

## Eyeopener

### NBP projection pushed up yields

Today, inflation data in Europe and the US, industrial production in the Eurozone

ZEW index down sharply

MNB raised rates by 200bp

Dollar temporarily stronger against the euro, zloty weaker, yields up

**Today**, inflation data releases in several countries, including Czech Republic and USA. In addition, industrial production in the euro area.

The **German ZEW** confidence indicator clearly surprised to the downside, falling to -53.8 from -28 in May. The deterioration of sentiment was due to three factors: worries about the energy crisis, an imminent rate hike in the euro area and pandemic restrictions in China. The **US NFIB small business optimism index** was also weak, and the expectations index for future economic conditions fell to its lowest level in the survey's history.

The detailed **economic forecasts published by the NBP** in its *Inflation Report* showed that the central bank expects GDP growth at 4.7% in 2022 and 1.4% in 2023. Our annual forecasts are identical, although expectations for particular quarters look slightly different: the NBP expects a milder slowdown (a trough at 0.5% y/y in 1Q2023), but a less dynamic rebound thereafter. The inflation forecast showed a rise in CPI to around 19% in early 2023, which caused confusion among investors, who remembered from Governor Glapiński's press conference the assurance that interest rates would rise as long as inflation was rising and that CPI was expected to peak in the summer months. The confusion, however, was due to a misunderstanding caused by assumption about the 'Anti-Inflation Shield', which are crucial the inflation forecasts. The NBP, as usual, adhered to 'no policy change' rule and assumed that the 'Shield' ends in October 2022, which is an unrealistic assumption. The NBP forecast, with assumption that 'Shield' is prolonged until end of 2023 (which is our baseline scenario) is very similar to our inflation path, with local inflation peak this summer. According to NBP analysts' assessment, the chance of inflation falling below 3.5% at the very end of the forecast horizon (4Q2024) is exactly 50%. In our opinion, the extension of the 'Shield', tantamount to additional fiscal stimulation, will significantly reduce this probability. According to MPC's Ludwik Kotecki, this stagflationary scenario has "seriously worried the MPC".

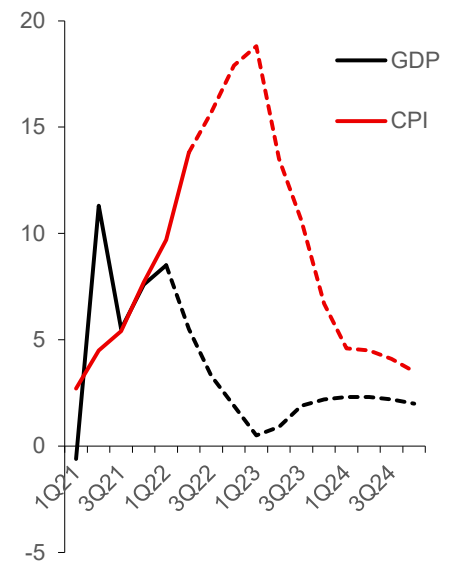
**EURUSD** temporarily broke through parity, following the weaker-than-expected publication of the ZEW indicator for Germany. Later in the day, the rate returned to the level of 1.0050. The psychological parity level proved attractive to both sellers and buyers. The next opportunity to struggle around it may be today's first reading of July CPI inflation from the US.

**EURPLN** rose from around 4.80 to around 4.82, although during the day the exchange rate already tried to attack the 4.85 level. In addition to weaker data from Germany and the dollar's struggle to break parity against the euro in its favour, the zloty was also hurt by the publication of new economic forecasts from the National Bank of Poland, indicating an imminent economic slowdown amid relatively high inflation this year and next.

**Other CEE currencies:** **EURCZK** strengthened from 24.60 to 24.42. Under the leadership of the new CNB president, who took office on 1 July, the central bank clearly shows a preference for fighting inflation with use of exchange rate. **EURHUF** fluctuated around 407 albeit with attempts to rise around 415 during the day. However, the forint's depreciation was halted by another large MNB rate hike. This time interest rates were raised by 200bp. The weekly deposit rate now stands at 9.25% and the base rate at 9.75%. In its statement after the decision, the central bank said that high energy commodity prices and the current situation on financial markets increase the risk of inflationary pressures becoming persistent, which threatens price stability.

**Debt market:** The publication of the NBP's new economic forecasts lifted the domestic yield curve and IRS rates. In view of weakening inflation expectations globally and the central bank's rhetoric about an imminent inflation peak at the end of the holidays, the prospect of continued high double-digit inflation also in 2023 was negatively received by the markets. This resulted in a renewed increase in expected rates in the FRA market, especially in the longer terms, which translated into increases in yields and IRS rates. However, the upward potential was limited by situation on the main markets, where yields continued to fall on Tuesday. As a result, the scale of increases in the domestic market was reduced by the end of the day.

NBP July forecasts



Source: NBP, Santander

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### FX market

Today's opening			
EURPLN	4,8160	CZKPLN	0,1967
USDPLN	4,7985	HUFPLN*	1,1816
EURUSD	1,0037	RUBPLN	0,0813
CHFPLN	4,8811	NOKPLN	0,4674
GBPPLN	5,7032	DKKPLN	0,6467
USDCNY	6,7213	SEKPLN	0,4529

\*for 100HUF

### Last session in the FX market 12.07.2022

	min	max	open	close	fixing
EURPLN	4,797	4,850	4,799	4,819	4,834
USDPLN	4,771	4,851	4,792	4,788	4,828
EURUSD	1,000	1,007	1,002	1,007	-

### Interest rate market 12.07.2022

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7,56	0
DS0726 (5Y)	7,06	16
DS0432 (10Y)	6,61	0

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,78	27	3,33	-5	0,79	-5
2L	7,43	27	3,24	-6	1,19	-5
3L	6,98	26	3,12	-3	1,30	-8
4L	6,65	21	3,05	-3	1,44	-8
5L	6,41	17	3,02	-4	1,57	-9
8L	6,16	13	3,01	-3	1,83	-10
10L	6,15	13	3,04	-2	1,97	-11

#### WIBOR rates

Term	%	Change (bps)
O/N	6,29	1
T/N	6,54	-3
SW	6,61	-5
2W	6,65	-1
1M	6,68	-8
3M	6,99	-1
6M	7,30	-4
1Y	7,43	1

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

Term	%	Change (bps)
1x4	7,26	18
3x6	7,58	14
6x9	7,79	23
9x12	7,69	34
3x9	7,92	37
6x12	7,79	29

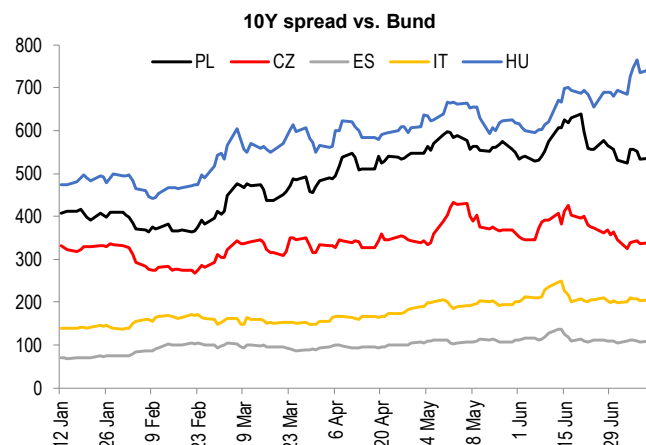
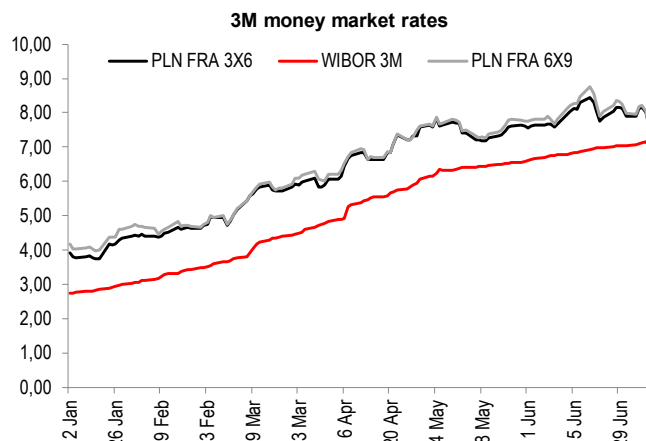
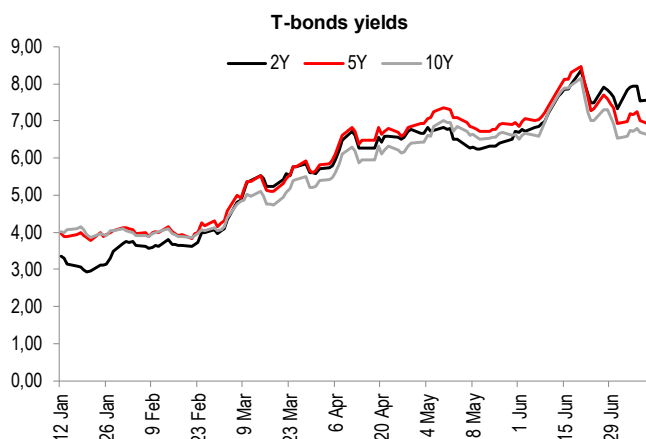
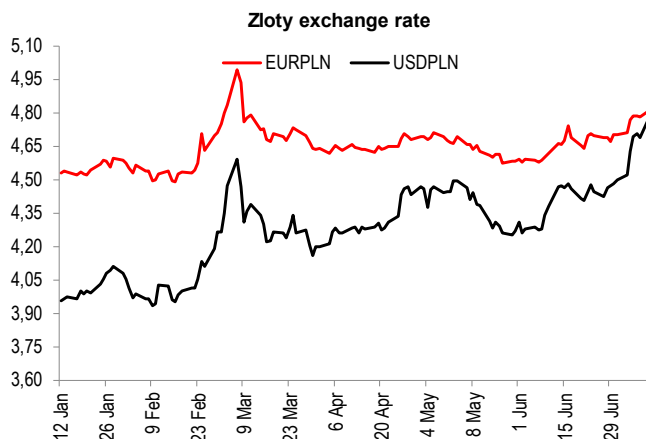
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	119	0	548	12
France	13	0	52	-1
Hungary	181	2	781	38
Spain	63	2	109	0
Italy	70	2	207	2
Portugal	48	0	111	1
Ireland	14	0	58	1
Germany	13	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 (8 July)</b>								
09:00	HU	CPI	Jun	% y/y	11.6	-	11.7	10.7
14:30	US	Change in Nonfarm Payrolls	Jun	k	275	-	372	384
14:30	US	Unemployment Rate	Jun	%	3.6	-	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	-	-53.8	-28.0
<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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