

9 September 2022

Eyeopener

Optimism about growth and reluctance to increase

- NBP governor positive on condition of economy, sees 25bp hike in October at most
- ECB raised rates by 75 bps, Lagarde announced series of further hikes
- Jerome Powell still focused on fighting inflation
- Zloty stronger, yields slightly lower

Today markets are likely to digest yesterday's messages from Christine Lagarde, Jerome Powell and Adam Glapiński. Today's most relevant data have already been released: CPI inflation in China retreated in July from 2.7% y/y to 2.5% after having been building up since February from 0.9%. Chinese PPI inflation continued to decelerate in July, to 2.3% y/y. Declines in annual producer price growth have been taking place there since November last year.

Conference of NBP governor Adam Glapiński started on a very upbeat note as regards the economic situation. Then, NBP president declared that the central bank is fighting inflation and will continue doing so until it is reduced to a "decent" level, which could have made a hawkish first impression. But it looks like it was merely a game of appearances. In the later part of the speech Glapiński said that inflation will be certainly under control in 2023, the MPC has not ended the tightening cycle formally and in October the MPC will either hike rates again by 25bp or leave them unchanged. He avoided any guidance about the following months, but repeated several times that by 4Q23 the conditions to start cutting rates may appear. We think the message of the Polish central bank remains unchanged versus previous months. This is in line with our scenario of the reference rate going up to 7.0% in October and remaining flat until late 2023. Read more in our [Economic Comment](#).

ECB raised rates by 75bp and its president announced that hikes are also likely at every next 3-4 meetings. Yesterday's decision was unanimous, although there were differences of opinion at the discussion stage. The ECB abandoned the maintenance of two rates on reserves and did not change the policies for reinvesting funds from maturing QE programmes. The bank's new projection showed a higher inflation path: the average for 2023 was moved from 3.5% to 5.5% and 2024 from 2.1% to 2.3% with an ECB target of 2%. The GDP path was lowered for 2023/2024 (from 2.1%/2.1% to 0.9%/1.9%). Although the ECB's GDP growth forecast for 2022 went up to 3.1%, achieving it would still require entering recession (or moving on the brink of recession) in the second half of this year.

Jerome Powell repeated the hawkish message from Jackson Hole about the need to continue tightening until inflation is beaten.

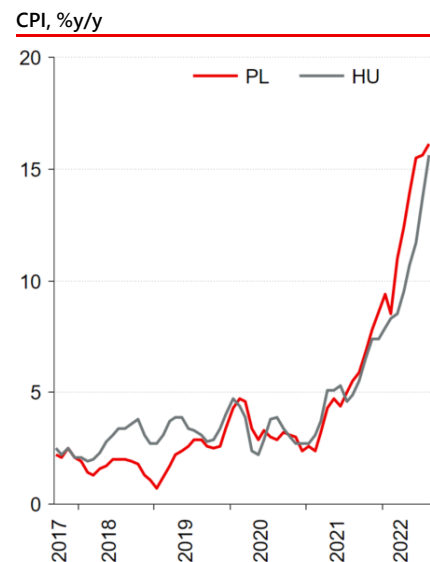
Ministry of Family and Social Policy, in a review of the functioning of the law defining the operation of the pension system, wrote that **OFEs (open pension funds) could invest the "zipper" part (OFE funds of savers nearing pension age transferred to state Social Security Fund) in Polish government bonds**.

EURUSD fell below parity at the end of the day on Thursday. The ECB's 75bp rate hike and the announcement of further rate hikes were unable to sustainably support the single currency, and probably only limited its loss. The weak sentiment was weighed down by Christine Lagarde's pessimistic, stagflationary message. The exchange rate was also depressed by Fed chief Jerome Powell, who in his speech stressed the need to fight inflation decisively, implementing restrictive monetary policy for some time. After Friday's Asian session, however, this morning the exchange rate rose above parity again.

EURPLN from around 4.72, fell to 4.70 by the end of the day. During the day, the exchange rate tried to attack the 4.73 level, but the the conference of NBP President Adam Glapinski, who did not close the way for further rate hikes in October, strengthened the zloty.

Other CEE currencies: EURCZK fell to 24.52 from 24.57. The Czech koruna strengthened after news of the government's planned measures to curb energy prices. The government's plan is expected to run in parallel with agreements to be made at the EU energy summit. **EURHUF** rose to 397 from 394. The forint was hurt by a higher-than-expected reading of Hungarian core inflation for August, increasing the risk of a price-wage spiral becoming entrenched.

Debt market: Domestic yield curve fell by around 6bp on average, the IRS curve fell by around 9bp. Although the NBP Governor did not rule out a continuation of the rate hike cycle in October, he clearly stressed the increasing probability of a rate cut at the end of 2023, which negatively affected rate level expectations on longer-dated FRA contracts. The German curve rose strongly, following the ECB press conference where Christine Lagarde strongly underlined inflation risks associated with a possible deterioration in the European gas market.



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4,7011	CZKPLN	0,1915
USDPLN	4,6682	HUFPLN*	1,1764
EURUSD	1,0070	RUBPLN	0,0769
CHFPLN	4,8647	NOKPLN	0,4683
GBPPLN	5,4246	DKKPLN	0,6323
USDCNY	6,9337	SEKPLN	0,4394

*For 100HUF

Last session in the FX market 08.09.2022

	min	max	open	close	fixing
EURPLN	4,6960	4,7311	4,7140	4,7014	4,7244
USDPLN	4,6952	4,7473	4,7183	4,7215	4,7268
EURUSD	0,9929	1,0029	0,9988	0,9952	-

Interest rate market 08.09.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0722 (2Y)	6,69	-5
DS0727 (5Y)	6,47	-10
DS0432 (10Y)	6,08	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,45	-5	3,96	5	1,95	15
2L	7,09	-7	3,86	7	2,24	8
3L	6,64	-10	3,66	7	2,29	9
4L	6,38	-11	3,55	7	2,31	7
5L	6,25	-12	3,48	7	2,35	7
8L	6,06	-9	3,38	6	2,44	6
10L	6,02	-10	3,38	5	2,51	7

WIBOR rates

Term	%	Change (bps)
O/N	6,66	0
T/N	6,85	1
SW	6,92	-4
2W	6,92	-8
1M	7,05	-1
3M	7,16	0
6M	7,35	-1
1Y	7,49	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,25	-2
3x6	7,36	-2
6x9	7,38	-4
9x12	7,15	-11
3x9	7,51	-3
6x12	7,51	-4

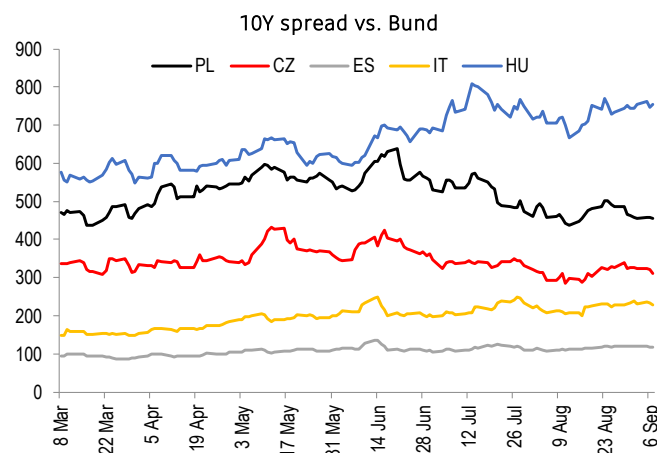
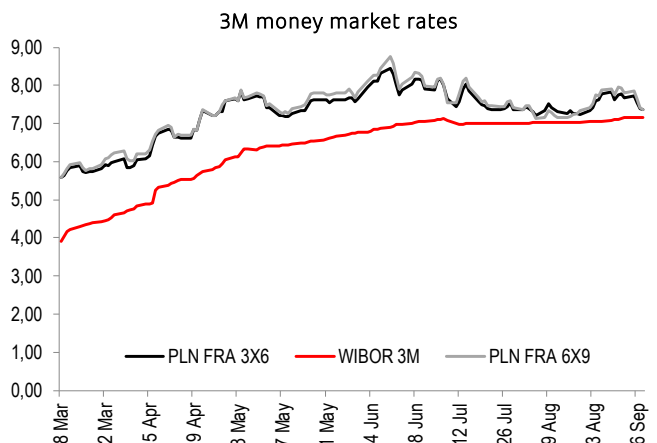
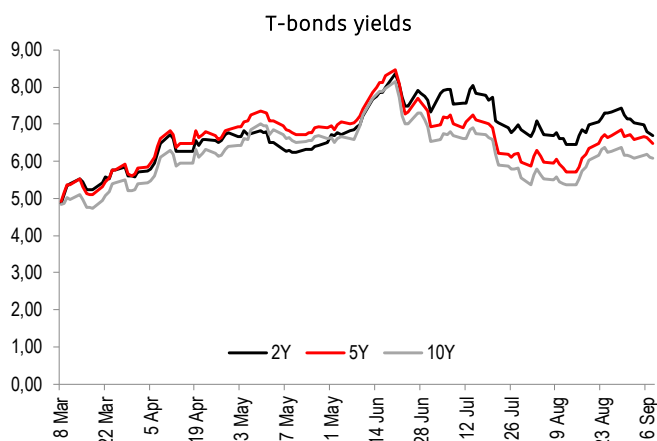
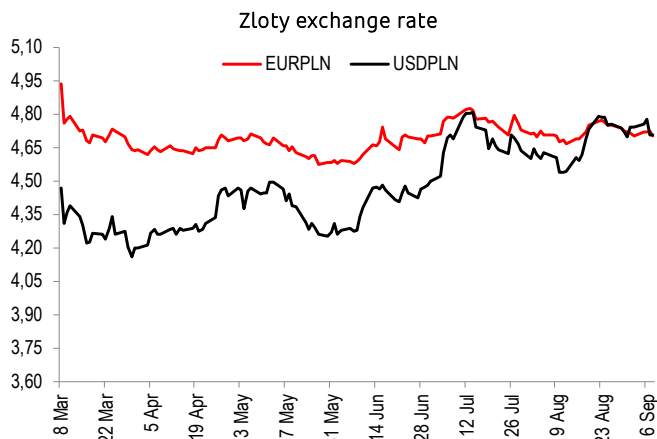
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	145	0	454	-5
France	13	0	57	-2
Hungary	196	0	756	9
Spain	53	0	116	-2
Italy	70	0	229	-6
Portugal	41	0	108	-2
Ireland	14	0	61	-4
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 (2 September)								
08:00	DE	Exports SA	Jul	% m/m	-2.75	-	-2.1	4.4
14:30	US	Change in Nonfarm Payrolls	Aug	k	300	-	315	526
14:30	US	Unemployment Rate	Aug	%	3.5	-	3.7	3.5
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	-0.1	0.0
16:00	US	Factory Orders	Jul	% m/m	0.2	-	-1.0	1.8
MONDAY (5 September)								
03:45	CN	Caixin China PMI Services	Aug	pts	54.0	-	55.0	55.5
09:55	DE	Markit Germany Services PMI	Aug	pts	48.2	-	47.7	49.7
10:00	EZ	Eurozone Services PMI	Aug	pts	50.2	-	49.8	51.2
11:00	EZ	Retail Sales	Jul	% m/m	0.5	-	0.3	-1.0
TUESDAY (6 September)								
08:00	DE	Factory Orders	Jul	% m/m	-0.5	-	-1.1	-0.3
09:00	CZ	Industrial Production	Jul	% y/y	-1.6	-	-1.9	2.7
16:00	US	ISM services	Aug	pts	55.2	-	56.9	56.7
WEDNESDAY (7 September)								
	PL	MPC decision		%	6.75	6.75	6.75	6.5
08:00	DE	Industrial Production SA	Jul	% m/m	-0.5	-	-0.3	0.8
09:00	HU	Industrial Production SA	Jul	% y/y	2.9	-	6.6	4.8
11:00	EZ	GDP SA	2Q	% y/y	3.9	-	4.1	5.4
THURSDAY (8 September)								
09:00	HU	CPI	Aug	% y/y	16.0	-	15.6	13.7
14:15	EZ	ECB Main Refinancing Rate	Sep/22	%	1.25	-	1.25	0.50
14:30	US	Initial Jobless Claims	Sep/22	k	235	-	222	228
15:00	PL	NBP governor's press conference						
FRIDAY (9 September)								
03:30	CN	Inflation	VIII	% r/r	2.8	-	2.5	2.7
03:30	CN	PPI	VIII	% r/r	3.2	-	2.3	4.2

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

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