

7 October 2022

# Eyeopener

## Cycle paused, not ended

Glapiński: tightening cycle is not concluded, we are waiting for new data and projection

Unemployment rate unchanged in September at 4.8%

Sejm approved G.Mastowska and I.Duda as new MPC members

Zloty weaker, long-term yields higher amid dovish NBP rhetoric

**Today**, key data from the US, i.e. non-farm payrolls. The data will be observed mainly in the context of looming monetary tightening by Fed.

NBP governor Adam Glapiński said at the conference that the **MPC has not formally ended the monetary tightening cycle** but rather paused. The new NBP inflation projection in November will be key in answering the question whether more tightening is needed. It seems the Council hopes very much that external inflationary shocks will start abating and internal price pressure has to follow suit, amid demand slowdown. To be fair, we were sharing such view until very recently, however the latest inflation data and the growing protection of households' budgets from the cost of living shock have changed this assessment, as it looks that the demand destruction may not be as significant as we anticipated. The result may be a longer period of inflation settling in double-digit zone. Summing up, first of all we think, that interest rate cuts in 2023, which Glapiński has been heralding since July, are much less likely in such environment. Secondly, November inflation projection could deliver new arguments to hike rates, showing higher inflation persistence. But even if it triggers a reaction, we now think the move bigger than +25bp is hard to imagine, given the October's pause showing the apparent aversion to tighten much more. The MPC's intention to end the cycle soon is still valid and has not been changed by the recent data. Therefore, in the baseline scenario we expect +25bp rate hike in November and another +25bp in January (after inflation hits 18%). Please see more in [Economic Comment](#).

The Sejm approved **Iwona Duda and Gabriela Mastowska as new MPC members**.

PM Morawiecki said that the government will prepare a **special energy tariff for local governments and companies with up to 250 employees**. The price of electricity is to be no higher than in 2Q21 and will apply for one year. It is also planned that local governments will sell coal to households at a price of PLN2k per tonne, with the government covering any difference from the market price.

The **cost of the minimum quota pension adjustment** (PLN250) is expected to be PLN2.09 billion. In our opinion, it will ultimately turn out to be minimally lower, as inflation this year will be higher than assumed in the budget law (13.8%).

The Labour Ministry reported that the **registered unemployment rate** in September remained at 4.8% after the number of unemployed fell by 3.9 thousand. The data is in line with our forecasts. We estimate that the seasonally adjusted rate remained at 5.0%. It will remain stable or increase slightly in coming months.

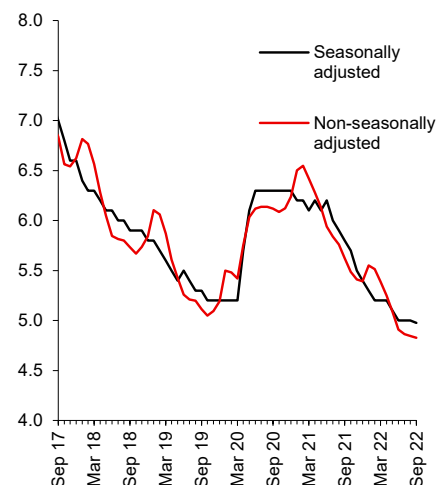
**EURUSD** fell to 0.98 from just below 0.99. The single currency weakened after worse-than-expected industrial orders from Germany for August, retail sales from the Eurozone, and the release of the latest ECB meeting minutes, which showed growing concerns within the ECB Council about the risk of tightening monetary policy too quickly. Some members, against the majority, advocated a hike of only 50bp rather than 75bp.

**EURPLN** rose from around 4.82 to around 4.89. The weakening of the zloty was a result of the renewed strengthening of the dollar on global markets, and of the dovish tone of the NBP Governor Adam Glapiński's conference. Despite rapidly rising inflation, including core inflation, the MPC is apparently convinced that interest rates are already high enough and inflation is doomed to fall in the future. This attitude was poorly received by the markets, resulting in a significant repricing of the zloty. Also important from the point of view of the domestic currency was the declaration by the NBP president that even a marked weakening of the zloty has a relatively small impact on inflation, which was interpreted by the markets as a lack of will to strongly defend the domestic currency.

**Other CEE currencies:** EURCZK rose from around 24.48 to around 24.49. EURHUF rose from around 421 to around 423. The koruna and forint lost ground after noticeably weaker retail sales readings in both countries.

**Debt market:** the domestic yield curve continued to rise in its belly and at the longer end. At the shorter end, the curve fell slightly along with expectations in the FRA market. Although the MPC has not closed the door to further rate hikes, but the lack of reaction to the sharply higher-than-expected CPI reading for September indicates a clear preference for an end-of-cycle scenario rather than a continuation of the cycle. With core inflation rising domestically and in the core markets, investors are beginning to get used to the idea that elevated inflation will remain for longer, resulting in a reduction of the negative slope of the yield and IRS curves.

### Registered unemployment rate, %



Source: GUS, Santander

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**FX market**

**Today's opening**

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.8839 | CZKPLN  | 0.1990 |
| USDPLN | 4.9822 | HUFPLN* | 1.1472 |
| EURUSD | 0.9801 | RUBPLN  | 0.0819 |
| CHFPLN | 5.0333 | NOKPLN  | 0.4647 |
| GBPPLN | 5.5657 | DKKPLN  | 0.6564 |
| USDCNY | 7.1135 | SEKPLN  | 0.4467 |

\*for 100HUF

**Last session in the FX market 06/10/2022**

|        | min    | max    | open   | close  | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4.8152 | 4.8845 | 4.8184 | 4.8774 | 4.8445 |
| USDPLN | 4.8529 | 4.9708 | 4.8558 | 4.9682 | 4.8989 |
| EURUSD | 0.9802 | 0.9925 | 0.9919 | 0.9802 | -      |

**Interest rate market 06/10/2022**

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

| Benchmark (term) | %    | Change (bps) |
|------------------|------|--------------|
| PS1024 (2Y)      | 7.37 | 2            |
| DS0727 (5Y)      | 7.42 | 9            |
| DS0432 (10Y)     | 7.20 | 7            |

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

| Term | PL   |              | US   |              | EZ   |              |
|------|------|--------------|------|--------------|------|--------------|
|      | %    | Change (bps) | %    | Change (bps) | %    | Change (bps) |
| 1L   | 7.63 | -2           | 4.60 | 8            | 2.46 | 11           |
| 2L   | 7.45 | 0            | 4.55 | 12           | 2.85 | 14           |
| 3L   | 7.20 | 2            | 4.37 | 13           | 2.91 | 15           |
| 4L   | 7.03 | 0            | 4.21 | 11           | 2.94 | 13           |
| 5L   | 6.98 | 0            | 4.08 | 8            | 2.97 | 11           |
| 8L   | 6.89 | 2            | 3.90 | 8            | 3.03 | 11           |
| 10L  | 6.89 | 6            | 3.83 | 7            | 3.07 | 11           |

**WIBOR rates**

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 6.69 | -15          |
| T/N  | 6.84 | -21          |
| SW   | 6.91 | -26          |
| 2W   | 6.98 | -20          |
| 1M   | 7.03 | -19          |
| 3M   | 7.25 | -8           |
| 6M   | 7.37 | -12          |
| 1Y   | 7.48 | -11          |

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

| Term | %    | Change (bps) |
|------|------|--------------|
| 1x4  | 7.30 | -3           |
| 3x6  | 7.43 | 1            |
| 6x9  | 7.52 | 0            |
| 9x12 | 7.46 | 4            |
| 3x9  | 7.51 | -5           |
| 6x12 | 7.63 | -8           |

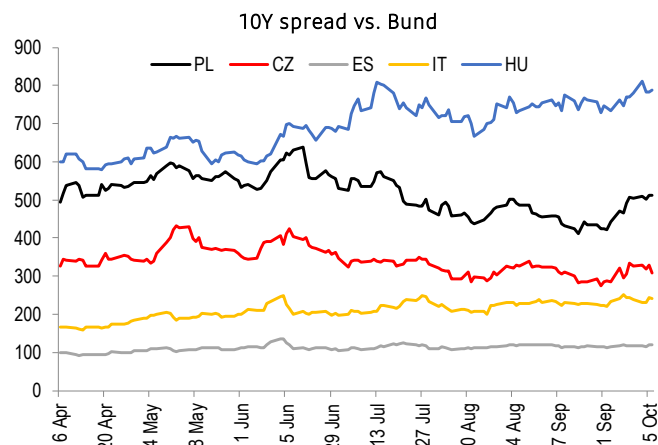
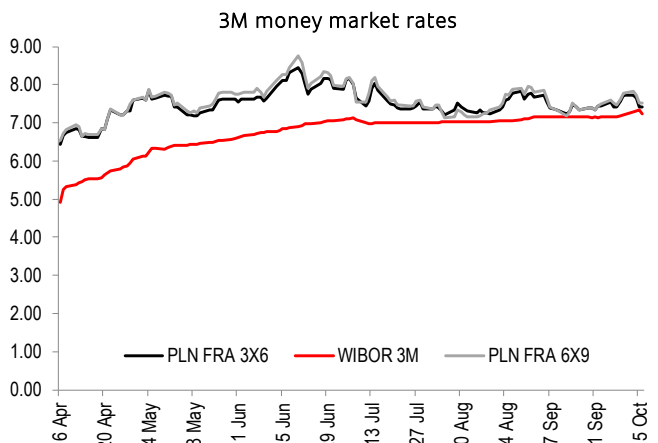
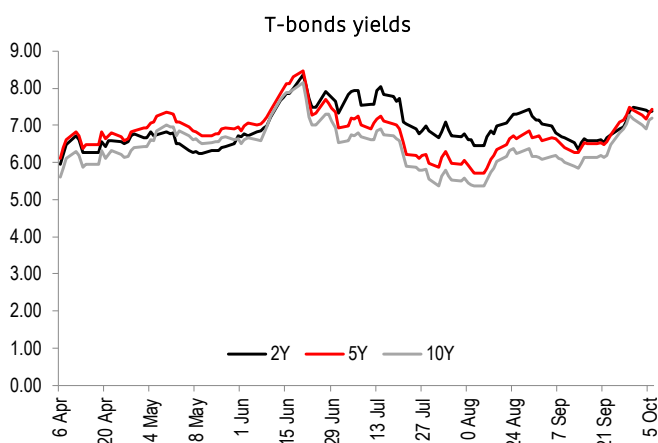
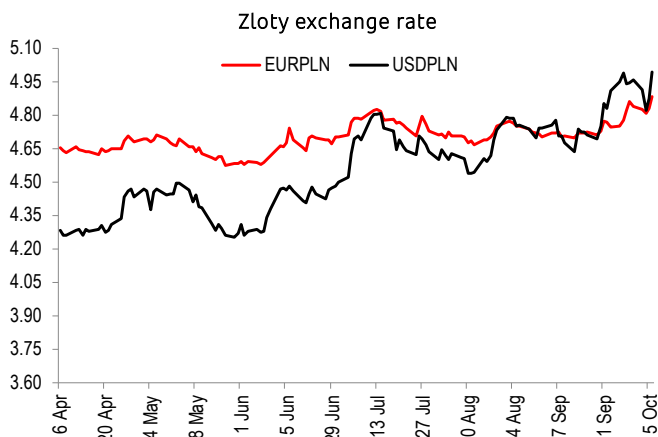
**Measures of fiscal risk**

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   | 135        | -5           | 512         | 1            |
| France   | 17         | 0            | 60          | -1           |
| Hungary  | 243        | 0            | 789         | 5            |
| Spain    | 65         | 0            | 120         | -1           |
| Italy    | 83         | 0            | 242         | 0            |
| Portugal | 50         | 0            | 111         | 0            |
| Ireland  | 22         | 0            | 55          | -2           |
| Germany  | 20         | 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<br>CET                  | COUNTRY   | INDICATOR                       | PERIOD     | FORECAST     |             | ACTUAL<br>VALUE | LAST<br>VALUE* |
|------------------------------|-----------|---------------------------------|------------|--------------|-------------|-----------------|----------------|
|                              |           |                                 |            | MARKET       | SANTANDER   |                 |                |
| <b>FRIDAY (30 September)</b> |           |                                 |            |              |             |                 |                |
| 09:00                        | CZ        | GDP SA                          | 2Q         | % y/y        | 3.7         | 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>17.2</b>    |
| 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           |
| <b>MONDAY (3 October)</b>    |           |                                 |            |              |             |                 |                |
| <b>09:00</b>                 | <b>PL</b> | <b>Poland Manufacturing PMI</b> | <b>Sep</b> | <b>pts</b>   | <b>40.0</b> | <b>39.9</b>     | <b>43.0</b>    |
| 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           |
| <b>TUESDAY (4 October)</b>   |           |                                 |            |              |             |                 |                |
| 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           |
| <b>WEDNESDAY (5 October)</b> |           |                                 |            |              |             |                 |                |
|                              | <b>PL</b> | <b>MPC decision</b>             |            | <b>%</b>     | <b>7.00</b> | <b>7.25</b>     | <b>6.75</b>    |
| 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        | 45.0            | 47.7           |
| 10:00                        | EZ        | Eurozone Services PMI           | Sep        | pts          | 48.9        | 48.8            | 49.8           |
| 14:15                        | US        | ADP report                      | Sep        | k            | 200         | 208             | 185            |
| 16:00                        | US        | ISM services                    | Sep        | pts          | 56.0        | 56.7            | 56.9           |
| <b>THURSDAY (6 October)</b>  |           |                                 |            |              |             |                 |                |
| 08:00                        | DE        | Factory Orders                  | Aug        | % m/m        | -0.7        | -2.4            | 1.9            |
| 09:00                        | HU        | Industrial Production SA        | Aug        | % y/y        |             | 9.3             | 6.6            |
| 11:00                        | EZ        | Retail Sales                    | Aug        | % m/m        | -0.3        | -0.3            | -0.4           |
| 14:30                        | US        | Initial Jobless Claims          |            | k            | 215         | 219             | 190            |
| <b>15:00</b>                 | <b>PL</b> | <b>NBP Governor conference</b>  |            |              |             |                 |                |
| <b>FRIDAY (7 October)</b>    |           |                                 |            |              |             |                 |                |
| 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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