

11 July 2022

# Eyeopener

## End of cycle near, but not prejudged

No significant data today, Russia withholds gas for Germany  
 NBP president: end of cycle near, but nothing is yet determined  
 US labour market data better than expected  
 Zloty stable, yields up

**Today** no significant data in the agenda. Russia has announced a temporary shutdown of the Nord Stream 1 gas pipeline due to maintenance work. The interruption is expected to last 10 days, but German politicians are concerned that supplies may not resume, which could trigger a recession in the European economy. In the evening, NY Fed's John Williams (considered a moderate) will speak. Important domestic events will follow in the next few days: the presentation of the NBP Inflation Report on Tuesday morning, the May balance of payments on Thursday and the final June CPI inflation data on Friday. Abroad, the publication calendar is not particularly rich either, with final US and European inflation data, industrial production, retail sales, the Michigan preliminary consumer sentiment index, among others, all likely to influence the market's assessment of the Fed's and ECB's monetary policy outlook and thus the overall risk appetite.

On Friday, we got to see the **US non-farm employment data** for June. These numbers were clearly better than expectations, which translated into a strengthening of expectations for stronger monetary tightening in the US. The market is now basically convinced that US rates will go up by 75bp in July.

**The June MPC meeting** minutes showed some Council members were concerned that a credit vacations would hinder a sustained reduction in CPI, while looser fiscal policy would be pro-inflationary and the change in reference rates could undermine the monetary transmission mechanism. We share these concerns.

**NBP president Adam Glapiński** during the press conference on Friday repeated a similar message as in June, however tweaked somewhat the accents (in good direction, in our view): the main message was again (just like in May) that the central bank will keep hiking rates as long as inflation is on the rise and that curbing inflation is the MPC's primary focus. Glapiński repeated that he hopes that the end of monetary tightening cycle is nearing but stressed at the same time that it is not a done deal and the assessment may change. If inflation stabilises then the Council may stop hiking rates. But further CPI rise will trigger more tightening. We still see the target reference rate near 7.0% in early autumn. We think the most likely scenario is another 50bp rate hike in September, but it cannot be ruled out that the MPC will want to split the move into two 25bp rate hikes. The risk remains asymmetric to the upside, however, as is the risk for CPI forecast. See more in the [Economic comment](#).

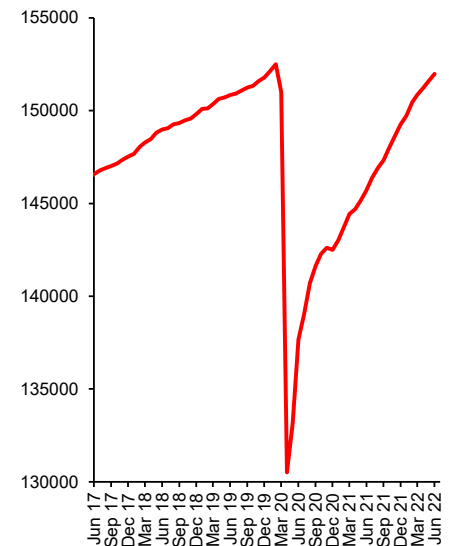
**EURUSD** remained below the 1.02 level. During the day it tried to go below the 1.01 level but by the end of Friday it had retreated. This occurred despite strong data from the US labour market supporting the scenario of a 75-point Fed rate hike in July. However, this was unlikely to be related to any fundamental turnaround, as even FOMC dove Raphael Bostic announced his support for such a move by the Fed, but to the technical closing of short positions at the end of the week after the relatively strong decline recorded since the beginning of the week. Doubts about the ECB's new anti-fragmentation instrument, which is still in the making, a strong U.S. labour market, high inflation and global recessionary fears remain ongoing factors supporting further dollar appreciation.

**EURPLN** remained near the 4.78-4.80 zone. A slight weakening of the dollar on Friday worked in favour of the Polish currency. At one point, the rate even went slightly below 4.76, but after the NBP President's conference, it returned to higher levels. The signalled willingness to end the tightening cycle, or to continue it conditionally but at a pace slower than 75bp per meeting, indicates that the central bank may accept the possibility of further PLN depreciation. Although the possibility of currency interventions was mentioned at the conference, it seems that they could only be applied on a larger scale at much higher EURPLN levels than at present.

**Other CEE currencies:** the EURCZK fell from around 24.76 to around 24.63. The Czech koruna strengthened after the government announced additional lending to the largest state-owned energy company CEZ, in order to make additional energy purchases ahead of the heating season. The EURHUF rose from around 402 to around 405. The MNB announced a wider use of currency swaps to increase the supply of the euro in the local financial market in order to reduce pressure for further depreciation of the Hungarian currency.

**Debt market:** The domestic yield curve moved lower, anticipating a lower NBP rate target. In line with the drop in FRA market, 2-year government bond yields fell most sharply, dropping to around 7.50% from 7.90%. In the core markets, yields rose on Friday.

Non-farm payrolls, thousands



Source, Refinitiv Datastream, Santander

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### FX market

Today's opening			
EURPLN	4,7774	CZKPLN	0,1932
USDPLN	4,7145	HUFPLN*	1,1722
EURUSD	1,0136	RUBPLN	0,0773
CHFPLN	4,7943	NOKPLN	0,4638
GBPPLN	5,6288	DKKPLN	0,6409
USDCNY	6,7105	SEKPLN	0,4451

\*for 100HUF

### Last session in the FX market 08.07.2022

	min	max	open	close	fixing
EURPLN	4,759	4,806	4,781	4,778	4,796
USDPLN	4,677	4,763	4,708	4,695	4,742
EURUSD	1,007	1,019	1,015	1,018	-

### Interest rate market 08.07.2022

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7,53	-41
DS0726 (5Y)	7,02	-22
DS0432 (10Y)	6,68	-12

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,59	-38	3,41	9	0,85	2
2L	7,25	-40	3,38	11	1,31	-1
3L	6,87	-33	3,23	9	1,47	-1
4L	6,60	-26	3,17	9	1,61	-1
5L	6,45	-19	3,15	11	1,74	0
8L	6,23	-15	3,12	8	2,01	2
10L	6,22	-16	3,16	10	2,16	5

#### WIBOR rates

Term	%	Change (bps)
O/N	6,53	-4
T/N	6,83	-1
SW	6,84	3
2W	6,70	-12
1M	6,67	-15
3M	7,08	-6
6M	7,38	-5
1Y	7,54	-3

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

Term	%	Change (bps)
1x4	7,25	-40
3x6	7,64	-36
6x9	7,54	-50
9x12	7,49	-42
3x9	7,71	-48
6x12	7,72	-50

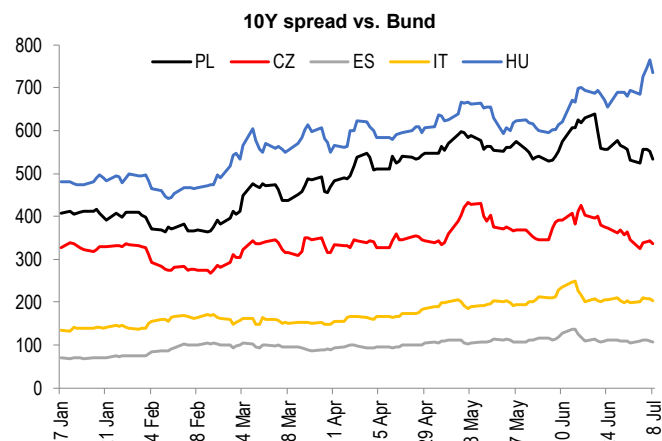
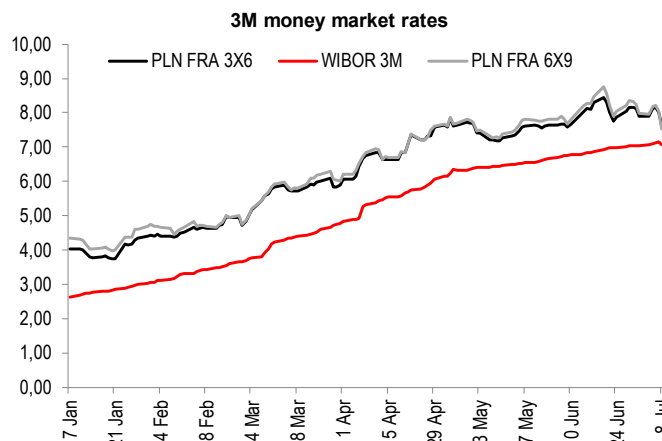
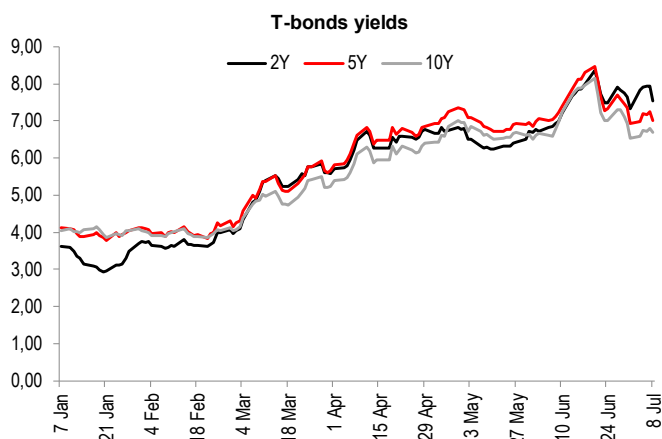
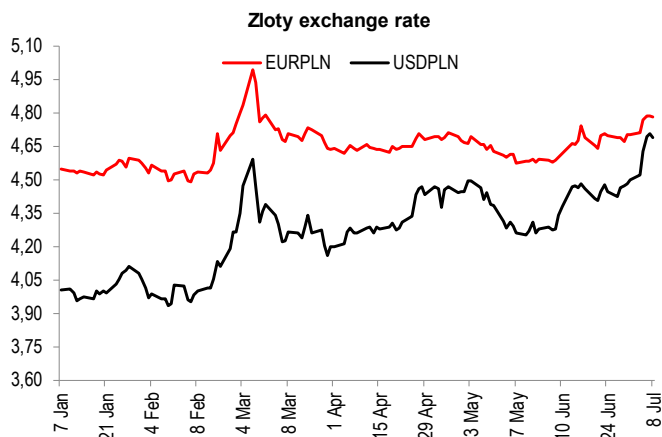
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	118	0	534	-17
France	12	0	54	-1
Hungary	174	0	735	-29
Spain	60	0	108	-2
Italy	68	0	202	-5
Portugal	48	0	110	-2
Ireland	14	1	60	-2
Germany	13	2	-	-

\* 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 (8 July)</b>							
09:00	HU	CPI	Jun	% y/y	11.6	-	11.7
14:30	US	Change in Nonfarm Payrolls	Jun	k	275	-	384
14:30	US	Unemployment Rate	Jun	%	3.6	-	3.6
<b>MONDAY (11 July)</b>							
No important releases							
<b>TUESDAY (12 July)</b>							
<b>09:00</b>	<b>PL</b>	<b>NBP Inflation Report</b>					
11:00	DE	ZEW Survey Current Situation	Jul	pts	-33.0	-	-27.6
<b>WEDNESDAY (13 July)</b>							
08:00	DE	HICP	Jun	% m/m	-0.1	-	-0.1
09:00	CZ	CPI	Jun	% y/y	17.1	-	16.0
11:00	EZ	Industrial Production SA	May	% m/m	0.1	-	0.4
14:30	US	CPI	Jun	% m/m	1.1	-	1.0
<b>THURSDAY (14 July)</b>							
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>May</b>	<b>€mn</b>	<b>-3500.0</b>	<b>-4019.0</b>	<b>-3924</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>May</b>	<b>€mn</b>	<b>-2515.0</b>	<b>-2626.0</b>	<b>-2466</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>May</b>	<b>€mn</b>	<b>26278.0</b>	<b>26147.0</b>	<b>26559</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>May</b>	<b>€mn</b>	<b>28971.0</b>	<b>28773.0</b>	<b>29025</b>
14:30	US	Initial Jobless Claims		k	-	-	231.0
<b>FRIDAY (15 July)</b>							
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jun</b>	<b>% y/y</b>	<b>15.6</b>	<b>15.6</b>	<b>13.9</b>
14:30	US	Retail Sales Advance	Jun	% m/m	0.9	-	-0.3
15:15	US	Industrial Production	Jun	% m/m	0.0	-	0.1
16:00	US	Michigan index	Jul	pts	49.2	-	50.0

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

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