

20 July 2022

Eyeopener

Zloty stronger before the ECB meeting

Today local data on industrial output, PPI, wages and employment
 ECB may consider 50bp rate hike on Thursday, according to Bloomberg
 MPC's Dąbrowski prefers to stop hiking rates, sees rate cuts in 2023
 EURPLN and local yields lower again

Today, several data releases in Poland: corporate wages and employment, PPI inflation and industrial production.

Eurozone HICP inflation rose to 8.6% y/y in June from 8.1% y/y in May, in line with the preliminary reading. The same indicator for Poland rose to 14.2% y/y from 12.8% y/y in May and was the highest on record.

According to Bloomberg, the **ECB may consider a 50 bps rate hike** at tomorrow's meeting, while the market was expecting a 25 bps hike. The news had a clear impact on markets, including a strengthening of the euro against the dollar. The agency also reports that ECB President Christine Lagarde wants to speed up work on the anti-fragmentation tool.

MPC member Ireneusz Dąbrowski said that if it was all up to him, interest rates should no longer be raised, or by 25bp at most. In 2023 Dąbrowski expects rate cuts. According to the MPC member, economic fundamentals support a stronger zloty, but there is no need for currency interventions.

According to data from the Ministry of Labour and Social Policy, **335k Ukrainian citizens have already taken up work** in Poland on the basis of simplified procedures.

According to **IMF report**, **cutting Europe off from Russian gas** would cost the European Union a drop in GDP growth by 2-3 percentage points. Integrating the gas market would make it possible to mitigate the impact of this problem to around 1 percentage point. A lack of gas from Russia would hit Hungary, Slovakia, the Czech Republic and Italy hardest, and these countries could lose between 3 and 6% of GDP. Poland is moderately exposed to the problem, with the IMF estimating the potential loss of GDP at 1-2%, which is roughly in line with our estimates.

The government yesterday adopted a **draft bill of a one-off coal allowance** for households heating their homes with coal, which according to the government estimates is expected to cost around PLN11.5bn, roughly in line with our estimates, which we presented yesterday.

Jarostaw Kaczyński said in an interview with the Polska Times that the ruling party is considering how to moderate the coming decline in GDP growth. This could herald another dose of fiscal easing ahead of the 2023 elections.

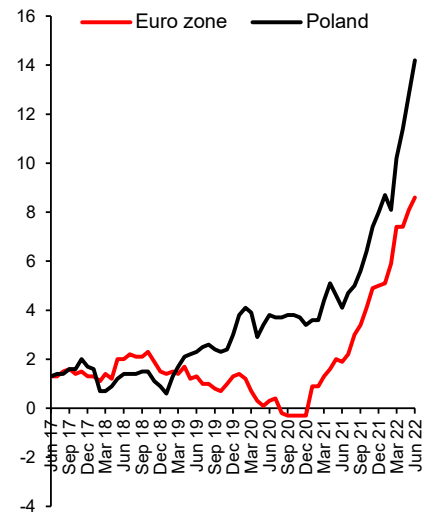
EURUSD surpassed the 1.02 level in anticipation of Thursday's ECB meeting. The single currency is supported by reports of a possible more decisive rate hike along with the anticipated announcement of an anti-fragmentation tool. It seems that at least until the ECB meeting, the euro is unlikely to weaken significantly against the dollar.

EURPLN fell to 4.75 from around 4.79. The apparent strengthening of the zloty is mainly the result of a weaker dollar and a declining risk aversion, linked to expectations for the announcement of the ECB's new anti-fragmentation instrument, which could reduce recessionary fears on the continent and enable a more effective fight against inflation through more aggressive rate hikes. Today's industrial production data (our forecast above consensus) may support the zloty.

Other CEE currencies: the EURCZK fell from 24.53 to near 24.50. Improved investment sentiment in Europe also supported the forint. EURHUF fell from around 399 to around 397.

Debt market: The domestic yield curve and IRS fell again. Improved investment sentiment in Europe also contributed to a narrowing of Polish ASW and the spread to the bund of the Polish 10-year yield. Another statement by the MPC member Dąbrowski fully consistent with the weekend's forward guidance by president A. Glapiński helped to constrain market expectations for domestic interest rate hikes, further supporting the strengthening of domestic debt. On the core markets, yields increased.

HICP inflation, % y/y



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.7552	CZKPLN	0.1934
USDPLN	4.6472	HUFPLN*	1.1853
EURUSD	1.0233	RUBPLN	0.0836
CHFPLN	4.7876	NOKPLN	0.4686
GBPPLN	5.5868	DKKPLN	0.6378
USDCNY	6.7537	SEKPLN	0.4547

*for 100HUF

Last session in the FX market 19/07/2022

	min	max	open	close	fixing
EURPLN	4.7479	4.7975	4.7927	4.7572	4.7731
USDPLN	4.6268	4.7340	4.7339	4.6469	4.6594
EURUSD	1.0126	1.0268	1.0126	1.0237	-

Interest rate market 19/07/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.65	-11
DS0726 (5Y)	7.00	-4
DS0432 (10Y)	6.65	-7

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.60	-4	3.54	5	1.06	11
2L	7.37	-4	3.47	7	1.44	11
3L	6.96	-2	3.30	6	1.56	11
4L	6.64	-2	3.19	5	1.67	10
5L	6.46	0	3.13	4	1.77	10
8L	6.22	4	3.06	3	1.97	7
10L	6.23	5	3.07	3	2.08	8

WIBOR rates

Term	%	Change (bps)
O/N	6.33	-3
T/N	6.49	-6
SW	6.63	-1
2W	6.64	0
1M	6.69	1
3M	7.01	1
6M	7.30	0
1Y	7.45	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.12	0
3x6	7.50	-8
6x9	7.57	-11
9x12	7.51	-6
3x9	7.70	-7
6x12	7.73	-14

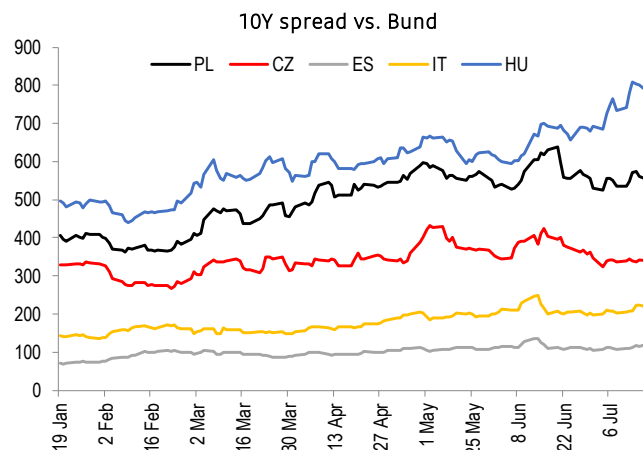
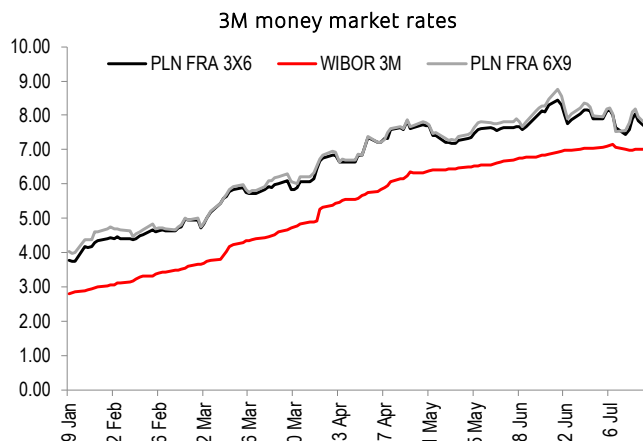
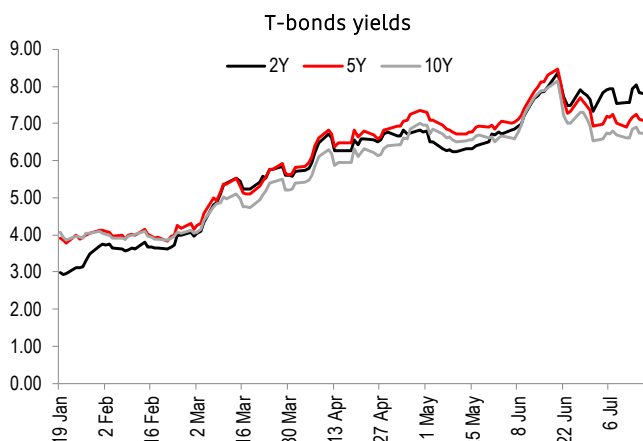
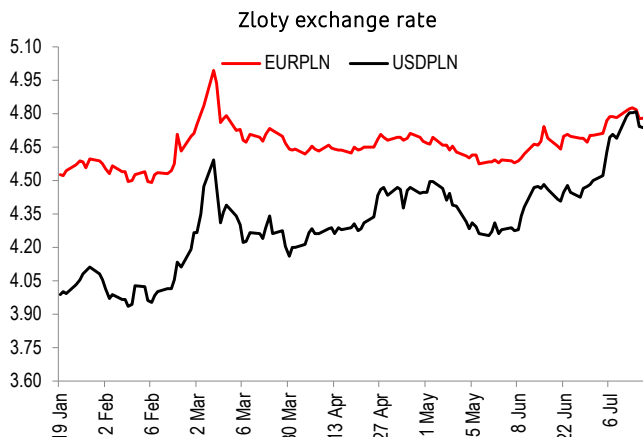
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	0	537	-14
France	15	0	57	-3
Hungary	211	0	760	-19
Spain	65	-3	120	-3
Italy	70	-8	215	-2
Portugal	50	-3	112	-4
Ireland	15	0	57	-1
Germany	14	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 (8 July)							
10:00	PL	CPI	Jun	% y/y	15.6	15.6	13.9
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
MONDAY (18 July)							
14:00	PL	CPI Core	Jun	% y/y	9.3	9.2	9.1
TUESDAY (19 July)							
11:00	EZ	HICP	Jun	% y/y	8.6	8.6	8.6
14:30	US	Housing Starts	Jun	% m/m	3.0	-2.0	-11.9
WEDNESDAY (20 July)							
10:00	PL	Employment in corporate sector	Jun	% y/y	2.2	2.1	2.4
10:00	PL	Average Gross Wages	Jun	% y/y	13.3	13.3	13.5
10:00	PL	Sold Industrial Output	Jun	% y/y	11.2	12.4	15.0
10:00	PL	PPI	Jun	% y/y	25.2	25.3	24.7
16:00	US	Existing Home Sales	Jun	% m/m	-0.18		-3.39
THURSDAY (21 July)							
10:00	PL	Construction Output	Jun	% y/y	11.25	8.7	13.0
10:00	PL	Retail Sales Real	Jun	% y/y	5.85	5.8	8.2
14:15	EZ	ECB Main Refinancing Rate		%	0.25		0.0
14:30	US	Initial Jobless Claims		k	240.0		244.0
14:30	US	Index Philly Fed	Jul	pts	-0.5		-3.3
FRIDAY (22 July)							
09:30	DE	Germany Manufacturing PMI	Jul	pts	50.9		52.0
09:30	DE	Markit Germany Services PMI	Jul	pts	51.4		52.4
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	51.0		52.1
10:00	EZ	Eurozone Services PMI	Jul	pts	52.0		53.0
14:00	PL	Money Supply M3	Jun	% y/y	7.7	7.6	7.6

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

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