

# Eyeopener

## Fed hikes rates by 75bp

Fed raised interest rates by 75bp and moved higher its dots showing where rates should be

Today Polish money supply data and BoE decision

Polish retail sales and construction output were higher than expected

EURUSD dropped near 0.98, EURPLN rose close to 4.78 on Fed and geopolitical risk

**Today** we will get to see domestic M3 money supply data. Despite the lack of key global releases, markets will likely be busy following the hawkish signal from the Fed.

**The Fed decided to raise rates by 75bp.** The decision was unanimous. While the decision was in line with expectations, something else came as a surprise: the dot plot describing what FOMC members want to do next with rates showed that 125bp hikes were still to take place this year and next year's main rate may go even higher, to around 4.6%. The Fed head stressed that monetary policy had only just entered restrictive territory and that in order to stifle inflation, it needs to be sufficiently restrictive, requiring further tightening made purposely - until the fight with inflation is won. Once again, he stated that the fight against inflation requires undermining economic growth and causing a rise in unemployment. The Bank of Japan, meeting after the Fed decision, did not raise interest rates. In a few hours, the Bank of England will announce its decision (we assume a 50 bp rate hike).

**Retail sales rose in August by 4.2% y/y**, beating market consensus (3.3%) and our estimate (1.1%) and showing the largest m/m SA growth since January. The MPC may use the print as a reason to consider another rate hike seeing that consumer demand has not been cooled yet. Despite the positive surprise we still see consumers as pressured by high inflation denting their purchasing power. The main **consumer confidence indexes are still very low**. The job security gauge, which so far was surprisingly unresponsive to the looming recession, worsened significantly in September. **Construction production rose 6.1% y/y** in August, up from 4.2%, against our forecast of a slowdown to 1.9% and the consensus at 4.3%. We think the slowdown in the construction sector is pretty much imminent amid supply and labour constraints, reduced housing demand. The GUS estimate of houses under construction showed the first negative y/y reading since mid-2014. Read more in our [Economic Comment](#).

**MPC's Joanna Tyrowicz**, said in an interview with money.pl that inflation could reach 20%. She noted that without improving the coordination of monetary and fiscal policy, it will be difficult to bring inflation down to the target in 2024. In her opinion, raising rates will be less effective without this coordination, making it necessary to raise them higher and keep them at elevated levels for longer to achieve the same effect.

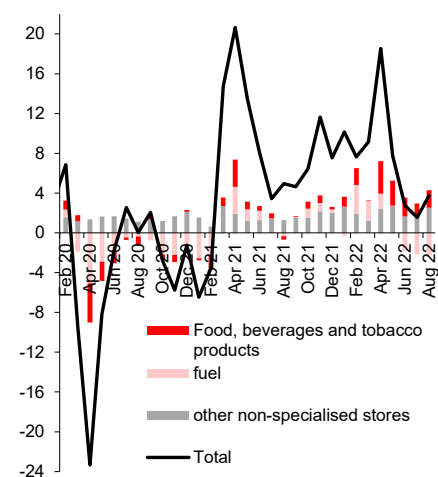
**EURUSD** fell below 0.99 even before the Fed meeting and almost reached 0.98 afterwards. In addition to expectations of a hawkish tone from Jerome Powell, the dollar also benefited from increased global risk aversion following Russia's decision on 'partial mobilisation'.

**EURPLN** rose to around 4.78 from 4.73. In addition to anticipation of a hawkish Fed message, the zloty lost sharply after the Russian president's speech yesterday morning - the market saw it as a risk of escalation and prolongation of the war in Ukraine, which may negatively impact demand for the zloty and other CEE currencies.

**Other CEE currencies:** **EURCZK** rose to around 24.66 from around 24.63. CNB member Tomáš Holub said that a little more monetary tightening would provide a greater buffer against the risk of a wage-price spiral. **EURHUF** rose to around 407 from 400 on a wave of concerns about further escalation of the war in Ukraine.

**Debt market:** The domestic yield curve fell by about 6 bps on average, IRS rates remained relatively stable. The news from Russia strengthened Polish bonds, but given the scale of the changes, it seems that the domestic debt market remains in a wait-and-see position. On the one hand, the increase in geopolitical risk may increase demand for bonds, on the other hand, Russia's moves fit into both the logic of a longer conflict not only on the military but also on the economic level. This could increase shortages and lift energy commodity prices in the European market, leading to higher inflation and expectations of rate hikes. As a result, Russia's decision potentially opens the door for modification of the MPC's forward guidance toward signalling a larger scale of rate hikes, if it deems that the circumstances under which it signalled a maximum of one more 25bp rate hike in October have materially changed.

### Real retail sales, % y/y, and contributions of selected components



Source: GUS, Santander

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### FX market

#### Today's opening

EURPLN	4,7745	CZKPLN	0,1923
USDPLN	4,8638	HUFPLN*	1,1632
EURUSD	0,9815	RUBPLN	0,0798
CHFPLN	5,0244	NOKPLN	0,4687
GBPPLN	5,4784	DKKPLN	0,6345
USDCNY	7,0909	SEKPLN	0,4386

\*for 100HUF

#### Last session in the FX market 21.09.2022

	min	max	open	close	fixing
EURPLN	4,7307	4,7808	4,7335	4,7772	4,7449
USDPLN	4,7463	4,8424	4,7520	4,8357	4,7919
EURUSD	0,9865	0,9968	0,9959	0,9878	-

### Interest rate market 21.09.2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6,54	-6
DS0727 (5Y)	6,47	-6
DS0432 (10Y)	6,14	-5

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,50	1	4,54	9	2,40	5
2L	7,13	2	4,44	10	2,81	12
3L	6,68	1	4,19	9	2,79	11
4L	6,41	-1	3,99	6	2,73	6
5L	6,28	-2	3,84	2	2,71	5
8L	6,07	-2	3,64	-1	2,68	3
10L	6,03	-3	3,58	-4	2,69	-1

#### WIBOR rates

Term	%	Change (bps)
O/N	6,64	-9
T/N	6,74	-9
SW	6,94	-3
2W	6,99	0
1M	7,02	-1
3M	7,15	1
6M	7,32	0
1Y	7,46	0

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

Term	%	Change (bps)
1x4	7,23	-1
3x6	7,35	-4
6x9	7,33	-5
9x12	7,20	-2
3x9	7,51	2
6x12	7,46	-5

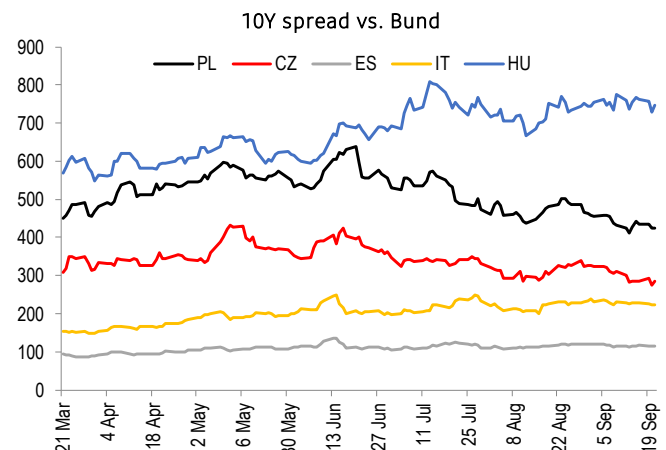
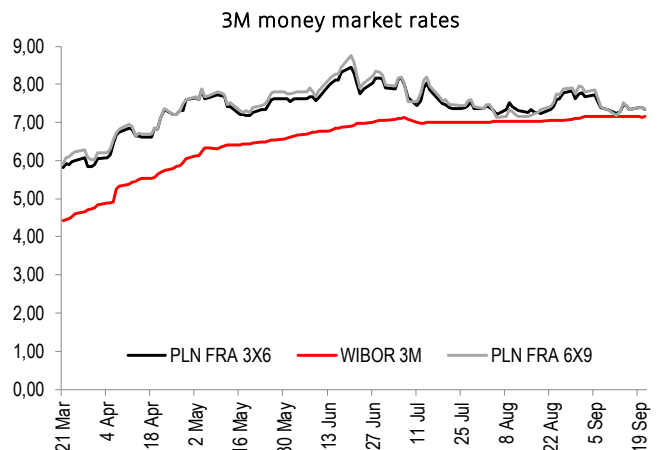
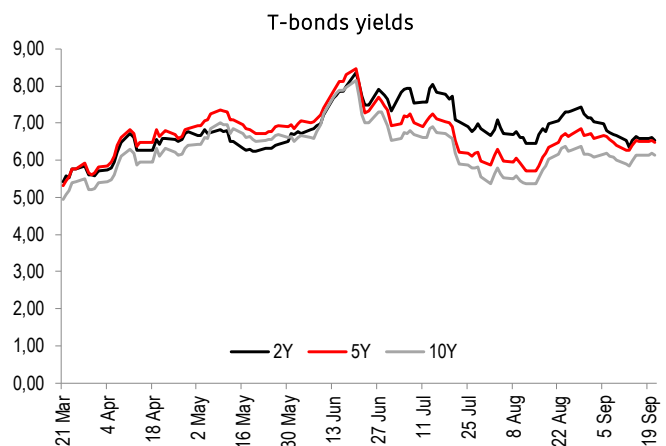
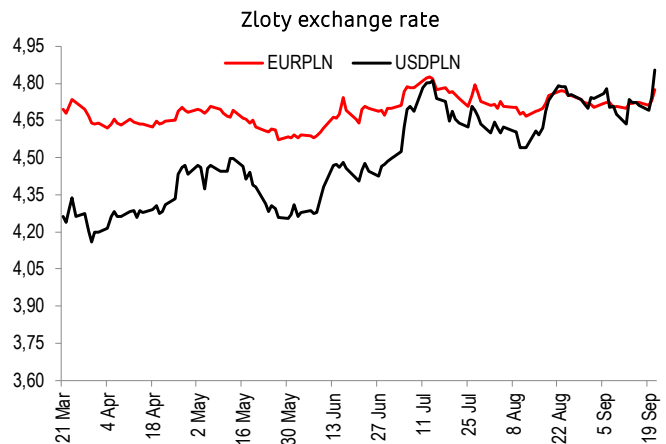
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	135	5	425	0
France	13	0	55	0
Hungary	187	4	747	18
Spain	58	0	114	0
Italy	70	0	224	0
Portugal	45	0	105	0
Ireland	15	0	56	-2
Germany	14	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			
<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>2.4</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>10.9</b>	<b>7.1</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>25.5</b>	<b>25.5</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>12.7</b>	<b>15.8</b>
14:30	US	Housing Starts	Aug	% m/m	0.9	-	12.2	-10.9
<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>6.1</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>4.2</b>	<b>2.0</b>
16:00	US	Existing Home Sales	Aug	% m/m	-2.3	-	-0.4%	-5.87
20:00	US	FOMC decision	Sep.22		3.25	-	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>-</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>-</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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