

29 August 2022

Eyeopener

Fed chair more hawkish, NBP chair not really

Jerome Powell emphasised Fed's determination in fighting inflation
 Glapiński: one or two more rate hikes by 25bp, if at all
 EURUSD returned below 1.0, bond yields higher in Poland and abroad

Today, no major macroeconomic data releases. Investors will have some time to digest the market implications of the Fed governor's message from the Jackson Hole symposium.

Friday's speech by **Jerome Powell** did not show, contrary to the expectations of some investors, a softer face of the FOMC. Powell emphasised the determination to fight inflation, the deliberate 'forceful' use of tools to ensure price stability in the US. Listing the unpleasant consequences of the fight against inflation for the economy and the labour market, Powell stressed that historical experience clearly warns against premature monetary easing in such cases. Overall, he made it clear to markets that there was no radical dovish shift in the FOMC and the issue of using smaller rate hikes was likely to be taken up at some point in the future.

NBP President Adam Glapiński said in an interview with BusinessInsider that we are close to a turning point in monetary policy. In his opinion, the MPC may raise interest rates one or two more times by 25bp. It is also possible there will be no rate hike, but without a clear declaration of the end of the tightening cycle. The latter option would be possible, "if inflation in the holiday period stops and then starts falling." The president's statements confirm our intuition - recent data have strongly reduced the chances of continuing strong rate hikes, and if flash CPI data for August declines slightly (in line with our forecast; Glapinski expects a slight increase), the MPC may leave interest rates unchanged in September. The NBP governor repeated his pledge to start interest rate cuts "in the last quarter of next year."

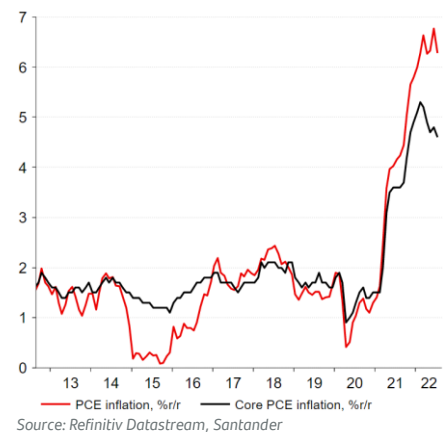
EURUSD moved higher on the back of weaker US data moving above parity. Also helping were reports from Reuters, citing a source at the ECB, that a hike of as much as 75 bps was to be discussed at the next meeting due to growing concerns over the inflation outlook and that monetary policy normalization should not be abandoned given the spectre of recession. However, Jerome Powell's message clearly spoiled plans for a sustained upward move - the rate returned below 1.0 at the end of the day and was near 0.993 this morning.

EURPLN approached 4.75 during the day, and in our view it's a matter of time before it reverses the entirety of Thursday's decline from 4.77 to 4.74. A hawkish tone from the Fed and ECB could weigh on emerging market currencies this week, especially when combined with a softer tone from the NBP president, who has signalled a willingness to keep rates unchanged if August inflation does not pick up. In our view, structurally, the potential for zloty appreciation is small, and EURPLN will probably spend the next few months near 4.80.

The **EURCZK**, which has been stuck at 24.65 for the past week, managed to break out below 24.62 on Friday. Czech central bank governor Ales Michl admittedly warned of the risk of the economy falling into recession in the coming quarters, but at the same time did not categorically dissociate himself from the possibility of further interest rate hikes in the Czech Republic. The CNB chief said that the next meeting would consider whether to raise rates or leave them in place. EURHUF ended the week at 413 having started from levels below 405 succumbing to the influence of the strengthening dollar in the afternoon.

In the debt market, we see a better chance of a return to rising yields this week - data from the US, while mixed, nevertheless indicate that the economy there is weakening less than feared and its prospects are better than in Europe, which may sustain the FOMC's view that it should remain focused on fighting inflation. At the same time, in the domestic market in the near term, we are counting on a correction in the pricing of rate hikes concerning the upcoming meetings thanks to Wednesday's CPI (a slight CPI decline will meet Glapinski's condition not to change rates in September) and GDP (the risk that consumption was hit hard in Q2). On Friday, the Polish yield curve moved up 5-8 bps slightly less than the German but more than the US. J.Powell's hawkish tone triggered an increase in the valuation of rate hikes in the Polish market as well, which in our opinion is not obvious now and is even asking for a correction.

US personal consumption expenditure deflator, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.7502	CZKPLN	0.1912
USDPLN	4.7823	HUFPLN*	1.1406
EURUSD	0.9933	RUBPLN	0.0806
CHFPLN	4.9252	NOKPLN	0.4878
GBPPLN	5.5886	DKKPLN	0.6321
USDCNY	6.9196	SEKPLN	0.4468

*for 100HUF

Last session in the FX market 26/08/2022

	min	max	open	close	fixing
EURPLN	4.7335	4.7575	4.7398	4.7426	4.7413
USDPLN	4.7051	4.7630	4.7568	4.7456	4.7465
EURUSD	0.9945	1.0089	0.9961	0.9995	-

Interest rate market 26/08/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.31	2
DS0726 (5Y)	6.69	6
DS0432 (10Y)	6.27	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.85	13	3.80	1	1.57	17
2L	7.58	21	3.70	-1	1.92	12
3L	7.05	17	3.52	4	1.98	11
4L	6.72	15	3.38	6	2.04	10
5L	6.56	15	3.28	9	2.14	16
8L	6.30	17	3.13	6	2.20	9
10L	6.26	16	3.12	3	2.28	8

WIBOR rates

Term	%	Change (bps)
O/N	6.29	2
T/N	6.47	-8
SW	6.72	1
2W	6.83	3
1M	6.92	1
3M	7.07	1
6M	7.30	0
1Y	7.44	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.42	6
3x6	7.78	16
6x9	7.89	17
9x12	7.75	20
3x9	7.95	13
6x12	8.06	20

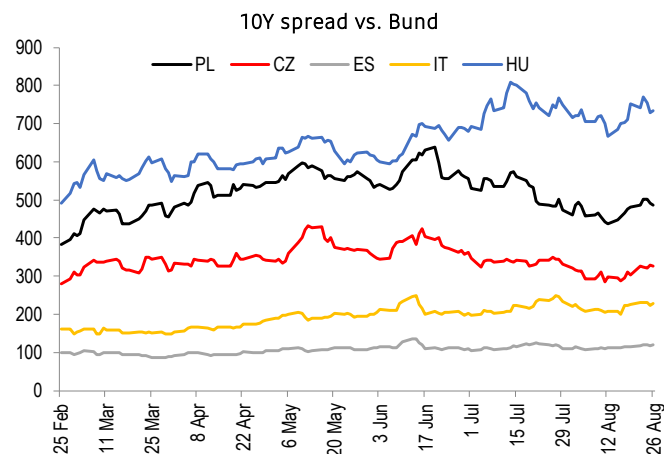
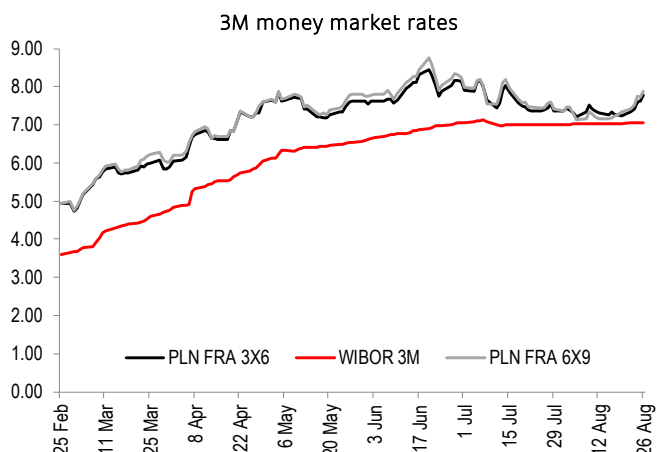
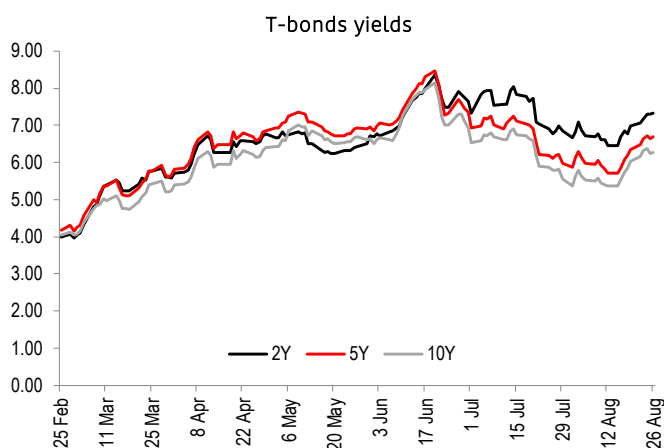
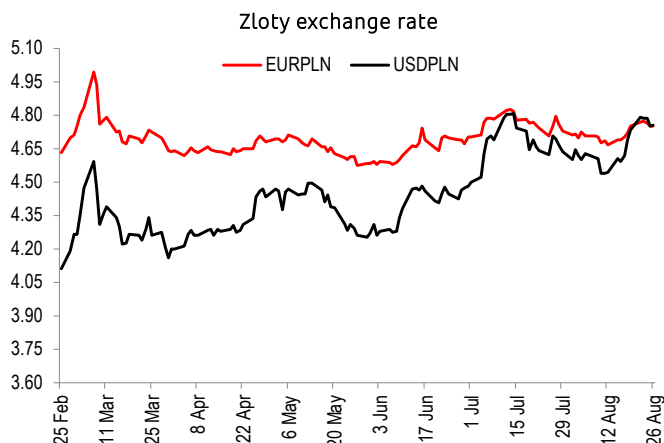
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	146	0	487	-3
France	13	0	61	0
Hungary	184	0	735	7
Spain	53	0	119	2
Italy	73	2	228	5
Portugal	40	0	110	1
Ireland	13	0	62	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		
FRIDAY (26 August)								
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.1	1.0
14:30	US	Personal Income	Jul	% m/m	0.6	-	0.2	0.7
14:30	US	PCE Deflator SA	Jul	% m/m	0.0	-	-0.1	1.0
16:00	US	Michigan index	Aug	pts	55.4	-	58.2	55.1
MONDAY (29 August)								
	DE	Retail Sales	Jul	% m/m	-0.35	-	-	-1.5
TUESDAY (30 August)								
09:00	CZ	GDP SA	2Q	% y/y	3.6	-	-	4.9
11:00	EZ	ESI	Aug	pct.	97.8	-	-	99.0
14:00	HU	Central Bank Rate Decision	Aug.22	%	11.75	-	-	10.75
14:00	DE	HICP	Aug	% m/m	0.3	-	-	0.8
16:00	US	Consumer Conference Board	Aug	pts	97.4	-	-	95.7
WEDNESDAY (31 August)								
10:00	PL	CPI	Aug	% y/y	15.4	15.4	-	15.6
10:00	PL	GDP	2Q	% y/y	5.3	5.3	-	8.5
11:00	EZ	Flash HICP	Aug	% y/y	8.95	-	-	8.9
14:15	US	ADP report	Aug	k	-	-	-	128.2
THURSDAY (1 September)								
09:00	PL	Poland Manufacturing PMI	Aug	pts	41.6	41.0	-	42.1
09:00	HU	GDP	2Q	% y/y	6.5	-	-	6.5
09:55	DE	Germany Manufacturing PMI	Aug	pts	49.8	-	-	49.3
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	49.7	-	-	49.8
11:00	EZ	Unemployment Rate	Jul	%	6.6	-	-	6.6
14:30	US	Initial Jobless Claims	Aug.22	k	252.0	-	-	243.0
16:00	US	ISM manufacturing	Aug	pts	52.05	-	-	52.8
FRIDAY (2 September)								
08:00	DE	Exports SA	Jul	% m/m	-2.75	-	-	4.4
14:30	US	Change in Nonfarm Payrolls	Aug	k	300.0	-	-	528.0
14:30	US	Unemployment Rate	Aug	%	3.5	-	-	3.5
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	-	0.0
16:00	US	Factory Orders	Jul	% m/m	0.2	-	-	2.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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