

Eyeopener

How much will the MPC hike rates?

Today MPC decision in Poland, OPEC+ meeting, services PMI, ADP report
Zloty and local bonds strengthened again on Tuesday
Higher optimism on global markets in hope for central banks' dovish pivot

Today, MPC decision in Poland, abroad services PMI/ISM indicators, ADP report on the US labour market, and the OPEC+ meeting, where a decision on production cuts may be taken, possibly by as much as 2 million barrels per day.

Following September's inflation reading, which came in 0.7pp higher than the market consensus, we have **revised our expectations for the MPC's interest rate decision** at today's meeting to +50bp from +25bp. We are one of the few teams expecting a move of this magnitude - most believe the MPC will raise rates by 25bp or leave them unchanged, in line with Mr. Glapiński's last guidance. Recently, the MPC has been stressing that further decisions depend on data, and we take this statement seriously. MPC members, who suggested that hikes should be held off in October, were betting that the August CPI would set a peak. As we now know, the peak will be higher and later, and September's CPI gave a strong signal that inflationary pressures are even stronger and more persistent than anticipated. The source of the surprise was primarily core inflation, which, according to our estimates, rose by c.1.5% m/m - the strongest on record (since 2001). Other economic indicators were also better than forecast: PMI, industrial production, retail sales, unemployment rate. In addition, the government's new proposals to loosen fiscal policy and protect consumers from the cost-of-living shock mean that the slowdown in demand may be smaller than expected. As if that weren't enough, the zloty has lost about 1.5% against a basket of the euro and the dollar since the last MPC meeting, which is roughly the equivalent to a 15-25bp cut in rates. In such circumstances, it will be difficult for the MPC to repeat the declaration of the impending end of the cycle, and a move of 25bp may also be interpreted as insufficient. Our simple model juxtaposing the change in the annual CPI with the NBP's decisions suggests a move of 50bp. In our view, the zloty may weaken if the MPC decides to make no move or too small a hike. The time of the decision, as always, remains unknown.

Yesterday's **US data** on industrial and durable goods orders were in line with expectations. In contrast, the number of vacancies in August according to JOLTS was below expectations. German data published this morning showed slightly stronger-than-forecast export growth and markedly stronger imports.

EU countries agreed an **eighth package of sanctions against Russia** last night, including additional trade and personal restrictions, as well as legal basis for oil price caps.

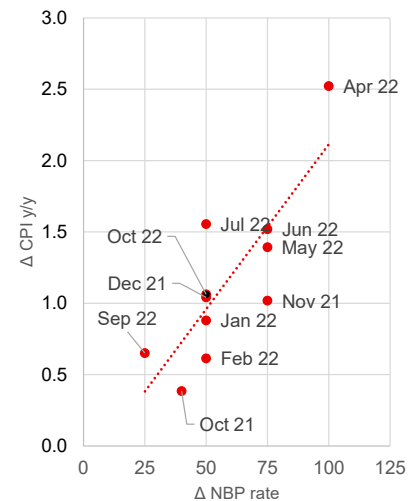
EURUSD rose from around 0.98 to around 0.99. Support for the euro came from declining forecasts for the US terminal rate, which fell from around 4.75% to just below 4.5% in time for the March Fed meeting. Single currency was also helped by comments from the ECB's Francois Villeroy, who said that "without undue delay" by the end of the year the central bank will reach neutral levels with interest rates, while after that the pace of rate hikes should already be slower and "more flexible." He stressed, however, that the ECB will raise rates as long and high as necessary to bring down core inflation.

EURPLN went from the area of 4.83 to below 4.81, and during the day the exchange rate even tried to dive below 4.79, only to attack 4.83 again later in the day. High volatility on the zloty was related to the uncertainty surrounding today's MPC decision on interest rates.

Other CEE currencies: EURHUF has risen from around 417 to around 418. The relative stabilization of the forint's value is the result of an agreement between state-owned MVM and Russia's Gazprom regarding the deferral of gas payments during the winter period. This will temporarily improve Hungary's current account, so the pressure on the forint's depreciation during this period should ease. EURCZK slipped from around 24.55 to near 24.52, with the krone helped by improving investment sentiment in European markets.

Debt market: Domestic yield curve fell in the belly and at the longer end. Expectations of rate hikes on the longest terms of the FRA market fell noticeably. The behaviour of the domestic market corresponded with the moves that were taking place in the core markets, where the dynamic increases in yields in recent weeks were followed by a correction.

Changes in NBP rates vs changes in CPI, with our forecast on October meeting outcome



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.8176	CZKPLN	0.1960
USDPLN	4.8302	HUFPLN*	1.1444
EURUSD	0.9976	RUBPLN	0.0831
CHFPLN	4.9237	NOKPLN	0.4619
GBPPLN	5.5258	DKKPLN	0.6476
USDCNY	7.1135	SEKPLN	0.4450

*for 100HUF

Last session in the FX market 04/10/2022

	min	max	open	close	fixing
EURPLN	4.7892	4.8281	4.8271	4.8121	4.8007
USDPLN	4.8200	4.9142	4.9079	4.8246	4.8615
EURUSD	0.9824	0.9979	0.9831	0.9974	-

Interest rate market 04/10/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.41	-4
DS0727 (5Y)	7.18	-10
DS0432 (10Y)	6.90	-10

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.78	-8	4.48	-2	2.24	-6
2L	7.52	-11	4.36	-4	2.60	-7
3L	7.16	-12	4.14	-4	2.63	-8
4L	6.95	-9	3.98	-5	2.66	-8
5L	6.84	-9	3.87	-4	2.69	-9
8L	6.67	-7	3.68	-5	2.77	-8
10L	6.64	-6	3.63	-5	2.82	-7

WIBOR rates

Term	%	Change (bps)
O/N	6.87	-1
T/N	7.00	2
SW	7.15	6
2W	7.18	9
1M	7.22	8
3M	7.31	3
6M	7.47	4
1Y	7.56	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.44	-4
3x6	7.66	-8
6x9	7.73	-11
9x12	7.59	-15
3x9	7.81	-7
6x12	7.84	-12

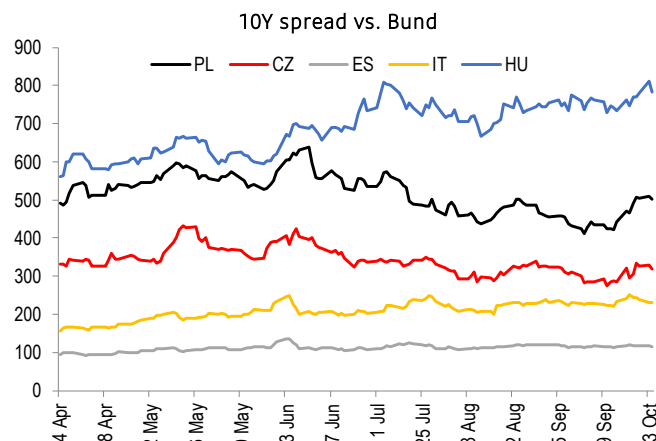
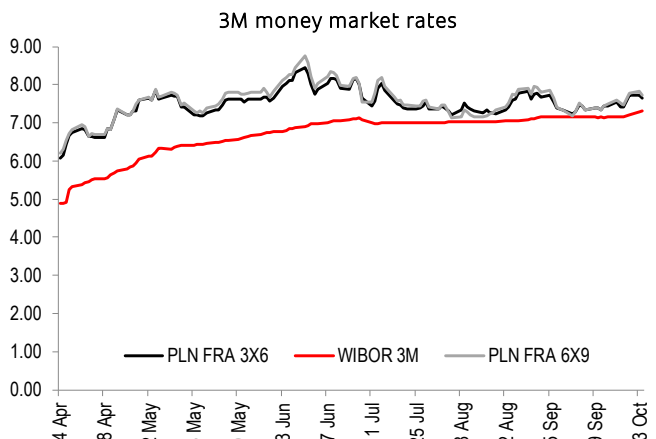
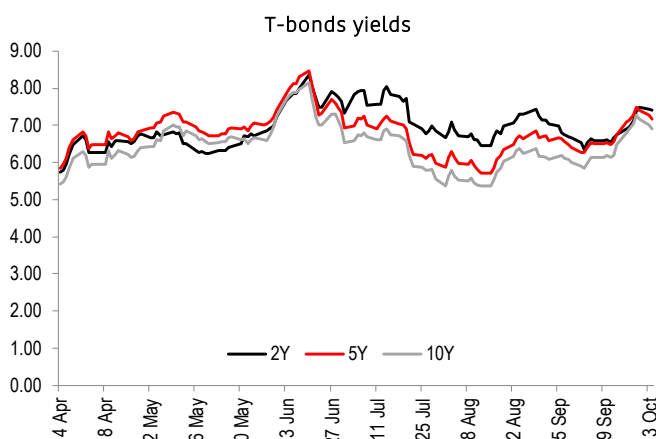
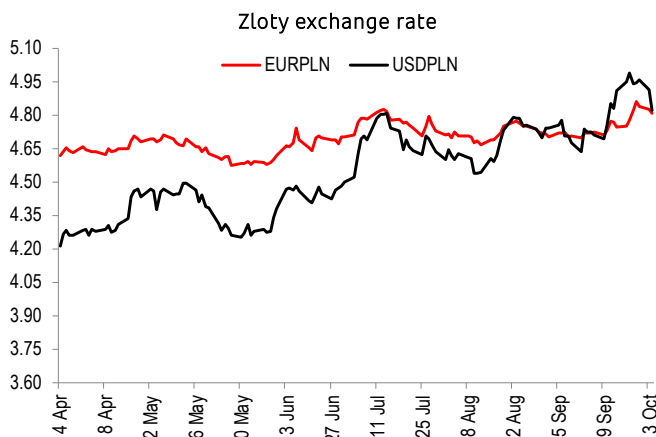
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	135	-5	501	-9
France	18	0	60	0
Hungary	235	-8	782	-28
Spain	63	-3	116	-1
Italy	78	-3	232	1
Portugal	48	-3	106	-1
Ireland	23	0	54	-5
Germany	18	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 (30 September)							
09:00	CZ	GDP SA	2Q	% y/y	3.7	3.7	3.7
10:00	PL	CPI	Sep	% y/y	16.4	16.6	17.2
11:00	EZ	Flash HICP	Sep	% y/y	9.7	10.0	9.1
11:00	EZ	Unemployment Rate	Aug	%	6.6	6.6	6.6
14:30	US	Personal Spending	Aug	% m/m	0.2	0.3	0.3
14:30	US	Personal Income	Aug	% m/m	0.3	0.4	-0.2
14:30	US	PCE Deflator SA	Aug	% m/m	0.1	0.3	-0.1
16:00	US	Michigan index	Sep	pts	59.5	58.6	59.5
MONDAY (3 October)							
09:00	PL	Poland Manufacturing PMI	Sep	pts	40.0	39.9	43.0
09:55	DE	Germany Manufacturing PMI	Sep	pts	48.3	47.8	49.1
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	48.5	48.4	49.6
16:00	US	ISM manufacturing	Sep	pts	52.3	50.9	52.8
TUESDAY (4 October)							
16:00	US	Durable Goods Orders	Aug	% m/m	0.0	-0.2	-0.1
16:00	US	Factory Orders	Aug	% m/m	0.0	0.0	-1.0
WEDNESDAY (5 October)							
	PL	MPC decision		%	7.00	7.25	-
08:00	DE	Exports SA	Aug	% m/m	1.5	1.6	-1.6
09:55	DE	Markit Germany Services PMI	Sep	pts	-	-	45.4
10:00	EZ	Eurozone Services PMI	Sep	pts	-	-	48.9
14:15	US	ADP report	Sep	k	200.0	-	132.0
16:00	US	ISM services	Sep	pts	56.0	-	56.9
THURSDAY (6 October)							
08:00	DE	Factory Orders	Aug	% m/m	-0.5	-	-1.1
09:00	HU	Industrial Production SA	Aug	% y/y	0.0	-	6.6
11:00	EZ	Retail Sales	Aug	% m/m	0.0	-	0.3
14:30	US	Initial Jobless Claims		k	215.0	-	193.0
15:00	PL	NBP Governor conference					
FRIDAY (7 October)							
08:00	DE	Industrial Production SA	Aug	% m/m	-0.5	-	-0.3
08:00	DE	Retail Sales	Aug	% m/m	-1.0	-	1.9
09:00	CZ	Industrial Production	Aug	% y/y	6.7	-	-1.9
14:30	US	Change in Nonfarm Payrolls	Sep	k	250.0	-	315.0
14:30	US	Unemployment Rate	Sep	%	3.7	-	3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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