

Eyeopener

NBP rate hike to 6% did not end the cycle

MPC hiked rates by 75bp, today press conference of NBP president
 ECB decision today, expected the end of asset purchases and no change in rates
 Euro zone GDP revised up but domestic demand looks weak
 EURPLN higher after MPC decision, korona stronger after new CNB nominations

Today at 15:00 CET the NBP governor will explain why the Polish MPC decided yesterday to hike interest rates by 75bp. The important part for the markets will be to what extent the MPC is already shifting its bias and paying more attention to the negative impact of the monetary tightening on economic growth. Much tightening has already been delivered and first negative surprises in economic activity have started to appear (Polish May PMI, disappointing private consumption in 1Q GDP, poor outcomes of German industry). The MPC post-meeting statement did not help us assess this, so we assume that the recent approach with the focus on fighting inflation still holds. Also today the ECB meeting ends – we do not expect a rate hike, but the bank will end its QE program and should clearly communicate a rate hike in July, which the market sees at +25bp.

The **Monetary Policy Council raised interest rates by 75bp**, as expected. The reference rate currently stands at 6.00%. The key paragraphs in the MPC's official communiqué have not changed for months and thus the document does not add much in terms of assessing the monetary policy outlook. It certainly does not suggest that the Council is changing its stance or nearing the end of the hike cycle. In our view, inflation will rise again in June and exceed 15% y/y, and the Council will respond with a 50 or 75 point hike in July. Another move cannot be ruled out after the August summer break if inflation keeps rising or the MPC would like to make sure that its stabilisation is persistent.

1Q GDP data revision in the euro zone pushed q/q growth up from 0.3% to 0.6%, but the economic picture doesn't look any better – stockpiling and import weakness were responsible for the revision, while domestic demand components performed poorly (private consumption fell 0.7% q/q after falling 0.3% in 4Q2021, public consumption also fell and investment slowed from 3.1% q/q to 0.1%). In Q2, we expect to see a decline in the euro zone GDP on a q/q basis.

New **OECD forecasts** assume that Poland's GDP will grow by 4.4% this year and by 1.8% next year, with average inflation going down from 11.1% to 6.5% over the period and a persistently large current account deficit (5.1% of GDP in 2022 and 3.7% in 2023). The OECD lowered its global growth forecast for 2022 from 4.5% (December 2021 estimate) to 3.0% and the euro zone from 4.3% to 2.6%.

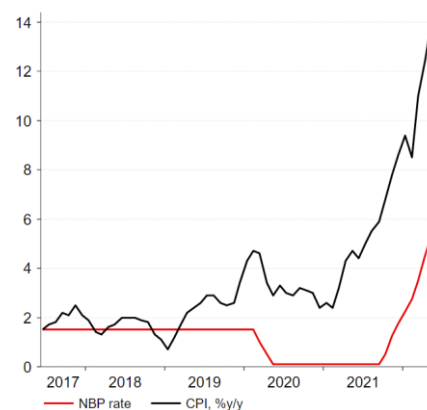
EURUSD has moved a little higher, but these are still moves within the band valid for the last two weeks, and which the rate may leave today after the market gets a glimpse of the ECB's current approach in the post-meeting communiqué and Christine Lagarde's comments at the press conference starting at 14:30.

EURPLN has been bracing for the possibility of a bigger rate hike by the MPC than 75bp in recent days and shortly before the MPC decision it even tried to go below 4.57. The zloty weakened slightly after the decision, but a bigger move may come today during the press conference of the National Bank of Poland's president, as the announcement itself left the main questions about the MPC's intentions unanswered.

Other CEE currencies: Nomination of three new members of the CNB board confirmed president Milos Zeman's disapproval for the tight monetary policy applied so far. Jan Frait has been known as dovish central banker, Eva Zamarzilova also used to be the CNB board member and even though she was perceived a hawk back then, now she said that every next move of interest rates will require caution and she would prefer to impact the CPI via the exchange rate. Karina Kubelova's views are not widely known yet (she happened to attribute the main role in driving up inflation to supply-side factors, which may have determined her nomination). Apparently, the Czech korona anticipated even more dovish nominations as EURCZK reacted to the President's decision by falling to the level of 24.65. We anticipate a gradual upward movement of the exchange rate as the dovish nature of the nominees becomes apparent. The mix of weaker-than-expected production and outperforming inflation expectations caused EURHUF to rebound to 395 (forint's daily loss to euro 1.6%)

Debt market: one day was enough to reverse the change in Polish bond yield curve slope (2-10Y) from -20bp back to -10bp seen one week ago. The short end climbed by 16bp eventually but during the day, before the MPC decision it was temporarily +20bp. FRA market is now pricing-in a rise of main interest rate to c.7.75% by the end of the year (the highest 3M rates, 6x9 and 9x12 retreated yesterday by 7-10bp). Core debt markets saw a continuation of yields' increase yesterday.

NBP policy rate and CPI inflation in Poland



Source: Refinitiv Datastream, GUS, Santander

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FX market

Today's opening			
EURPLN	4.5880	CZKPLN	0.1854
USDPLN	4.2823	HUFPLN*	1.1548
EURUSD	1.0715	RUBPLN	0.0723
CHFPLN	4.3772	NOKPLN	0.4509
GBPPLN	5.3585	DKKPLN	0.6166
USDCNY	6.6836	SEKPLN	0.4349

*for 100HUF

Last session in the FX market						08/06/2022
	min	max	open	close	fixing	
EURPLN	4.561	4.589	4.576	4.585	4.582	
USDPLN	4.252	4.294	4.285	4.269	4.290	
EURUSD	1.067	1.075	1.068	1.074	-	

Interest rate market 08/06/2022

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.92	6
DS0726 (5Y)	7.13	8
DS0432 (10Y)	6.76	17

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.72	-3	2.79	4	0.66	3
2L	7.56	-2	3.11	4	1.31	3
3L	7.30	0	3.11	2	1.54	4
4L	7.08	2	3.09	3	1.66	5
5L	6.94	2	3.06	4	1.76	5
8L	6.73	3	3.06	4	1.95	6
10L	6.66	3	3.08	4	2.06	6

WIBOR rates

Term	%	Change (bps)
O/N	5.30	8
T/N	5.78	42
SW	6.03	4
2W	6.07	3
1M	6.12	5
3M	6.74	2
6M	6.99	2
1Y	7.10	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.16	0
3x6	7.68	0
6x9	7.81	-10
9x12	7.82	-8
3x9	7.87	-1
6x12	7.99	-8

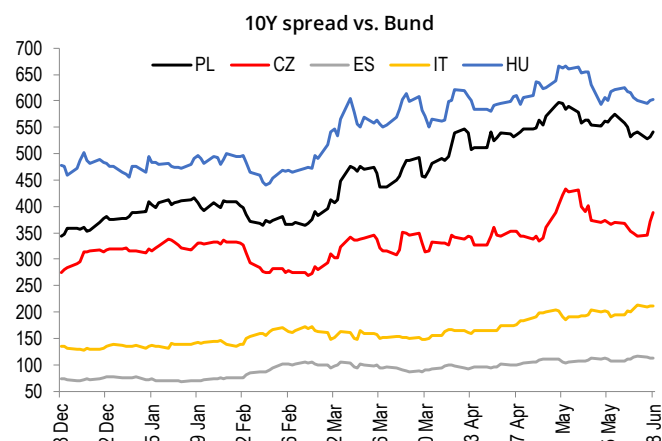
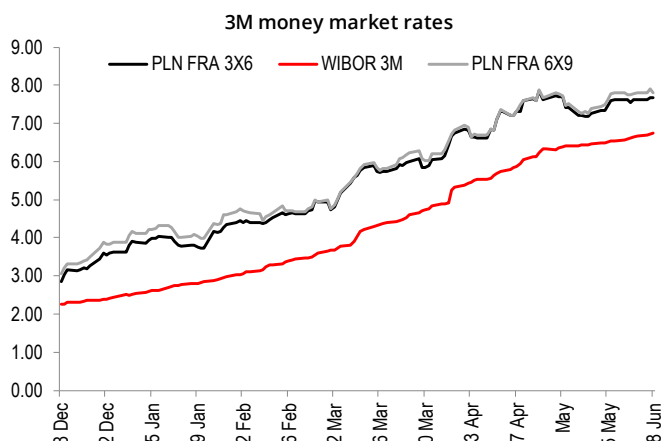
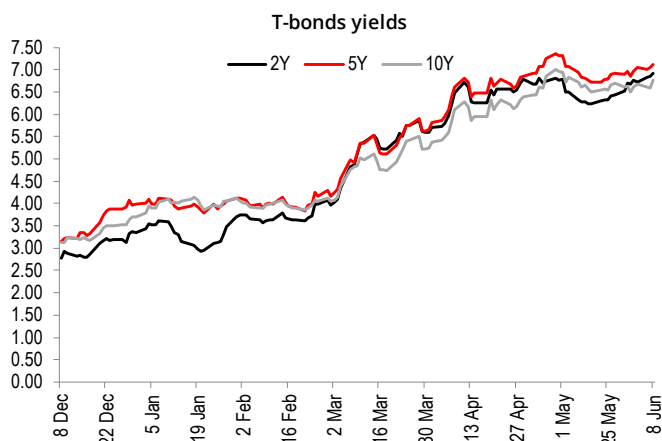
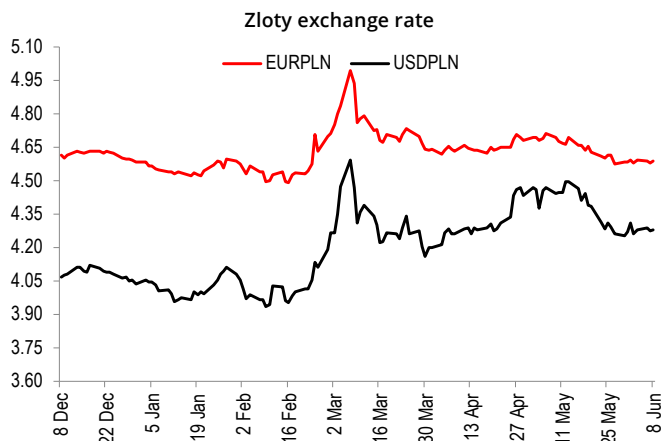
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	106	0	541	10
France	10	0	52	0
Hungary	135	0	602	1
Spain	57	1	113	1
Italy	65	0	211	1
Portugal	44	1	116	-1
Ireland	13	0	59	1
Germany	8	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 (3 Jun)								
08:00	DE	Export	Apr	% m/m	1.0	-	4.4	-3.0
09:55	DE	Services PMI	May	pts	56.3	-	55.0	57.6
10:00	EZ	Services PMI	May	pts	56.3	-	56.1	57.7
11:00	EZ	Retail sales	Apr	% m/m	0.3	-	-1.3	0.3
14:30	US	Non-farm payrolls	May	k	325	-	390	436
14:30	US	Unemployment rate	May	pts	3.5	-	3.6	3.6
16:00	US	ISM Services	May	pts	56.5	-	55.9	57.1
MONDAY (6 Jun)								
03:45	CN	Services PMI	May	pts	46	-	41.4	36.2
09:00	CZ	Industrial output	Apr	% y/y	-1.6	-	-6.4	-1.4
TUESDAY (7 Jun)								
06:30	AU	RBA rate decision		%	0.68	-	0.85	0.35
08:00	DE	Factory orders	Apr	% m/m	0.4	-	-2.7	-4.2
WEDNESDAY (8 Jun)								
	PL	NBP rate decision		%	6.00	6.00	6.00	5.25
08:00	DE	Industrial output	Apr	% m/m	1.2	-	0.7	-3.7
09:00	HU	Industrial output	Apr	% y/y	6.4	-	4.7	4.2
09:00	HU	CPI	Apr	% y/y	10.4	-	10.7	9.5
11:00	EZ	GDP	1Q	% q/q	0.3	-	0.6	0.3
THURSDAY (9 Jun)								
13:45	EZ	ECB rate decision		%	0	-	-	0
14:30	US	Initial jobless claims	week	k	210	-	-	210
15:00	PL	Adam Glapiński's conference						
FRIDAY (10 Jun)								
09:00	CZ	CPI	May	% y/y	-	-	-	14.2
14:30	US	CPI	May	% m/m	0.7	-	-	0.3
16:00	US	Michigan consumer confidence	Jun	pts	59	-	-	58.4

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

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