

# Eyeopener

## EC recommends blocking EU funds to Hungary

Today no important events in the macroeconomic calendar  
 Polish core CPI up in August to 9.9% y/y  
 EC recommended the EU Council to freeze Hungary EUR7.5bn of funds under the conditionality mechanism  
 EURPLN and local bond yields were stable

No major macroeconomic data due for release **today**. UK markets are closed due to the Queen's funeral. Today China's central bank cut the 14-day open market operations rate by 10bp, tomorrow it will decide on the 1Y and 5Y lending rates (the market expects no change).

On Sunday, **the European Commission recommended freezing €7.5bn worth of EU funds designated for Hungary** under the conditionality mechanism, following the country's breach of the rule of law. The EU Council now has one month (with the possibility of extending the deadline by two months) to respond to this recommendation. The Hungarian side, which has made many promises in recent months to improve the situation with the rule of law, assures that the implementation of these promises will soon take place leading in their view to a rejection of the EC's recommendation.

**The main measure of Polish core inflation, CPI excluding prices of food and energy, reached 9.9% y/y in August**, up from 9.3% y/y in July, setting yet another record high (data since 2001). The other three measures of core inflation also set new records: CPI excluding the most volatile prices was 12.6% y/y, the 15-percent trimmed mean was 12.3% y/y, and CPI excluding administered prices moved up to 16.7% y/y. The underlying price pressure clearly remains strong. The m/m increases of these measures ranged in August from 0.8% for CPI ex food and energy to 1.1% for CPI ex the most volatile components. Detailed CPI data revealed much upside momentum in core categories so the main core CPI measure may climb even higher in the coming months and possibly start trending lower in 2023. Judging by recent remarks from MPC members, the next rate decision will to a large degree depend on the CPI behaviour in September, which in our view will be still rising, and calling for more monetary tightening.

**MPC member Henryk Wnorowski** said in interviews with Reuters and Polish daily Rzeczpospolita that he supported the view that the cycle of rate hikes has come to an end, although he did not ultimately rule out that a 25bp hike could still take place in October. He thinks that given the current knowledge the main rate should not go above 7%, but believes that CPI can already fall in September. In his view, there are already signs of a slowdown in many areas of the economy, and the MPC should not allow the economy to cool down too much. However, he pointed out that it is too early to say whether there will be rate cuts in 2023.

**ECB head Christine Lagarde** said that the rate hikes being made should send a clear signal that the inflation target will be achieved. The ECB's actions may negatively affect economic growth but this is a risk that must be taken, as price stability is a priority. **ECB Vice President Luis De Guindos**, in an interview with Portuguese newspaper Expresso, said that the economic slowdown in the Eurozone will decrease consumer price dynamics, but it will not be enough on its own to control inflation, the ECB will have to raise interest rates to prevent inflation expectations from de-anchoring and second-round effects from occurring.

**Russia and Saudi Arabia** believe that under current market conditions, a price for a barrel of oil should be \$100, say sources reached by Reuters.

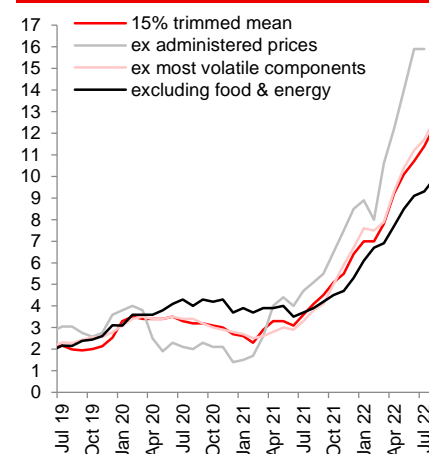
**EURUSD** tried to go deeper below parity, but by the end of the day it had retreated upward after hawkish statements from ECB members and a slightly weaker-than-expected reading from the University of Michigan's business climate index.

**EURPLN** continued to remain close to the 4.72 level. The rate recorded gains throughout last week, laying the technical groundwork at the end of the week for increased volatility in the periods ahead. The trigger for this may come from Wednesday's Fed meeting.

**Other CEE currencies:** **EURCZK** rose to 24.53 from near 24.48. **EURHUF** fell to 404 from near 408 in anticipation of possible sanction steps by the EC. MNB Deputy Governor Barnabas Virag said the central bank should regularly consider pausing the hike cycle, given the upcoming inflation peak and already high borrowing costs.

**Debt market:** Domestic curve underwent only minimal changes on Friday. MPC member Henryk Wnorowski's statement reversed some of the upside in expectations for higher rates in the FRA market.

Core CPI inflation measures, % y/y



Source: GUS, NBP, Santander

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### FX market

#### Today's opening

EURPLN	4.7120	CZKPLN	0.1923
USDPLN	4.7240	HUFPLN*	1.1668
EURUSD	0.9973	RUBPLN	0.0786
CHFPLN	4.8817	NOKPLN	0.4605
GBPPLN	5.3836	DKKPLN	0.6345
USDCNY	7.0081	SEKPLN	0.4370

\*for 100HUF

#### Last session in the FX market 16.09.2022

	min	max	open	close	fixing
EURPLN	4.7093	4.7270	4.7236	4.7214	4.7176
USDPLN	4.7005	4.7467	4.7251	4.7157	4.7384
EURUSD	0.9943	1.0036	0.9995	1.0010	-

### Interest rate market 16.09.2022

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.64	12
DS0727 (5Y)	6.53	13
DS0432 (10Y)	6.15	18

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.55	-4	4.39	6	2.24	7
2L	7.22	4	4.27	9	2.53	10
3L	6.76	8	4.03	8	2.51	7
4L	6.46	8	3.85	8	2.50	6
5L	6.31	7	3.72	7	2.50	5
8L	6.09	8	3.55	5	2.51	2
10L	6.04	9	3.51	5	2.55	1

#### WIBOR rates

Term	%	Change (bps)
O/N	6.73	-2
T/N	6.71	5
SW	6.87	1
2W	6.91	1
1M	7.00	1
3M	7.15	0
6M	7.32	0
1Y	7.46	1

#### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	7.29	0
3x6	7.44	-3
6x9	7.46	-5
9x12	7.31	-6
3x9	7.57	-5
6x12	7.61	-2

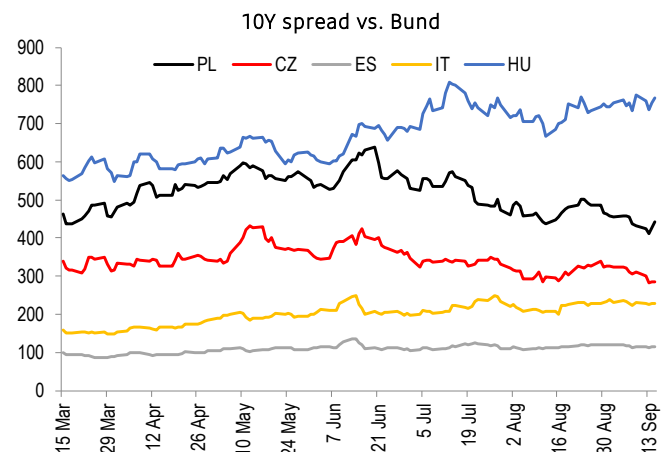
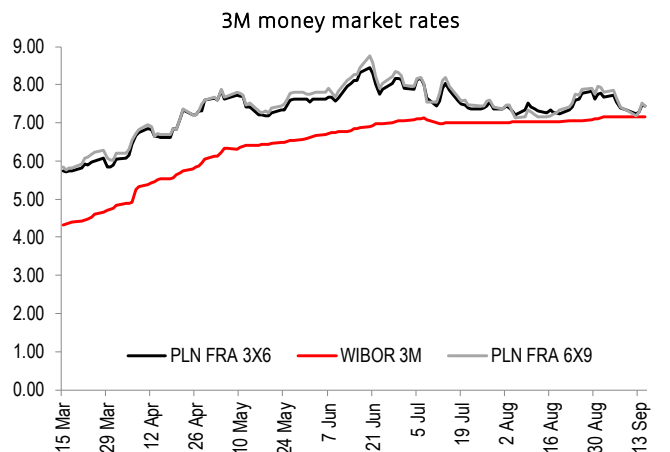
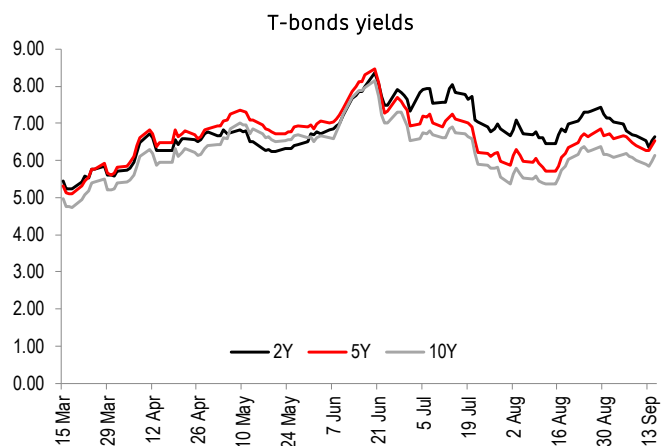
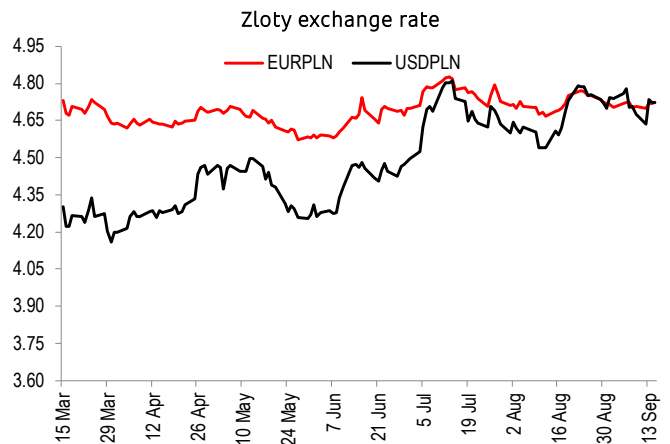
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	135	0	442	14
France	13	0	55	-2
Hungary	179	0	767	12
Spain	53	0	116	0
Italy	65	0	229	1
Portugal	40	0	106	0
Ireland	14	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			
<b>FRIDAY (16 September)</b>								
11:00	EZ	HICP	Aug	% y/y	9.1	-	9.1	8.9
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Aug</b>	<b>% y/y</b>	<b>9.9</b>	<b>9.9</b>	<b>9.9</b>	<b>9.3</b>
16:00	US	Michigan index	Sep	pts	60.0	-	59.5	58.2
<b>MONDAY (19 September)</b>								
No key economic events and publications								
<b>TUESDAY (20 September)</b>								
<b>10:00</b>	<b>PL</b>	<b>Employment in corporate sector</b>	<b>Aug</b>	<b>% y/y</b>	<b>2.4</b>	<b>2.5</b>	-	<b>2.3</b>
<b>10:00</b>	<b>PL</b>	<b>Sold Industrial Output</b>	<b>Aug</b>	<b>% y/y</b>	<b>10.1</b>	<b>12.9</b>	-	<b>7.6</b>
<b>10:00</b>	<b>PL</b>	<b>PPI</b>	<b>Aug</b>	<b>% y/y</b>	<b>24.4</b>	<b>23.7</b>	-	<b>24.9</b>
<b>10:00</b>	<b>PL</b>	<b>Average Gross Wages</b>	<b>Aug</b>	<b>% y/y</b>	<b>13.6</b>	<b>13.1</b>	-	<b>15.8</b>
14:30	US	Housing Starts	Aug	% m/m	0.9	-	-	-9.6
<b>WEDNESDAY (21 September)</b>								
<b>10:00</b>	<b>PL</b>	<b>Construction Output</b>	<b>Aug</b>	<b>% y/y</b>	<b>4.3</b>	<b>1.9</b>	-	<b>4.2</b>
<b>10:00</b>	<b>PL</b>	<b>Retail Sales Real</b>	<b>Aug</b>	<b>% y/y</b>	<b>3.3</b>	<b>1.1</b>	-	<b>2.0</b>
16:00	US	Existing Home Sales	Aug	% m/m	-2.3	-	-	-5.87
20:00	US	FOMC decision	Sep.22		3.25	-	-	2.5
<b>THURSDAY (22 September)</b>								
<b>14:00</b>	<b>PL</b>	<b>Money Supply M3</b>	<b>Aug</b>	<b>% y/y</b>	<b>6.1</b>	<b>6.1</b>	-	<b>6.2</b>
14:30	US	Initial Jobless Claims		k	220.0	-	-	213.0
<b>FRIDAY (23 September)</b>								
09:30	DE	Germany Manufacturing PMI	Sep	pts	48.3	-	-	49.1
09:30	DE	Markit Germany Services PMI	Sep	pts	47.2	-	-	47.7
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	49.0	-	-	49.6
10:00	EZ	Eurozone Services PMI	Sep	pts	49.2	-	-	49.8
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Aug</b>	<b>%</b>	<b>4.9</b>	<b>4.8</b>	-	<b>4.9</b>

Source: Santander Bank Polska. Bloomberg. Parkiet

\* in the case of a revision the data is updated

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