

26 September 2022

# Eyeopener

## Recession looming in the euro zone

Today Ifo index from Germany  
Euro zone PMI below expectations  
Eurosceptical right wins elections in Italy  
EURPLN stable despite further USD strengthening, 10Y bond yield up

**Today** we will get to see what happened in September with the Ifo index describing the German economic situation.

According to **preliminary election results in Italy**, more than 40% of the vote was won by right-wing parties, including more than 25% by the eurosceptic Fratelli d'Italia led by Giorgia Meloni.

Friday's preliminary **PMIs for Germany** were the lowest since 2Q2020. Although the new orders index declined further, there was some rebound in the output index. In our view, the German economy will see negative q/q growth in 3Q and may not improve in 4Q. Based on the PMIs for the euro zone as a whole (manufacturing and services fell a little more sharply than expected), there is a growing risk of falling into recession with persistently high inflation. Meanwhile, PMIs for the US unexpectedly rebounded thanks to the improvement in new orders.

The **new UK government is strongly loosening fiscal policy**: it showed a package of measures, mainly tax cuts, to support the economy during the energy crisis. Such action was seen in the market as hampering the fight against inflation: the pound and British bonds weakened severely, while the pricing of next moves by the Bank of England, which remains in the monetary tightening phase, to counter inflation-stimulating looser fiscal policy, rose.

**MPC's Joanna Tyrowicz** said that there may still be a need for rate hikes of 2-4 percentage points in Poland. Meanwhile, **Ludwik Kotecki**, while being a proponent of further substantial rate hikes, assessed that the MPC may now be considering a longer pause in monetary tightening, based on the need to wait for the government to announce all of its plans to support the economy in the energy crisis and for the announcement by URE (the energy sector regulator) of electricity and gas price tariffs for 2023. We think that the flash CPI reading due on Friday will deviate significantly upward from expectations of the MPC members' who have signalled a possible pause. As a result the interest rates will be raised a 25bp at the October 5 meeting.

The value of **new orders in Polish industry** was 31.5% higher in August than a year earlier with price growth responsible for most of the increase - PPI inflation was 25.5% y/y in the period. Foreign orders rose 36.3% y/y. In line with our expectations, the registered unemployment rate fell to 4.8% in August.

Minister of State Assets Jacek Sasin announced that **the windfall profits tax for energy companies** is expected to be 50% and bring PLN13.5bn to the budget.

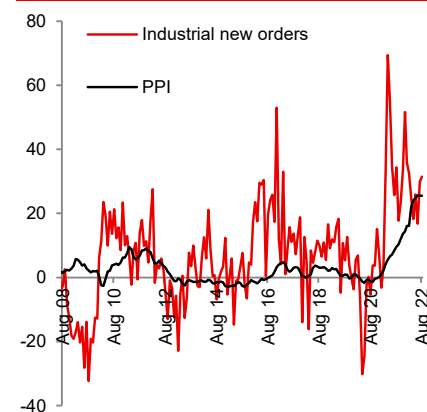
**EURUSD** fell from just above 0.98 to around 0.97. The dollar was supported by a combination of weaker September PMI readings from Germany and the euro zone, as compared to better data from the US, which surprised upwards against both consensus and previous readings. The improvement in the US economy, despite the ongoing cycle of strong US rate hikes, is potentially working to further build expectations for higher Fed rates.

**EURPLN** fluctuated around 4.75 on Friday, with attempts to push the rate back up at least temporarily stymied by news that PGNiG had signed a 10-year contract to supply gas through the Baltic Pipe pipeline with an annual volume of around 2.4 billion cubic meters. Following this news, the price temporarily fell from the 4.77 area to 4.73 but by the end of the day had returned to the 4.75 area again.

**Other CEE currencies**: EURHUF rose above 406 from around 405. The exchange rate was hurt by a statement by Finance Minister Mihaly Varga, who said that the Hungarian economy would be in recession for several quarters starting with this year's fourth, and a return to growth would not occur until late 2023. EURCZK fell from around 24.66 to near 24.61.

**Debt market**: Domestic yield curve rose across the board, most notably at the longer end of the curve, by more than 20 bps. The IRS curve also rose by nearly 30 bps at the long end. Market expectations for rates in Poland over a horizon of more than a year have risen. In addition to the influence of major global debt markets, domestic yields were helped to rise by statements by MPC members Ludwik Kotecki and Joanna Tyrowicz, who signalled that the cycle of rate hikes could either continue or resume after a break of several months.

### Nominal value of industrial orders vs the rise of producer prices, % y/y



Source: GUS, Santander

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**FX market**

Today's opening			
EURPLN	4.7582	CZKPLN	0.1929
USDPLN	4.9399	HUFPLN*	1.1547
EURUSD	0.9633	RUBPLN	0.0850
CHFPLN	4.9940	NOKPLN	0.4622
GBPPLN	5.3302	DKKPLN	0.6395
USDCNY	7.1638	SEKPLN	0.4343

\*for 100HUF

**Last session in the FX market** 23/09/2022

	min	max	open	close	fixing
EURPLN	4.7277	4.7666	4.7526	4.7487	4.7591
USDPLN	4.8277	4.8955	4.8373	4.8850	4.8796
EURUSD	0.9700	0.9838	0.9821	0.9716	-

**Interest rate market** 23/09/2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.73	7
DS0727 (5Y)	6.75	20
DS0432 (10Y)	6.47	27

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.61	7	4.64	4	2.51	7
2L	7.28	11	4.59	7	2.95	13
3L	6.89	16	4.36	8	2.97	14
4L	6.68	23	4.17	7	2.95	13
5L	6.58	28	4.04	3	2.93	13
8L	6.41	31	3.77	-4	2.87	11
10L	6.38	33	3.71	-4	2.86	10

**WIBOR rates**

Term	%	Change (bps)
O/N	6.58	-6
T/N	6.68	0
SW	6.95	0
2W	7.01	1
1M	7.05	1
3M	7.15	1
6M	7.32	0
1Y	7.46	0

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

Term	%	Change (bps)
1x4	7.29	4
3x6	7.46	2
6x9	7.49	5
9x12	7.39	8
3x9	7.61	2
6x12	7.62	5

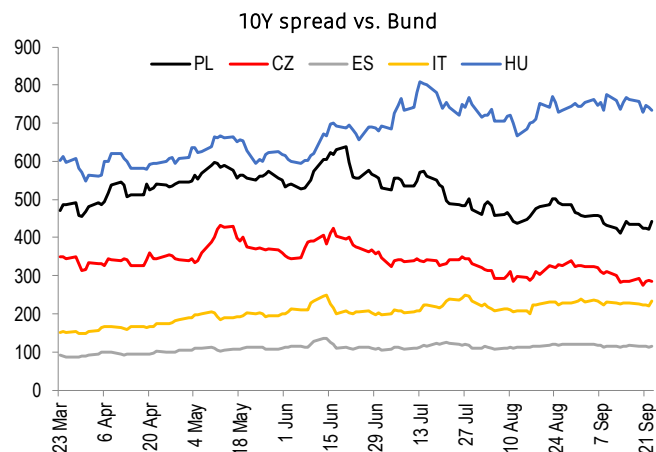
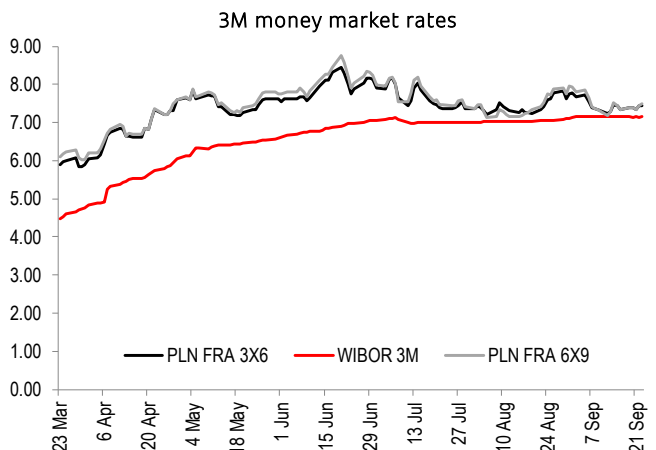
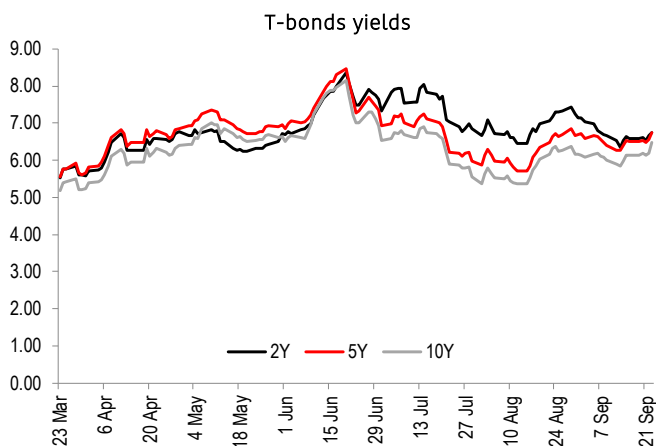
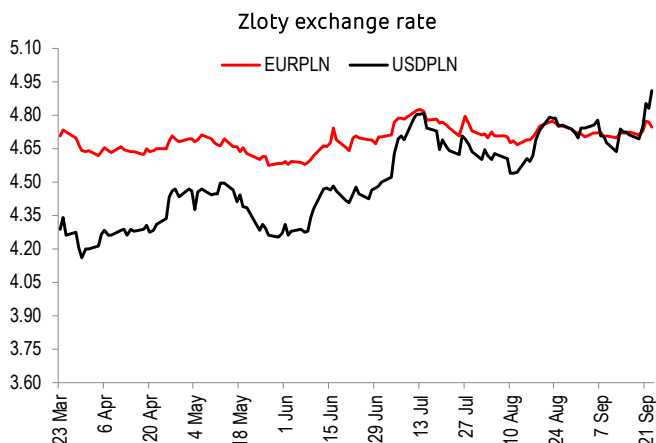
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	137	2	443	21
France	15	0	57	1
Hungary	204	17	735	-8
Spain	60	3	116	4
Italy	75	5	233	12
Portugal	48	3	106	3
Ireland	17	1	57	2
Germany	15	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 (23 September)</b>							
09:30	DE	Germany Manufacturing PMI	Sep	pts	48.25	48.3	49.1
09:30	DE	Markit Germany Services PMI	Sep	pts	47.2	45.4	47.7
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	48.75	48.5	49.6
10:00	EZ	Eurozone Services PMI	Sep	pts	49.05	48.9	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>
<b>MONDAY (26 September)</b>							
10:00	DE	IFO Business Climate	Sep	pts	87.0	-	88.5
<b>TUESDAY (27 September)</b>							
14:00	HU	Central Bank Rate Decision	Sep.22	%	12.75	-	11.75
14:30	US	Durable Goods Orders	Aug	% m/m	-0.05	-	-0.1
16:00	US	Consumer Conference Board	Sep	pts	104.25	-	103.2
16:00	US	New Home Sales	Aug	% m/m	-2.15	-	-12.6
<b>WEDNESDAY (28 September)</b>							
16:00	US	Pending Home Sales	Aug	% m/m	-0.8	-	-0.99
<b>THURSDAY (29 September)</b>							
11:00	EZ	ESI	Sep	pct.	95.0	-	97.6
14:00	DE	HICP	Sep	% m/m	1.5	-	0.4
14:30	US	GDP Annualized	2Q	% Q/Q	-0.6	-	-0.6
14:30	US	Initial Jobless Claims	Sep.22	k	220	-	213
14:30	CZ	Central Bank Rate Decision	Sep.22		7.0	-	7.0
<b>FRIDAY (30 September)</b>							
09:00	CZ	GDP SA	2Q	% y/y	3.7	-	3.7
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Sep</b>	<b>% y/y</b>	<b>16.4</b>	<b>16.6</b>	<b>16.1</b>
11:00	EZ	Flash HICP	Sep	% y/y	9.7	-	9.1
11:00	EZ	Unemployment Rate	Aug	%	6.6	-	6.6
14:30	US	Personal Spending	Aug	% m/m	0.2	-	0.1
14:30	US	Personal Income	Aug	% m/m	0.3	-	0.2
14:30	US	PCE Deflator SA	Aug	% m/m	0.1	-	-0.1
16:00	US	Michigan index	Sep	pts	59.5	-	59.5

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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