

Eyeopener

Domination of the dollar

This evening FOMC minutes release
 Today US services ISM is due
 EURPLN reached 4.77 on global recession fears
 Domestic bond yields higher despite the strengthening of Bunds and UST
 Rising expectations about NBP rate path

Tonight we will get to see the minutes of the June FOMC meeting, when the Fed surprised with a larger rate hike (75bp versus expectations of 50bp) and announced a more vigorous fight against inflation by accelerating the US rate hike cycle. With recessionary fears growing in global financial markets, the document could bolster demand for the US currency at the expense of others, as could a possible surprise on the lower side with the ISM index reading for the US service sector. May data from Germany (the industrial orders reading turned out to be not so bad) and the euro zone may only play a supplementary role in this context.

The European Parliament approved **Croatia's euro zone membership** starting from 1 January 2023. Croatia's accession to the euro zone will be the first significant step in the European integration process since Brexit.

EURUSD slipped from around 1.04 to around 1.025. The return of U.S. investors to the market, contributed to a marked strengthening of the dollar amid rising global recessionary fears. The Swiss franc also strengthened, having already crossed below parity against the euro. The Japanese yen was stable due to the Bank of Japan's relentlessly dovish policy. With the lingering risk of fragmentation in euro zone debt markets, and the lack of clarity on the final shape of the ECB's new anti-fragmentation instrument, EURUSD still seems to have the potential to fall. Even a test of parity in some time cannot be ruled out.

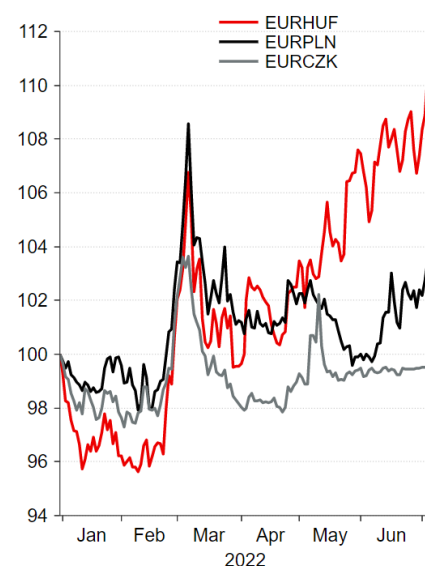
EURPLN rose from around 4.70 to around 4.77, before dropping to 4.75 by the end of the day. Despite some increase in expectations for rate hikes yesterday, the continued weakening of the zloty was influenced by the increase in global risk aversion, which was reflected, among other things, in downward movements in EURUSD and EURCHF.

Other CEE currencies: the EURCZK hovered one more day in the 24.73-24.75 zone, but this time breaking above this range in the evening. Despite clear depreciation pressures in emerging markets, the Czech koruna remains relatively stable. This is fostered by the decrease of worries about the new cast of the CNB Board and its future policy, as well as concerns about possible currency interventions. The EURHUF went up and established another historical peak close to 410.

Debt market: On Tuesday, domestic bond yields and IRS rates rose by around 20 bp. FRA rates reflecting interest rate expectations rose on a similar scale. The market is concerned that attempts to end the NBP's tightening cycle in Q3 may prove premature in the absence of sufficiently convincing signals of waning inflationary pressures in the economy. The behaviour of the domestic market since the beginning of the week is clearly different from what can be observed in the USA or Germany, where there is a clear reduction of expectations for the target level of interest rates both in the year-end horizon and beyond. In the USA, both inflation and Fed rate target expectations were falling. In the euro area, the same was happening, except for inflation expectations up to one year (presumably due to the risk of rising gas prices in the 2022/2023 heating season). The effect of fears of a broad recession, but also positive supply-side signals, is a clear retreat in global food commodity prices. The price of oil also fell markedly yesterday.

BGK's tender for the COVID-19 Fund ended with the sale of three bond series worth PLN0.92bn. The minimum planned supply was PLN0.25bn, while demand reached PLN1bn. Against the backdrop of growing concerns about a global slowdown, the market is increasingly looking for safe assets, which, at current prices, apparently include this type of paper.

CE3 currencies against the euro



Source: Refinitiv Datastream, Santander

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FX market

| Today's opening | | | |
|-----------------|--------|---------|--------|
| EURPLN | 4.7479 | CZKPLN | 0.1915 |
| USDPLN | 4.6315 | HUFPLN* | 1.1597 |
| EURUSD | 1.0247 | RUBPLN | 0.0771 |
| CHFPLN | 4.7841 | NOKPLN | 0.4579 |
| GBPPLN | 5.5239 | DKKPLN | 0.6380 |
| USDCNY | 6.7085 | SEKPLN | 0.4395 |

*for 100HUF

| Last session in the FX market | | | | | | 05.07.2022 |
|-------------------------------|-------|-------|-------|-------|--------|------------|
| | min | max | open | close | fixing | |
| EURPLN | 4.710 | 4.772 | 4.714 | 4.767 | 4.736 | |
| USDPLN | 4.510 | 4.657 | 4.516 | 4.649 | 4.595 | |
| EURUSD | 1.024 | 1.045 | 1.044 | 1.025 | - | |

Interest rate market 05.07.2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| DS1023 (2Y) | 7.90 | 7 |
| DS0726 (5Y) | 7.19 | 20 |
| DS0432 (10Y) | 6.74 | 15 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 8.08 | 17 | 3.19 | -4 | 0.72 | -6 |
| 2L | 7.71 | 16 | 3.08 | -5 | 1.20 | -15 |
| 3L | 7.28 | 19 | 2.91 | -7 | 1.37 | -15 |
| 4L | 6.90 | 15 | 2.86 | -12 | 1.51 | -14 |
| 5L | 6.68 | 15 | 2.83 | -6 | 1.64 | -13 |
| 8L | 6.44 | 14 | 2.84 | -8 | 1.91 | -12 |
| 10L | 6.42 | 14 | 2.87 | -8 | 2.06 | -12 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 6.36 | 6 |
| T/N | 6.47 | 3 |
| SW | 6.66 | 8 |
| 2W | 6.68 | 3 |
| 1M | 6.69 | 4 |
| 3M | 7.10 | 2 |
| 6M | 7.39 | 1 |
| 1Y | 7.54 | 1 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 7.76 | 21 |
| 3x6 | 8.13 | 24 |
| 6x9 | 8.18 | 21 |
| 9x12 | 8.06 | 29 |
| 3x9 | 8.38 | 27 |
| 6x12 | 8.38 | 25 |

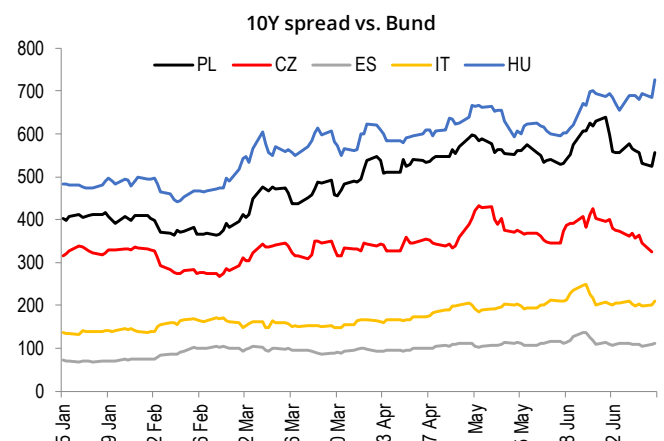
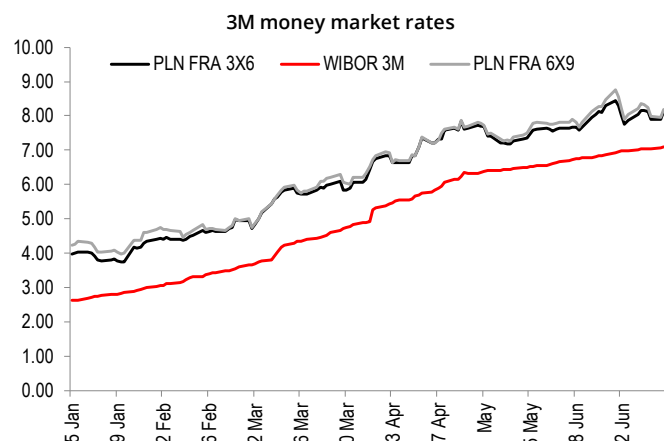
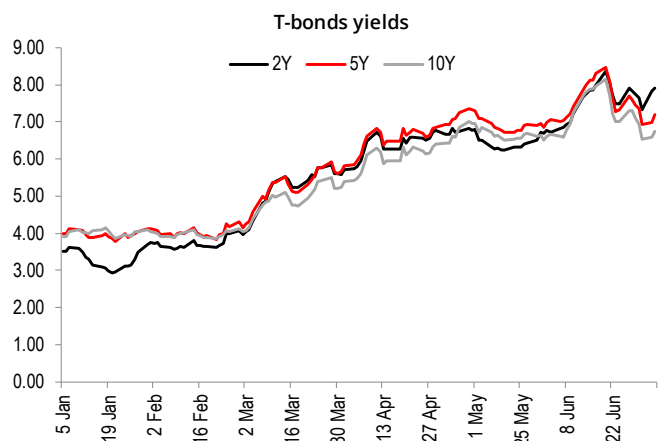
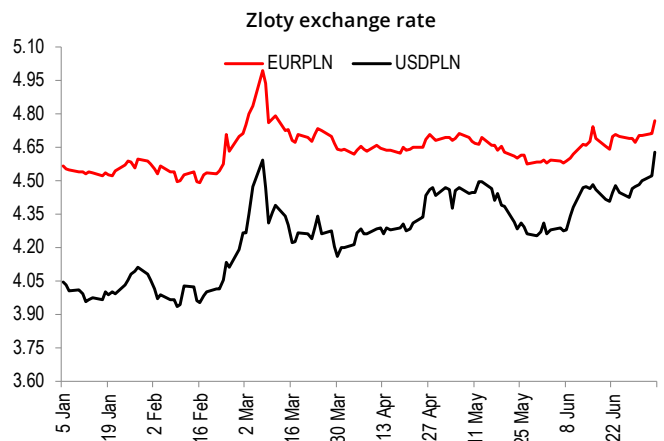
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 115 | 3 | 555 | 31 |
| France | 13 | 1 | 61 | 2 |
| Hungary | 172 | 5 | 726 | 42 |
| Spain | 60 | 5 | 112 | 4 |
| Italy | 68 | 5 | 209 | 9 |
| Portugal | 48 | 5 | 113 | 5 |
| Ireland | 13 | 0 | 65 | 2 |
| Germany | 11 | 1 | - | - |

* 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 July) | | | | | | | | |
| 09:00 | PL | Poland Manufacturing PMI | Jun | pts | 48.0 | 47.0 | 44.4 | 48.5 |
| 09:55 | DE | Germany Manufacturing PMI | Jun | pts | 52.0 | - | 52.0 | 54.8 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Jun | pts | 52.0 | - | 52.1 | 54.6 |
| 10:00 | PL | CPI | Jun | % y/y | 15.5 | - | 15.6 | 13.9 |
| 11:00 | EZ | Flash HICP | Jun | % y/y | 8.5 | - | 8.6 | 8.1 |
| 16:00 | US | ISM manufacturing | Jun | pts | 54.5 | - | - | 56.1 |
| MONDAY (4 July) | | | | | | | | |
| 08:00 | DE | Exports SA | May | % m/m | 0.7 | - | -0.5 | 4.4 |
| TUESDAY (5 July) | | | | | | | | |
| 03:45 | CN | Caixin China PMI Services | Jun | pts | 49.0 | - | 54.5 | 41.4 |
| 09:55 | DE | Markit Germany Services PMI | Jun | pts | 52.4 | - | 52.4 | 55.0 |
| 10:00 | EZ | Eurozone Services PMI | Jun | pts | 52.8 | - | 53 | 56.1 |
| 16:00 | US | Durable Goods Orders | May | % m/m | 0.7 | - | 0.8 | 0.4 |
| 16:00 | US | Factory Orders | May | % m/m | 0.5 | - | 1,6 | 0.3 |
| WEDNESDAY (6 July) | | | | | | | | |
| 08:00 | DE | Factory Orders | May | % m/m | -0.5 | - | 0.1 | -1.8 |
| 09:00 | HU | Industrial Production SA | May | % y/y | 2.6 | - | - | 4.7 |
| 11:00 | EZ | Retail Sales | May | % m/m | 0.4 | - | - | -1.3 |
| 16:00 | US | ISM services | Jun | pts | 54.5 | - | - | 55.9 |
| 20:00 | US | FOMC Meeting Minutes | Jun.22 | | | | | |
| THURSDAY (7 July) | | | | | | | | |
| | PL | MPC decision | | % | 6.75 | 6.75 | - | 6.00 |
| 08:00 | DE | Industrial Production SA | May | % m/m | 0.3 | - | - | 0.7 |
| 09:00 | CZ | Industrial Production | May | % y/y | 2.5 | - | - | -6.4 |
| 14:30 | US | Initial Jobless Claims | | k | 230 | - | - | 231 |
| FRIDAY (8 July) | | | | | | | | |
| 09:00 | HU | CPI | Jun | % y/y | 11.6 | - | - | 10.7 |
| 14:30 | US | Change in Nonfarm Payrolls | Jun | k | 275 | - | - | 390 |
| 14:30 | US | Unemployment Rate | Jun | % | 3.6 | - | - | 3.6 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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