

28 July 2022

Eyeopener

Fed raises rates but abandons forward guidance

- FOMC decides 75bp rate hike, admits thought of more big moves
- Today ESI indicators from Europe, German inflation, first estimate of Q2 GDP in the US
- EURUSD higher after FOMC, EURPLN approach stopped at 4.80.

Today we will get to see the set of EU economic indicators from the European Commission for July, but by nature these data are less volatile than the PMIs, so they are unlikely to generate much of a negative signal, at most confirming that the slowdown is increasingly being felt by European business and that the vision of an energy crisis is taking a toll on expectations. We will also see the first estimate of US GDP growth for 2Q, possibly just above zero on a q/q basis. The key publication scheduled for today is preliminary July inflation in Germany (expected to continue its gentle retreat from June's 8.2% and May's 8.7%).

FOMC decided to raise interest rates by 75bp, in line with expectations, bringing the main rate already close to the level considered neutral. The Fed head's rhetoric remained hawkish (undermining economic growth is a necessity in the fight against inflation, more hikes still possible and will be approved without hesitation if needed), although there were also softer touches - assurances that the decision will be more data-dependent, signalling that the pace of hikes may slow as the economy decelerates, moving away from forward guidance so as not to build expectations for a continuation of a series of large hikes.

Further data from the **US housing market indicated a rapid deterioration**. The number of pending home sales fell by 8.6% m/m in June and nearly 20% y/y.

After June the **central budget** recorded a surplus of PLN27.7bn, nearly PLN2bn higher than we had expected. Again, tax revenues turned out to be stronger than expected, especially CIT, maintaining annual growth above 50% in June alone. On the other hand, indirect taxes showed a y/y decline, with VAT alone probably falling by over 20%. June also saw the transfer of the NBP's profit for 2021 to the budget. The government deposit grew from less than PLN 85bn to over PLN117bn.

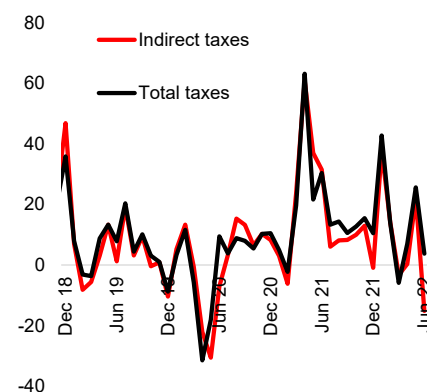
EURUSD still can't break out beyond 1.01-1.02. Before the FOMC decision, it reached the lower bound only to rebound to the upper one. Jay Powell's indication of a strong link between further decisions and data means that today's release of the first estimate of 2Q US GDP could be a reason for higher market volatility.

EURPLN was going up quickly for the second day and some fatigue with this movement occurred only at 4.80. The zloty's two-day loss vs. the euro was 1.6% and 2.7% vs. the dollar, which made the zloty the second worst performing EM currency in this period after the rouble. If the weakening of the zloty continues at such a pace, it may prompt the MPC to make another hike.

Other CEE currencies: EURCZK continued to be unusually stable against the region, and the **EURHUF** moved unusually easily further above 400 yesterday after breaking through that level on Tuesday. Only on evening reports from the US (along with a rebound in EURUSD) did the forint manage to limit its daily loss to the euro from 1.2% to 0.6%.

Debt market: The ease with which the PLN lost ground this week worried the domestic debt market. We saw the yield curve rise by some 10bp yesterday, slightly more at the short end. FRA rates, which reflect the pricing of further MPC actions, moved in a similar way. UST reacted in the evening to the Fed chairman's words with declines in yields. Today, Polish ministry of finance holds a bond auction.

Polish central budget: tax revenues, % y/y



Source: MinFin, Santander

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FX market

Today's opening

EURPLN	4,7828	CZKPLN	0,1947
USDPLN	4,6780	HUFPLN*	1,1835
EURUSD	1,0223	RUBPLN	0,0784
CHFPLN	4,9066	NOKPLN	0,4804
GBPPLN	5,6978	DKKPLN	0,6437
USDCNY	6,7429	SEKPLN	0,4574

*for 100HUF

Last session in the FX market 27.07.2022

	min	max	open	close	fixing
EURPLN	4,7457	4,8081	4,7553	4,7908	4,7811
USDPLN	4,6788	4,7484	4,6838	4,7373	4,7142
EURUSD	1,0103	1,0172	1,0149	1,0103	-

Interest rate market 27.07.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6,85	7
DS0726 (5Y)	6,19	9
DS0432 (10Y)	5,78	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,55	6	3,39	-4	0,99	4
2L	7,06	7	3,23	-4	1,27	9
3L	6,51	6	3,04	-4	1,34	9
4L	6,09	5	2,92	-4	1,40	7
5L	5,81	3	2,85	-5	1,47	6
8L	5,48	0	2,82	-3	1,65	3
10L	5,44	0	2,85	-2	1,76	2

WIBOR rates

Term	%	Change (bps)
O/N	6,52	1
T/N	6,58	-14
SW	6,65	1
2W	6,66	0
1M	6,69	1
3M	7,00	0
6M	7,30	1
1Y	7,44	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,14	0
3x6	7,46	5
6x9	7,57	13
9x12	7,35	13
3x9	7,66	9
6x12	7,70	13

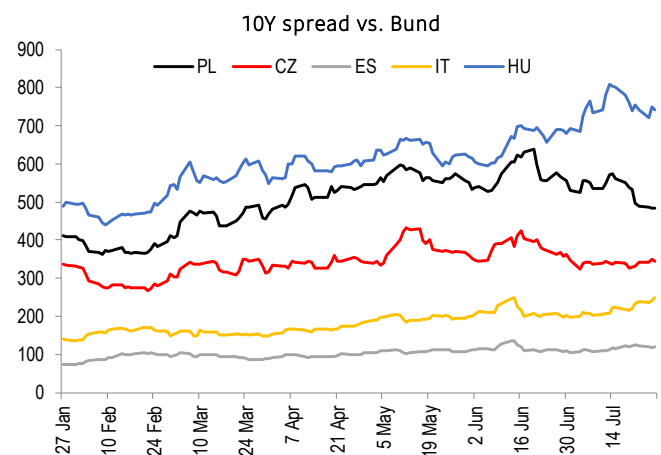
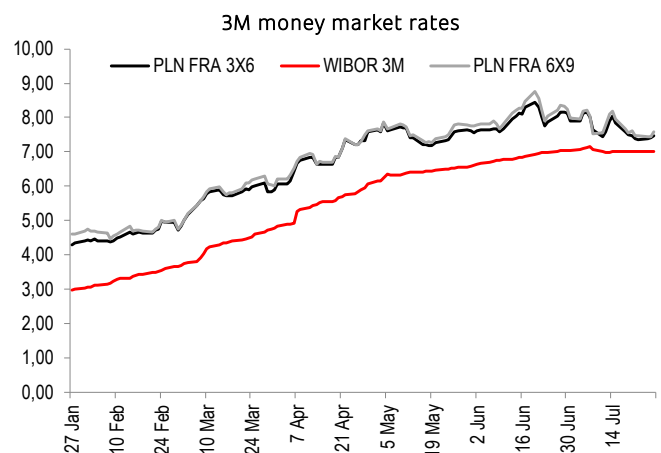
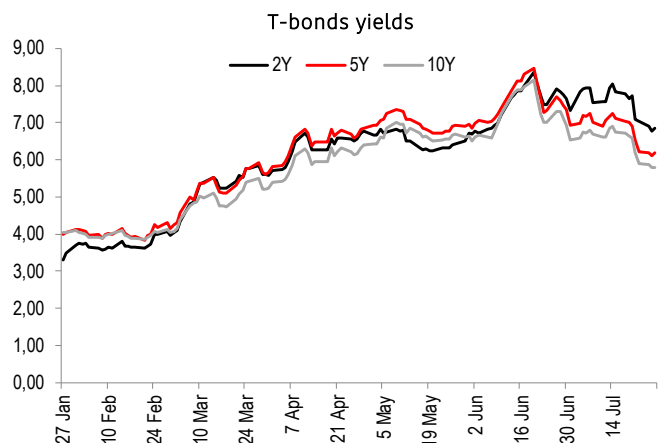
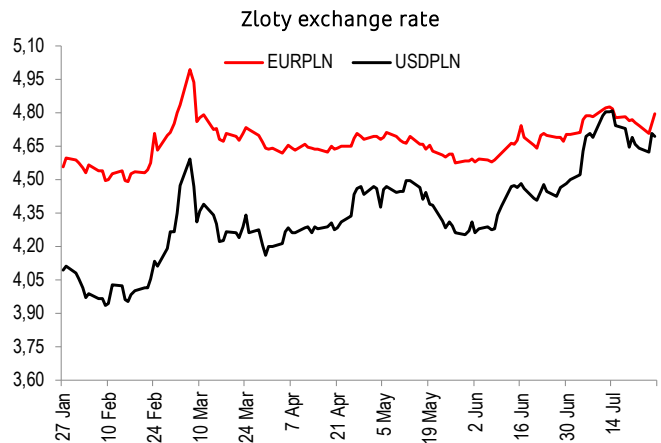
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	140	3	484	-1
France	15	0	59	0
Hungary	213	0	741	-9
Spain	63	0	120	1
Italy	78	3	248	7
Portugal	45	0	113	1
Ireland	14	-1	66	2
Germany	13	-1	-	-

* 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 (22 July)							
09:30	DE	Germany Manufacturing PMI	Jul	pts	50.9	49.2	52.0
09:30	DE	Markit Germany Services PMI	Jul	pts	51.4	49.2	52.4
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	51.0	49.6	52.1
10:00	EZ	Eurozone Services PMI	Jul	pts	52.0	50.6	53.0
14:00	PL	Money Supply M3	Jun	% y/y	7.7	7.6	6.5
MONDAY (25 July)							
10:00	DE	IFO Business Climate	Jul	pts	90.3	88.6	92.2
10:00	PL	Unemployment Rate	Jun	%	4.9	4.9	4.9
TUESDAY (26 July)							
14:00	HU	Central Bank Rate Decision		%	10.75	10.75	9.75
16:00	US	New Home Sales	Jun	% m/m	-3.4	-8.1	6.3
WEDNESDAY (27 July)							
14:30	US	Durable Goods Orders	Jun	% m/m	-0.5	1.9	0.8
16:00	US	Pending Home Sales	Jun	% m/m	-1.0	-8.6	0.4
20:00	US	FOMC decision		%	2.50	2.50	1.75
THURSDAY (28 July)							
11:00	EZ	ESI	Jul	pct.	102.0		104.0
14:00	DE	HICP	Jul	% y/y	8.1		8.2
14:30	US	GDP Annualized	2Q	% Q/Q	0.5		-1.6
14:30	US	Initial Jobless Claims		k	240.0		251.0
FRIDAY (29 July)							
09:00	CZ	GDP SA	2Q	% y/y	3.4		4.9
10:00	PL	CPI	Jul	% y/y	15.6	15.2	15.5
10:00	DE	GDP WDA	2Q	% y/y	1.7		3.8
11:00	EZ	Flash HICP	Jul	% y/y	8.7		8.6
11:00	EZ	GDP SA	2Q	% y/y	3.4		5.4
14:30	US	Personal Spending	Jun	% m/m	0.8		0.2
14:30	US	Personal Income	Jun	% m/m	0.5		0.5
14:30	US	PCE Deflator SA	Jun	% m/m	0.9		0.6
16:00	US	Michigan index	Jul	pts	51.1		51.1

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

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