

## Eyeopener

### EBC heralds rate hikes, NBP the end of cycle

Today US inflation and consumer confidence

NBP governor: monetary tightening cycle in Poland nearing its end

ECB heralds 25bp rate hike in July and possibly even higher in September

Zloty weaker after Adam Glapiński's speech

**Today** the US inflation data will be released. Its monthly rise probably remained elevated, although y/y growth could have peaked. Inflation prints are now particularly important for the assessment of monetary policy outlook, and so could be the source of market volatility. US consumer confidence index from University of Michigan could show rising worries about purchasing power amid elevated inflation. Even though the main indicator has already dropped to its 10-year low, the Fed does not refer to this issue too much and instead is focusing on fighting inflation. Also today, Czech inflation rate will be released.

NBP president Adam Glapiński opened his monthly press conference with a statement that the monetary tightening cycle in Poland is nearing its end and if no unpredictable events happen then interest rate cuts may take place at the end of 2023. He made similar statements at the previous press conference in May, but this time there was clear change of emphasis – instead of emphasizing that the cycle will continue as long as inflation is rising, the message that we are nearing its end came to the fore. We think the MPC may deliver another +75bp rate hike in July and the last one +25bp hike in September, ending the cycle at 7.0%. Glapiński said the central bank is anticipating GDP growth deceleration from 8.5% y/y in 1Q22 to “4-4.5% at the end of the year”. We think that the severity of economic slowdown will be in fact much bigger (GDP growth down to merely 1% in 4Q22 and just below zero in early 2023), which will be reducing central bank's readiness to tighten policy even further after the summer holidays. Read more in [Economic Comment](#).

**The ECB**, as expected, did not change interest rates yesterday but ended its asset purchases under the APP programme. The statement that the conditions for a rate hike have been met in fact implies that the Bank will raise rates by 25bp in July, and if there are no signs of an easing of the inflation outlook in September (and possibly October), it will decide on an even bigger move (by 50bp). The ECB's new projection showed a higher inflation path than the previous version and less economic growth this year and next.

**EURUSD** managed to escape from the trading range of previous weeks thanks to the message coming from the ECB. In the first reaction, thanks to the clear announcement of a rate hike, the exchange rate went up to 1.075, before falling sharply and ending the day below 1.062. Today's US data in case of relatively low readings may still stop the exchange rate from falling deeper (1.05 may play an important role). However, the market seems to be more concerned about inflation rising above rather than below forecasts.

**EURPLN** rebounded above 4.60 during Adam Glapiński's conference, indicating that the market was hoping for a hawkish message and the announcement of an approaching end to rate hikes came as a surprise, especially as Wednesday's MPC statement did not prepare investors for such news. If we add to this the reports from Brussels that the European Commission may be strict on fulfilling the milestones, and therefore the approval of the Recovery Plan will not be followed by quick disbursements of funds, then yesterday's exchange rate movement may herald a more prolonged depreciation of the zloty.

**Other CEE currencies:** the forint's recent weakening was supported by MNB's Bianka Parragh's opinion on avoiding too big steps in further monetary tightening. EURHUF stabilised after reaching above 395. EURCZK, on the other hand, moved around 24.7 yesterday.

**On the interest rate market**, after a quiet morning, the domestic curve moved sharply upwards by 30bp, but after the NBP Governor's conference it trimmed half of its losses, while its slope increased by several bps. In our view, the central bank's message is supporting the steepening of the yield curve - it looks like the central bank will try to halt the rate hiking cycle in the near future, but the market may be pricing in the risk that this will not be enough to curb inflationary pressures, so further rate hikes will have to come later on. The ECB triggered yield rises in core markets with its communication and especially the lack of new ideas to counter the fragmentation of the euro zone debt market. The yield on the 10Y Bund went up by 8bp and the Italian bond by 25bp. Today is a switching auction at which the MF will accept securities maturing in April 2023 and sell OK0724, PS0527, DS1030 (the previous switching auction on May 12 offered WS0428 instead), DS0432, as well as floating WZ1127 and WZ1131.

#### New ECB projection and pp difference vs. the March edition

%	2022	2023	2024
Inflation	6.8 (+1.7)	3.5 (+1.4)	2.1 (+0.2)
GDP growth	2.8 (-0.9)	2.1 (-0.7)	2.1 (+0.5)

Source: ECB, Santander

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**FX market**

**Today's opening**

EURPLN	4.5979	CZKPLN	0.1859
USDPLN	4.3252	HUFPLN*	1.1518
EURUSD	1.0622	RUBPLN	0.0733
CHFPLN	4.4206	NOKPLN	0.4518
GBPPLN	5.4001	DKKPLN	0.6176
USDCNY	6.6843	SEKPLN	0.4367

\*for 100HUF

**Last session in the FX market** 09/06/2022

	min	max	open	close	fixing
EURPLN	4.575	4.608	4.585	4.597	4.583
USDPLN	4.260	4.326	4.275	4.316	4.276
EURUSD	1.064	1.077	1.073	1.066	-

**Interest rate market** 09/06/2022

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.99	7
DS0726 (5Y)	7.23	10
DS0432 (10Y)	6.95	19

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.62	-11	2.83	4	0.76	11
2L	7.52	-4	3.17	6	1.45	14
3L	7.27	-3	3.16	5	1.67	13
4L	7.08	0	3.13	4	1.79	12
5L	6.96	2	3.10	4	1.87	11
8L	6.81	8	3.08	2	2.02	8
10L	6.77	11	3.09	1	2.12	6

**WIBOR rates**

Term	%	Change (bps)
O/N	5.75	45
T/N	6.05	27
SW	6.10	7
2W	6.10	3
1M	6.13	1
3M	6.76	2
6M	7.02	3
1Y	7.13	3

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	7.24	7
3x6	7.58	-11
6x9	7.68	-13
9x12	7.64	-18
3x9	7.75	-11
6x12	7.84	-15

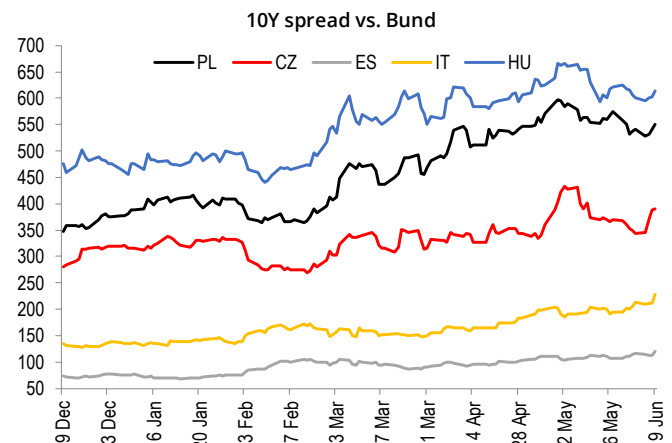
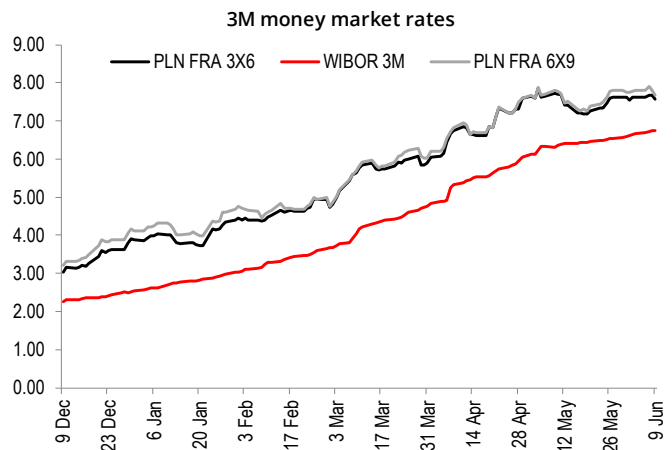
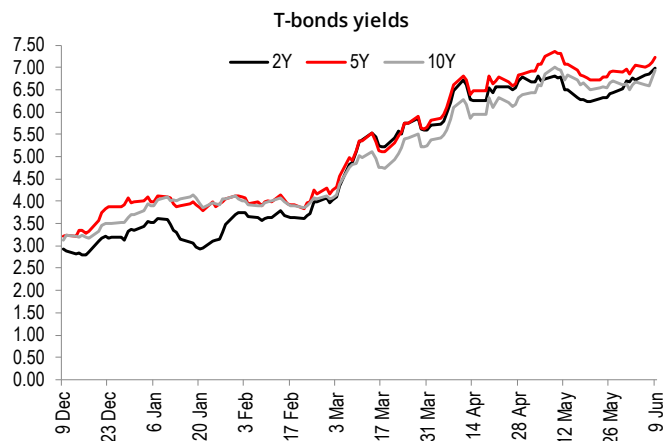
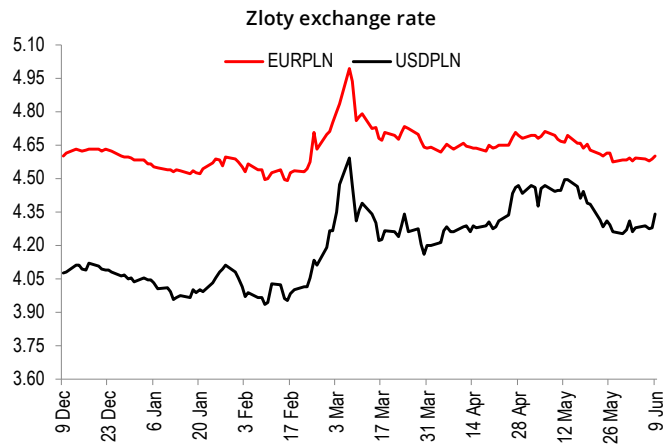
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	106	0	551	10
France	10	0	55	3
Hungary	147	12	615	12
Spain	60	3	119	6
Italy	70	5	228	16
Portugal	45	1	123	7
Ireland	13	0	63	4
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			
<b>FRIDAY (3 Jun)</b>								
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
<b>MONDAY (6 Jun)</b>								
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
<b>TUESDAY (7 Jun)</b>								
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
<b>WEDNESDAY (8 Jun)</b>								
	<b>PL</b>	<b>NBP rate decision</b>		<b>%</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>5.25</b>
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
<b>THURSDAY (9 Jun)</b>								
13:45	EZ	ECB rate decision		%	0	-	0	0
14:30	US	Initial jobless claims	week	k	210	-	229	202
<b>15:00</b>	<b>PL</b>	<b>Adam Glapiński's conference</b>						
<b>FRIDAY (10 Jun)</b>								
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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