

Eyeopener

Time for a hike

Today the Polish MPC decides on rates, main NBP projection numbers will be out
FOMC minutes confirmed the Fed's hawkish bias
EURPLN reached 4.80 in the course of the day, domestic yields were stable

Today, the main local event of the week - the MPC decision on interest rates. By the size of the move and the wording used in the communiqué, the market will try to decipher whether the central bank intends to end the cycle soon, and to what extent the weakening of the currency affects the monetary policy reaction. The benchmark for the MPC decision is the markets consensus for a +75bp move. The calendar abroad includes industrial production readings from Germany (already published: quite good if we consider the upward revision of the previous reading) and the Czech Republic as well as the weekly US unemployment benefits report. All these data will be analysed in terms of the likelihood of a recession in the following quarters.

The **FOMC minutes** from the Fed's June meeting confirmed the institution's hawkish attitude. Behind the need for a greater degree of monetary tightening in the US was not only rising inflation, but also the risk of inflation expectations becoming anchored at high levels should the public begin to lose faith in the effectiveness of Fed monetary policy. The report showed that FOMC members recognise the diminishing supply problems from broken supply chains, but believe that the improvement is still too small to lower inflation. In addition, they also reckon there are growing risks to economic growth, but are prepared to implement tighter monetary policy if inflationary pressures do not ease.

The Ministry of Family and Social Policy reported that in June the **registered unemployment** rate fell to 4.9% from 5.1%, in line with our forecast and against market expectations for a fall to 5.0%. Both the rate and the number of registered unemployed are now the lowest in Poland's post-transformation history. The monthly drop in the number of unemployed by 30.5k is similar to May's declines in 2021, 2019 and 2018. (In the previous months, unemployment fell significantly slower than in the corresponding periods of the last years before the pandemic). In our view, by the end of the year, the unemployment rate could return to or above 5% and grow by around 0.5 percentage points over the course of next year.

IMF head Kristalina Georgieva announced another downgrade of global growth forecasts, spoke of a significant deterioration in the outlook and the risk of a global recession in 2023. However, she identified the need to contain soaring inflation as a priority, and the lower growth will likely be the price to pay. She also highlighted the problem of divergent fiscal and monetary policies which make it difficult for central banks to tackle inflation.

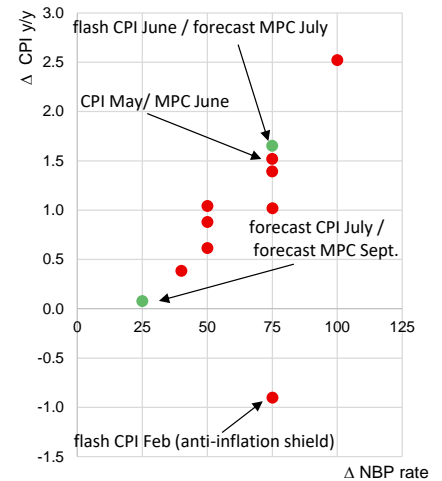
EURUSD fell below 1.02, but is back slightly above the level this morning. The dollar is being carried on a wave of recessionary fears, visible i.a. in the evolution of the slope of the US yield curve, and also influenced by the Fed's hawkish stance to combat inflation expectations. In addition, wide spreads between the yields of the southern euro zone countries and Germany are also working against the euro, signalling possible problems stemming from the fragmentation of debt markets if this issue is not effectively addressed by the ECB.

EURPLN tried to attack 4.80 starting from 4.75. However, this psychological level remained a barrier due to the forthcoming NBP decision on interest rates. By the end of the day, the exchange rate had fallen towards 4.78. The further situation of the zloty will depend on whether the dollar, following the example of the Swiss franc, breaks parity with the euro, and on the decision and communication of the Polish MPC.

Other CEE currencies: EURCZK rose from around 24.74 to 24.78, the weak mood on global markets also negatively affected the Czech koruna. The EURHUF set a new historic high near 417 for another day in a row and ended the day around the 410 level, four forints higher than it started Wednesday. The forint was helped by the statement of MNB vice-president Barnabas Virag, who announced a strong increase in the 1-week deposit rate (the decision released today at 9:00CET was +200bp, while market consensus was +50bp). Besides, also in the CEE, the Romanian central bank raised interest rates by 100 bp yesterday, although the market was targeting +75 bp.

Debt market: Domestic yields remained stable on Wednesday, and the situation was also similar on the IRS market. The FRA market also waited for the MPC. In the German market, there were attempts at an upward rebound in yields, but so far very tentative. In the USA, the bond curve rebounded upwards by around 15bp.

NBP rate hikes vs. monthly inflation change



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.7748	CZKPLN	0.1927
USDPLN	4.6775	HUFPLN*	1.1597
EURUSD	1.0208	RUBPLN	0.0742
CHFPLN	4.8389	NOKPLN	0.4625
GBPPLN	5.5931	DKKPLN	0.6423
USDCNY	6.6990	SEKPLN	0.4450

*for 100HUF

Last session in the FX market						06.07.2022
	min	max	open	close	fixing	
EURPLN	4.740	4.802	4.740	4.796	4.794	
USDPLN	4.621	4.720	4.626	4.718	4.680	
EURUSD	1.016	1.028	1.025	1.017	-	

Interest rate market 06.07.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.94	4
DS0726 (5Y)	7.18	-1
DS0432 (10Y)	6.72	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.12	4	3.29	10	0.71	-1
2L	7.74	4	3.23	15	1.19	-1
3L	7.27	-1	3.09	18	1.30	-7
4L	6.91	2	3.03	17	1.50	-1
5L	6.67	-1	3.00	17	1.58	-6
8L	6.39	-5	2.97	13	1.85	-6
10L	6.33	-9	3.00	13	2.01	-6

WIBOR rates

Term	%	Change (bps)
O/N	6.40	4
T/N	6.50	3
SW	6.74	8
2W	6.75	7
1M	6.75	6
3M	7.12	2
6M	7.41	2
1Y	7.55	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.83	7
3x6	8.16	3
6x9	8.21	3
9x12	8.05	-2
3x9	8.46	8
6x12	8.39	0

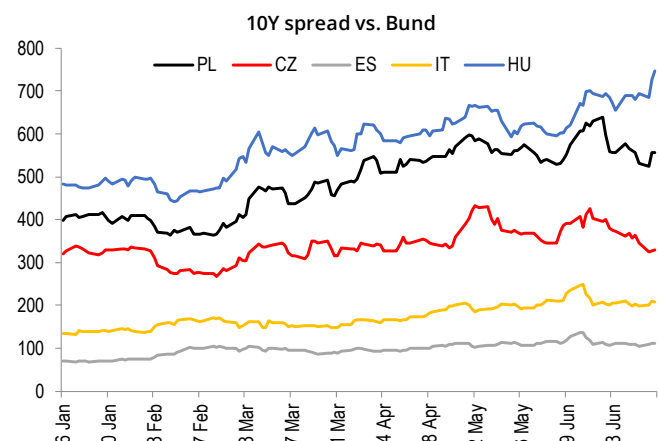
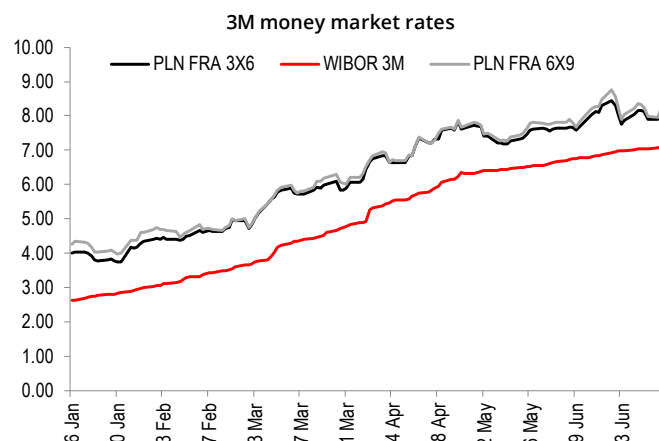
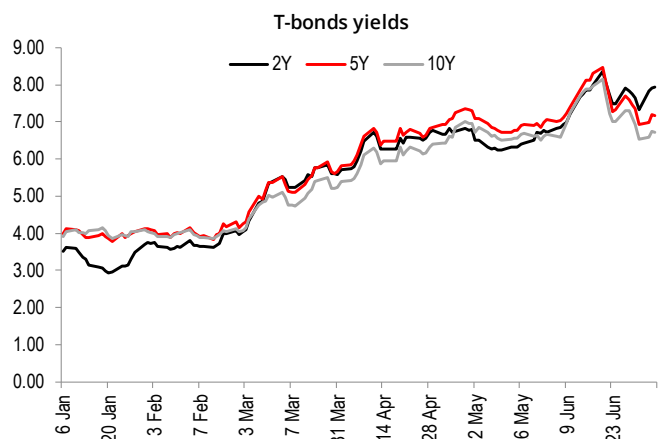
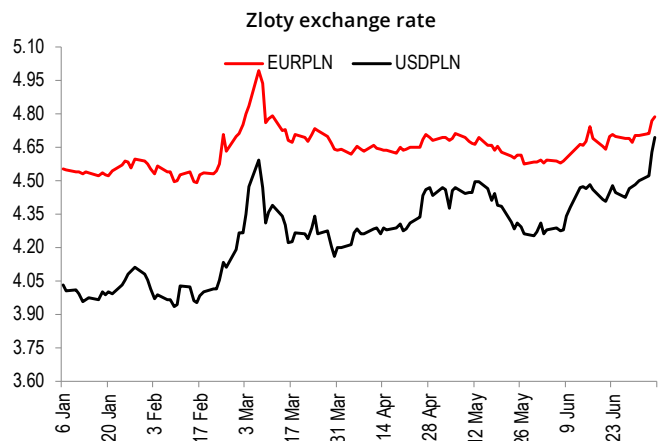
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	118	3	556	0
France	12	0	61	-1
Hungary	174	2	747	22
Spain	60	0	112	0
Italy	68	0	209	-1
Portugal	48	0	113	0
Ireland	13	0	64	-1
Germany	11	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 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	-	9.4	4.7
11:00	EZ	Retail Sales	May	% m/m	0.4	-	0.2	-1.3
16:00	US	ISM services	Jun	pts	54.5	-	55.3	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	-	0.2	1.3
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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