

10 October 2022

Eyeopener

Fed won't soften tone after such data

US labour market data came in better than forecasts

MPC's Kotecki: November projection will renew discussion of hikes, Wnorowski: similar chances of a rate hike in November and an extended pause in tightening
Zloty failed to break through 4.90 to the euro, domestic bond curve noticeably flatter

Today there are no key data releases plus there is market holiday in the US, but even without new data from the economy there could be a lot going on in the markets in the coming days. Speeches by ECB and Fed representatives are on the agenda every day this week. It seems quite likely that the surprising pause in the cycle by the MPC will also be followed by interviews with members of the Polish Council. Also, the IMF/WB Annual Meetings start today. Markets may therefore have plenty of reason to wonder about the outlook for monetary policy at home and abroad.

MPC's Ludwik Kotecki has already commented on Friday. In his view, the new NBP projection will prompt the Council to renew discussion about rate hikes, possibly higher than 25 bps, as such a move would not, in his opinion, signal that the Council is determined to fight inflation. Kotecki estimates that CPI growth will reach 20% y/y in February. According to **Henryk Wnorowski**, on the other hand, the chances of a rate hike and of no hike in November seem to be similar. He added that the central bank assessed the risks of recession as greater than those of inflation.

On Friday important data were released **in the US: a set of labour market statistics**. Non-farm employment gently beat expectations, the unemployment rate unexpectedly fell to 3.5% (equalling the record low reached just before the pandemic), as did the broad measure of underemployment, which retreated to 6.7% (this is also a record low, the rate was already there in June and July). It is difficult to draw any other conclusion from this data than that the US labour market has not yet reacted negatively to the Fed's monetary tightening.

MPC Minutes of the discussion at the September meeting records that only some of the Council members were concerned about inflation remaining at strongly elevated levels until at least the middle of next year. Instead, the majority agreed with the view, which became one of the reasons for stopping rate hikes at the October meeting - that inflation would gradually decline in subsequent years under the influence of the rate hikes already made and amid expiring shocks. Concerns that fiscal loosening and loan moratoria would reduce the effectiveness of the MPC's policy tightening were expressed by only a minority of Council members. The Council reiterated that an appreciation of the zloty would be consistent with the fundamentals of the economy and would help in the fight against inflation.

NBP's official reserve assets amounted to €154bn in September, compared to €155bn a month earlier. This is roughly 5 times the average monthly stream of imports which should be considered high enough to be regarded in the market as a deterrent to attacks on the domestic currency. However, the MPC's surprise pause in hikes has created pressure on the zloty. The first line of defense, however, is the foreign currency funds exchanged in the market by BGK. The Czech Republic also showed its foreign currency reserves on Friday. Since the country shied away from further rate hikes in the middle of the year and focused on controlling inflationary pressures by influencing the strength of its own currency, the stock of reserves has declined there from about USD168bn to USD136bn.

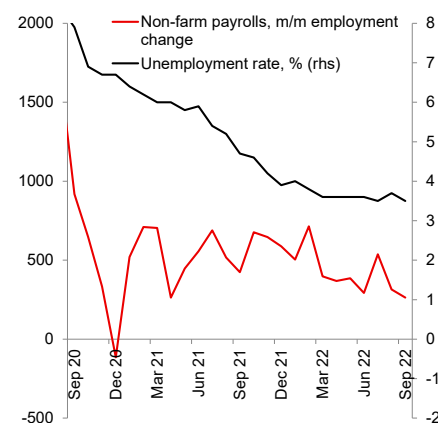
EURUSD fell from around 0.98 to around 0.975. Support for the dollar was provided by strong readings from the US labour market, which dismissed the idea of a slowdown in the pace of monetary policy tightening in the US.

EURPLN dropped below 4.86 from around 4.87. The exchange rate again tried to attack the 4.90 level, supported by strong US data, but further weakening of the zloty was hampered by demand for the zloty from BGK.

Other CEE currencies: **EURCZK** fell from around 24.49 to around 24.46, with the koruna gaining ground after a stronger-than-expected Czech industrial production reading. **EURHUF** rose to around 424 from around 423. The forint was hurt by the strengthening of the dollar on global markets.

Debt market: Domestic yield curve continued to rise in its middle-to-long part rising by about 15bp on average. The entire curve flattened markedly over the past week, a result of the dovish stance of the MPC, noticeably reluctant to raise rates further despite rising inflation. The 5-10 year sector also saw a widening of asset swap spreads in response to rising stagflationary expectations and fiscal easing in the coming years in Poland. In the main markets, strong data from the U.S. labour market, indicating that it is still far from cooling down, contributed to the rise in yields, with unemployment falling 0.2 percentage points, among others.

US labour market statistics



Source: Bloomberg, Santander

Economic Analysis Department:

a.l. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarostaw Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4,8576 | CZKPLN | 0,1979 |
| USDPLN | 4,9968 | HUFPLN* | 1,1355 |
| EURUSD | 0,9720 | RUBPLN | 0,0811 |
| CHFPLN | 5,0106 | NOKPLN | 0,4650 |
| GBPPLN | 5,5244 | DKKPLN | 0,6527 |
| USDCNY | 7,1135 | SEKPLN | 0,4436 |

*for 100HUF

Last session in the FX market 07.10.2022

| | min | max | open | close | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4,8507 | 4,8896 | 4,8827 | 4,8567 | 4,8606 |
| USDPLN | 4,9453 | 5,0058 | 4,9858 | 4,9646 | 4,9588 |
| EURUSD | 0,9724 | 0,9816 | 0,9791 | 0,9782 | - |

Interest rate market 07.10.2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| PS1024 (2Y) | 7,42 | 5 |
| DS0727 (5Y) | 7,53 | 10 |
| DS0432 (10Y) | 7,38 | 18 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 7,61 | -2 | 4,70 | 9 | 2,52 | 6 |
| 2L | 7,44 | 0 | 4,64 | 9 | 2,95 | 11 |
| 3L | 7,21 | 1 | 4,42 | 5 | 3,03 | 12 |
| 4L | 7,06 | 2 | 4,27 | 7 | 3,07 | 13 |
| 5L | 7,01 | 3 | 4,16 | 8 | 3,10 | 13 |
| 8L | 6,93 | 4 | 3,94 | 5 | 3,16 | 14 |
| 10L | 6,92 | 3 | 3,89 | 5 | 3,20 | 14 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 6,68 | -1 |
| T/N | 6,75 | -9 |
| SW | 6,90 | -1 |
| 2W | 6,98 | 0 |
| 1M | 7,08 | 5 |
| 3M | 7,19 | -6 |
| 6M | 7,34 | -3 |
| 1Y | 7,47 | -1 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 7,25 | -5 |
| 3x6 | 7,43 | 0 |
| 6x9 | 7,52 | 0 |
| 9x12 | 7,49 | 4 |
| 3x9 | 7,58 | 6 |
| 6x12 | 7,65 | 2 |

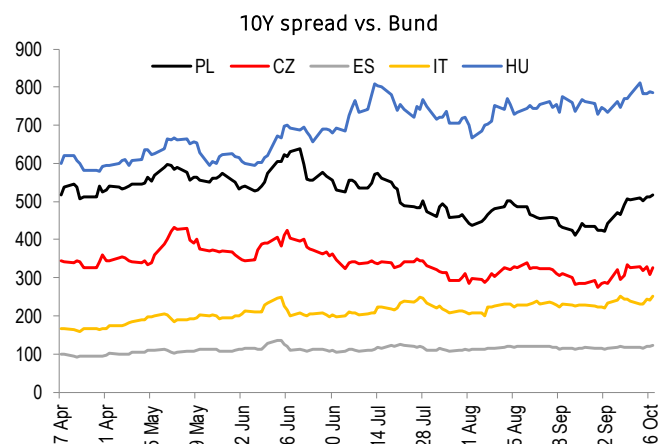
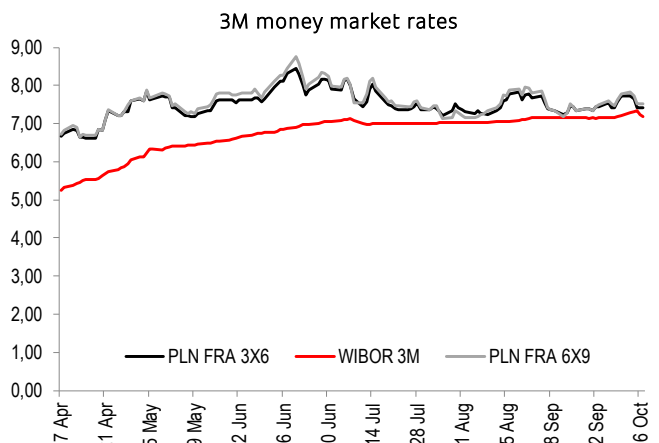
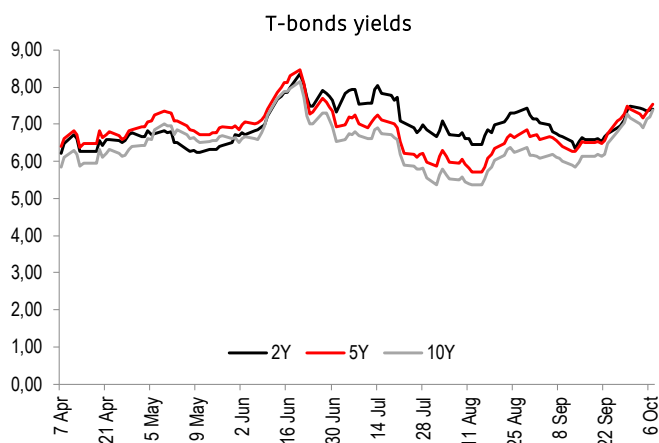
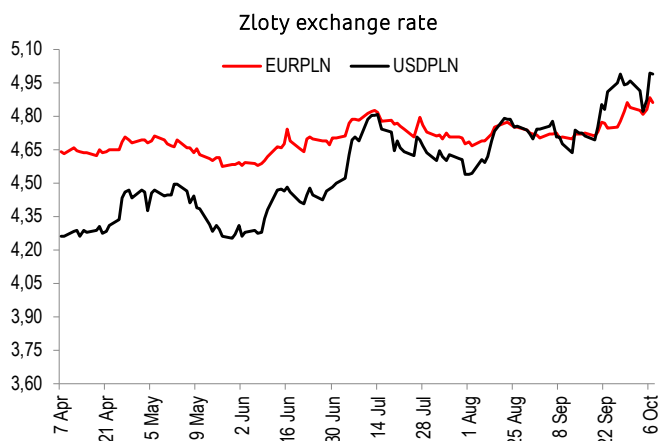
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 137 | 2 | 518 | 6 |
| France | 17 | 0 | 61 | 0 |
| Hungary | 239 | -4 | 785 | -4 |
| Spain | 65 | 0 | 122 | 1 |
| Italy | 85 | 2 | 251 | 8 |
| Portugal | 50 | 0 | 112 | 2 |
| Ireland | 22 | 0 | 56 | 1 |
| 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 CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL VALUE | LAST VALUE* | |
|-------------------------------|-----------|--------------------------------|------------|--------------|--------------|-----------------|----------------|--------------|
| | | | | MARKET | SANTANDER | | | |
| FRIDAY (7 October) | | | | | | | | |
| 08:00 | DE | Industrial Production SA | Aug | % m/m | -0.5 | -0.8 | 0.0 | |
| 08:00 | DE | Retail Sales | Aug | % m/m | -1.2 | -1.3 | 0.7 | |
| 09:00 | CZ | Industrial Production | Aug | % y/y | 5.4 | 10.3 | -1.9 | |
| 14:30 | US | Change in Nonfarm Payrolls | Sep | k | 255 | 263 | 315 | |
| 14:30 | US | Unemployment Rate | Sep | % | 3.7 | 3.5 | 3.7 | |
| SATURDAY (8 October) | | | | | | | | |
| 03:45 | CN | Caixin China PMI Services | Sep | pts | 54.4 | 49.3 | 55.0 | |
| TUESDAY (11 October) | | | | | | | | |
| 09:00 | CZ | CPI | Sep | % y/y | 17.1 | - | 17.2 | |
| 09:00 | HU | CPI | Sep | % y/y | 19.9 | - | 15.6 | |
| WEDNESDAY (12 October) | | | | | | | | |
| 11:00 | EZ | Industrial Production SA | Aug | % m/m | 1.3 | - | -2.3 | |
| 20:00 | US | FOMC Meeting Minutes | Sep | | | | | |
| THURSDAY (13 October) | | | | | | | | |
| 08:00 | DE | HICP | Sep | % m/m | 2.2 | - | 2.2 | |
| 14:30 | US | CPI | Sep | % m/m | 0.2 | - | 0.1 | |
| 14:30 | US | Initial Jobless Claims | week | k | 204 | - | 219 | |
| FRIDAY (14 October) | | | | | | | | |
| 10:00 | PL | CPI | Sep | % y/y | 17.2 | 17.2 | - | 17.2 |
| 14:00 | PL | Current Account Balance | Aug | €mn | -1642 | -1534 | - | -1735 |
| 14:00 | PL | Trade Balance | Aug | €mn | -1317 | -2226 | - | -1452 |
| 14:00 | PL | Exports | Aug | €mn | 26560 | 24775 | - | 26010 |
| 14:00 | PL | Imports | Aug | €mn | 27876 | 27001 | - | 27462 |
| 14:30 | US | Retail Sales Advance | Sep | % m/m | 0.2 | - | 0.3 | |
| 16:00 | US | Michigan index | Oct | pts | 58.8 | - | 58.6 | |

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.