

Eyeopener

ECB started the cycle with 50bp move

Today money supply data in Poland, flash PMIs abroad
 ECB raised rates by 50bp, introduced new instrument
 Next set of disappointing data from Polish economy
 Polish yield curve declined strongly, EURPLN fairly stable

Today in Poland money supply data for June will be released; abroad, flash PMIs for main economies, which will help to assess the economic outlook.

Yesterday, the **ECB raised interest rates** for the first time since 2011. The refinancing rate rose to 0.50% from 0.00% and the deposit rate to 0.00% from -0.50%. The decision was justified on the grounds of elevated risks of rising inflation, with ECB President Christine Lagarde stating that previous forward guidance was no longer valid and that the central bank was accelerating the normalisation of monetary policy. However, she highlighted the risks to the economy from the war in Ukraine. A new instrument was also established: the TPI (Transmission Protection Instrument). Under this measure, the ECB will buy bonds in the event of debt market turbulence (i.e. discrepancies between the bond prices of individual euro area countries) that would disrupt the monetary policy transmission mechanism. The scale of purchases is not limited ex ante. The ECB stressed that it would first reinvest funds from maturing papers bought under the PEPP before it would use TPI. Initially, the market reacted to the ECB's decision by strengthening the euro, but ultimately the details of the new instrument proved a disappointment, so the initial move retreated.

June retail sales advanced by 3.2% y/y in June and it was a major miss versus our and market expectations at 5.8% y/y. In seasonally-adjusted terms sales declined by 2.8% m/m. We are expecting retail sales growth to remain muted in the months to come, given low or even negative growth in consumers' real incomes. **Construction production** rose 5.9% y/y in June, below our forecast (8.7%) and well below market consensus (11.3% y/y). In seasonally-adjusted terms, output declined by 3.5% m/m and reached the lowest level since the end of 2021. Some improvement was recorded in **housing market** indicators, but in our view this was only temporary. Yesterday's numbers were yet another sign of clearly weakening momentum of economic growth, which confirms our expectations that we are approaching a recession in 2H22. We think that clearly disappointing activity data increase probability that the MPC may consider smaller interest rate hike in September, or no change at all. Read more in our [Economic comment](#).

NBP President Adam Glapiński said in the speech before the parliament that monetary policy will continue to be run with the aim of lowering CPI and maintaining sustainable economic growth, but that tightening must be gradual so as to avoid excessive social costs.

According to RMF24, **Joanna Tyrowicz is to join the MPC** replacing Rafal Sura who was dismissed yesterday. The name of this candidate has been mentioned before. According to the head of the Senate's public finance committee, a vote on the matter is expected in September.

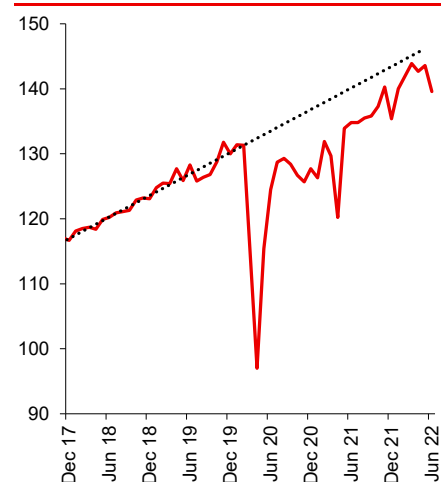
EURUSD ended Thursday near the 1.02 level at which it started the day. After the publication of the ECB's rate hike announcement, the exchange rate quickly rose in the vicinity of 1.03, but after the press conference the exchange rate just as quickly returned close to the starting levels. The market was clearly disappointed by the comments regarding the conditions for the application of TPI, i.e. only in exceptional circumstances, only when the monetary policy transmission mechanism will be disrupted and after the beneficiary countries meet fiscal conditions. In addition, if differences in bond valuations are due to factors considered fundamental then TPI will not be applied. The formula presented for the application of TPI means that under conditions of faster ECB rate hikes, countries in the south of the eurozone will be particularly vulnerable to the negative effects of economic slowdown.

EURPLN fluctuated around the level of 4.76. Weaker domestic data put pressure on depreciation of the zloty, but expectations of positive effects from the ECB meeting halted the effect. After temporarily dropping below 4.75 immediately after the ECB decision, by the end of the day the rate was back above the 4.76 level.

Other CEE currencies: the EURCZK and EURHUF were subject to high volatility following the ECB meeting but ended the day close to the opening levels, i.e. around 24.52 and 397, respectively.

Debt market: The domestic yield curve fell sharply. 2-year yields fell about 60 bps, while the longer end of the curve fell by about 40 bps. Rate hike expectations in the FRA market also fell by an average of a dozen bps. The reasons for the declines were another batch of weaker domestic data, and disappointment with the ECB's TPI conditions, which, along with faster rate hikes in the Eurozone, reinforced market recessionary expectations. The spread to the bund of bonds of southern Eurozone countries widened after the ECB press conference.

Retail sales, seasonally adjusted level vs pre-covid trend



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.7607	CZKPLN	0.1938
USDPLN	4.6743	HUFPLN*	1.1939
EURUSD	1.0183	RUBPLN	0.0829
CHFPLN	4.8255	NOKPLN	0.4680
GBPPLN	5.5886	DKKPLN	0.6394
USDCNY	6.7634	SEKPLN	0.4563

*for 100HUF

Last session in the FX market 21/07/2022

	min	max	open	close	fixing
EURPLN	4.7484	4.7740	4.7723	4.7547	4.7578
USDPLN	4.6270	4.6871	4.6677	4.6615	4.6682
EURUSD	1.0152	1.0278	1.0221	1.0197	-

Interest rate market 21/07/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.10	-63
DS0726 (5Y)	6.53	-38
DS0432 (10Y)	6.19	-40

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.50	-10	3.46	-9	1.13	9
2L	7.15	-16	3.31	-15	1.47	4
3L	6.68	-22	3.12	-17	1.55	3
4L	6.33	-25	3.01	-18	1.64	3
5L	6.14	-25	2.96	-18	1.76	1
8L	5.89	-30	2.91	-15	1.92	-1
10L	5.90	-28	2.93	-14	2.02	-2

WIBOR rates

Term	%	Change (bps)
O/N	6.33	0
T/N	6.49	1
SW	6.65	2
2W	6.65	2
1M	6.70	1
3M	7.00	0
6M	7.29	0
1Y	7.45	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.08	-3
3x6	7.38	-10
6x9	7.48	-12
9x12	7.35	-14
3x9	7.62	-5
6x12	7.63	-14

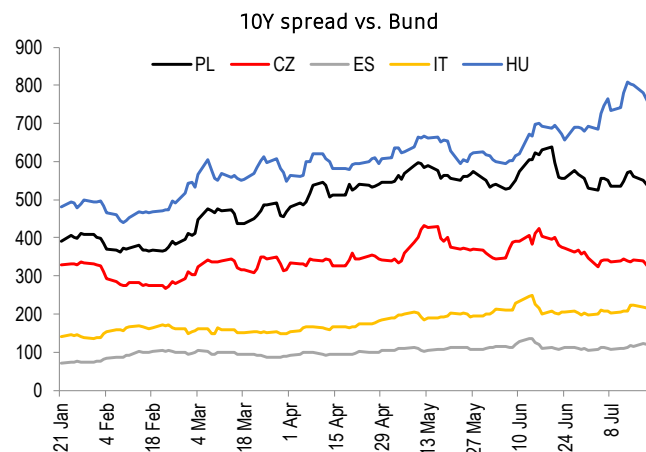
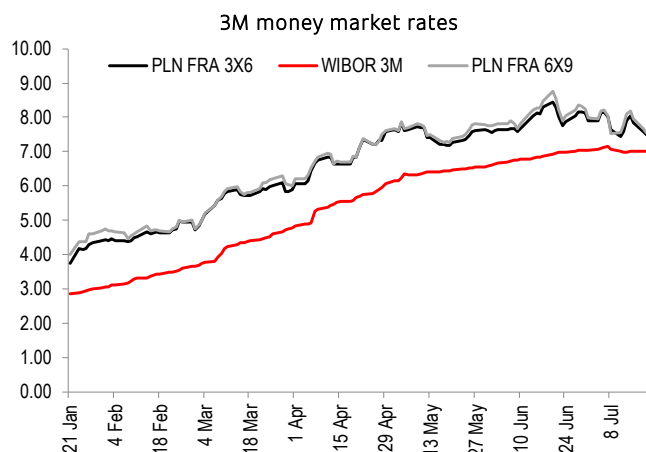
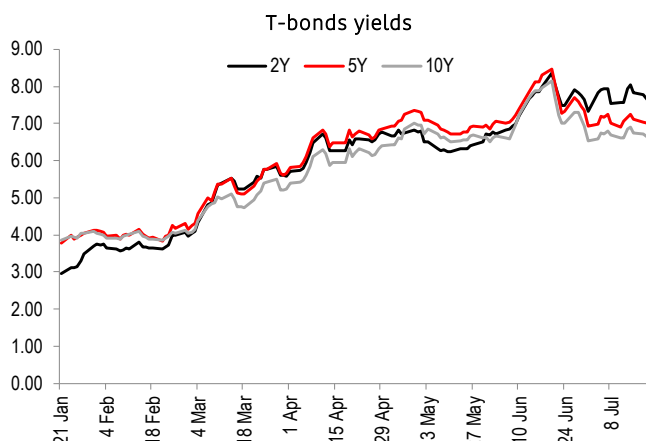
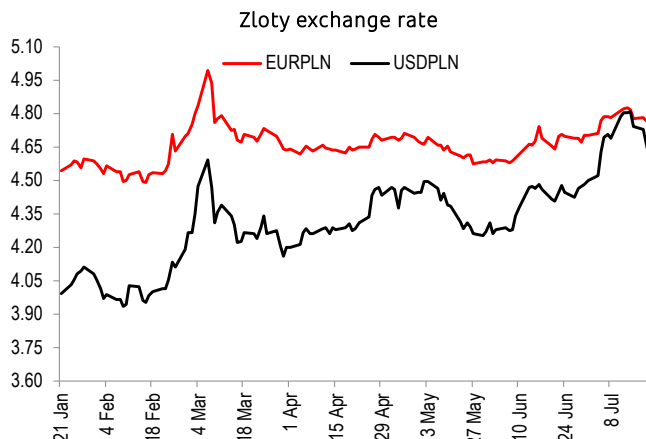
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	0	497	-36
France	15	0	59	2
Hungary	208	-2	754	15
Spain	67	1	125	3
Italy	75	3	235	14
Portugal	50	0	118	4
Ireland	15	1	61	4
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	15.5	13.9
14:30	US	Retail Sales Advance	Jun	% m/m	0.9	-	1.0	-0.3
15:15	US	Industrial Production	Jun	% m/m	0.0	-	-0.2	0.1
16:00	US	Michigan index	Jul	pts	49.2	-	51.1	50.0
MONDAY (18 July)								
14:00	PL	CPI Core	Jun	% y/y	9.3	9.2	9.1	8.5
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	2.2	2.4
10:00	PL	Average Gross Wages	Jun	% y/y	13.3	13.3	13.0	13.5
10:00	PL	Sold Industrial Output	Jun	% y/y	11.2	12.4	10.4	14.9
10:00	PL	PPI	Jun	% y/y	25.2	25.3	25.6	24.7
16:00	US	Existing Home Sales	Jun	% m/m	-0.2		-5.4	-3.4
THURSDAY (21 July)								
10:00	PL	Construction Output	Jun	% y/y	11.25	8.7	5.9	13.0
10:00	PL	Retail Sales Real	Jun	% y/y	5.85	5.8	3.2	8.2
14:15	EZ	ECB Main Refinancing Rate		%	0.25		0.50	0.0
14:30	US	Initial Jobless Claims		k	240.0		251	244.0
14:30	US	Index Philly Fed	Jul	pts	-0.5		-12.3	-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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