source: Refinitiv, Santander

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FX market

Today's opening

EURPLN	4.6871	CZKPLN	0.1902
USDPLN	4.4550	HUFPLN*	1.2311
EURUSD	1.0523	RUBPLN	0.0710
CHFPLN	4.5116	NOKPLN	0.4675
GBPPLN	5.5020	DKKPLN	0.6298
USDCNY	6.6793	SEKPLN	0.4464

*for 100HUF

Last session in the FX market 05/05/2022

	min	max	open	close	fixing
EURPLN	4.647	4.697	4.656	4.689	4.666
USDPLN	4.395	4.470	4.387	4.461	4.402
EURUSD	1.050	1.062	1.061	1.051	-

Interest rate market 05/05/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.71	-11
DS0726 (5Y)	7.08	1
DS0432 (10Y)	6.58	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.54	-11	2.52	2	0.25	2
2L	7.29	-11	3.00	2	1.00	5
3L	6.99	-11	3.11	6	1.28	4
4L	6.74	-10	3.11	10	1.42	7
5L	6.56	-8	3.09	8	1.52	8
8L	6.21	-5	3.09	10	1.71	5
10L	6.08	-3	3.10	9	1.82	6

WIBOR rates

Term	%	Change (bps)
O/N	4.70	-1
T/N	5.52	77
SW	5.56	5
2W	5.55	2
1M	5.50	1
3M	6.34	10
6M	6.55	12
1Y	6.76	14

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.09	-7
3x6	7.63	-23
6x9	7.68	-20
9x12	7.63	-22
3x9	7.85	-19
6x12	7.83	-24

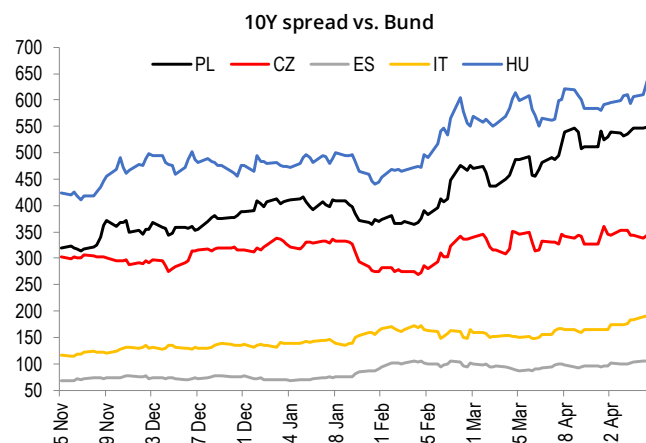
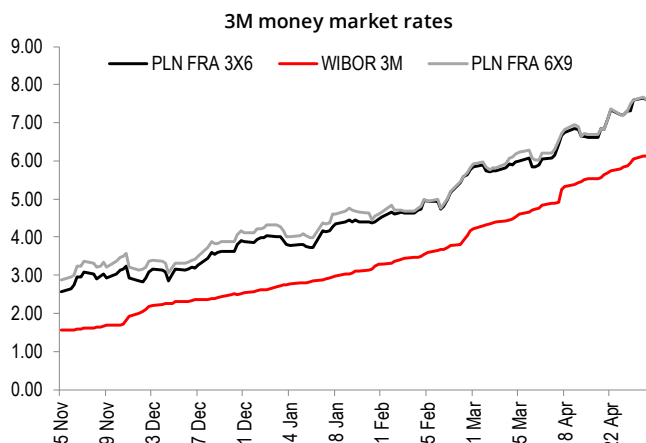
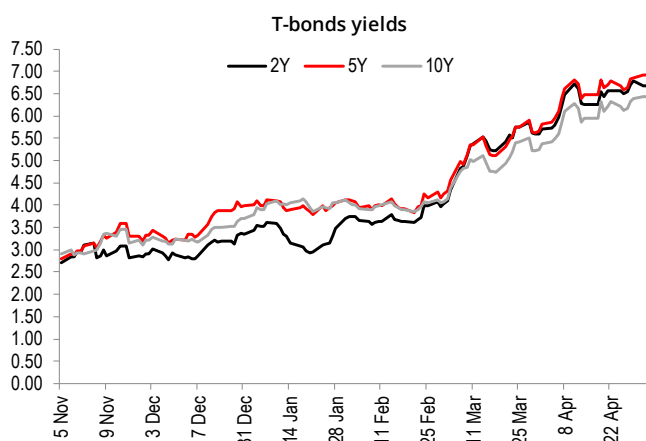
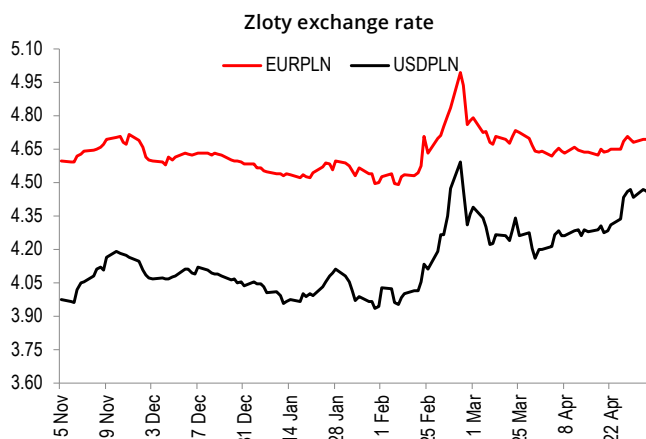
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	95	3	554	-9
France	11	0	52	-1
Hungary	112	0	624	-11
Spain	53	2	110	0
Italy	65	0	198	0
Portugal	37	2	114	-1
Ireland	12	0	68	0
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	%	6.8	-	6.8	6.9
16:00	US	Durable Goods Orders	Mar	% m/m	0.8	-	1.1	0.8
16:00	US	Factory Orders	Mar	% m/m	1.2	-	2.2	0.1
WEDNESDAY (4 May)								
08:00	DE	Exports SA	Mar	% m/m	-2.1	-	-3.3	6.2
09:55	DE	Markit Germany Services PMI	Apr	pts	57.9	-	57.6	56.1
10:00	EZ	Eurozone Services PMI	Apr	pts	57.7	-	57.7	55.6
11:00	EZ	Retail Sales	Mar	% m/m	-0.3	-	-0.4	0.4
14:15	US	ADP report	Apr	k	383	-	247	479
16:00	US	ISM services	Apr	pts	58.5	-	57.1	58.3
20:00	US	FOMC decision	May.22	%	1.0	-	-	0.5
THURSDAY (5 May)								
	PL	MPC decision		%	5.50	5.50	5.25	4.50
03:45	CN	Caixin China PMI Services	Apr	pts	41.0	-	36.2	42.0
08:00	DE	Factory Orders	Mar	% m/m	-1.1	-	-4.7	-0.8
14:30	US	Initial Jobless Claims		k	180	-	200	181
14:30	CZ	Central Bank Rate Decision	May.22		5.5	-	5.75	5.0
FRIDAY (6 May)								
08:00	DE	Industrial Production SA	Mar	% m/m	-1.0	-	-3.9	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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