

28 October 2022

## Eyeopener

### ECB raised rates, but seems worried about recession

Today, Polish rating review by Moody's, data from Germany and USA  
 ECB raised interest rates by 75bp, as expected  
 Zloty and bonds stronger again

**Today** in the evening, Moody's may publish the decision on the Polish credit rating. Apart from that, a lot of data from abroad: HICP inflation and 3Q GDP in Germany, ESI indices in Europe (also for Poland), in the USA personal income and spending, PCE inflation, Michigan consumer optimism index and pending home sales. In other words, plenty of fuel for investor expectations ahead of next week's Fed meeting.

**US 3Q22 GDP** grew by 2.6% q/q, better than expected, after two quarters of negative readings. However, the composition of growth was a disappointment, with net exports adding 2.7pp to growth and domestic demand going down. Durable goods orders data, meanwhile, turned out to be slightly worse than expected, falling by 0.5% after deducting transport equipment. Overall, the message of yesterday's data from the USA was not overly optimistic regarding the outlook for economic growth, but seems supportive of easing inflationary pressures.

**The ECB raised rates** by 75 basis points, as expected. The refinancing rate rose to 2.00%. In addition, the ECB Governing Council changed the terms of the LTRO. ECB President Christine Lagarde said during the post-meeting conference that rates would continue to be raised, even above the perceived neutral level, but that decisions would be taken from meeting to meeting. The message of the meeting was not ground-breaking, the market did not pick up many hawkish accents and, as a result, the euro weakened slightly against the dollar and the market valuation of interest rate rises went down slightly.

Deputy Finance Minister Artur Soboń said that **the 'anti-inflation shield'** could be extended to 2023, but the ministry was looking for other, less costly solutions. In turn, information from the Senate, where the energy price freeze bill was discussed, suggested that VAT on electricity could be increased after the new year, which would suggest at least a reduction in the scope of the shield. So it is still unclear what the government's strategy will ultimately be in this regard, which makes predicting inflation extremely difficult. So far, we were assuming that the inflation shield in its current form will be maintained until the end of 2023. If it turned out that the shield would be withdrawn, or reduced, this would probably mean inflation clearly above 20% at the beginning of 2023, but at the same time an easier reduction of CPI over the horizon of the next several quarters.

Artur Soboń also said that the Ministry of Finance is considering **changes to the capital gains tax**, e.g. in the form of a tax-free allowance. According to PAP, the proposal is an introduction of a tax-free amount on capital gains of up to PLN10k with a simultaneous increase in the tax rate above the threshold from 19% to 20%. According to the ministry, the solution is to be revenue-neutral for the central budget.

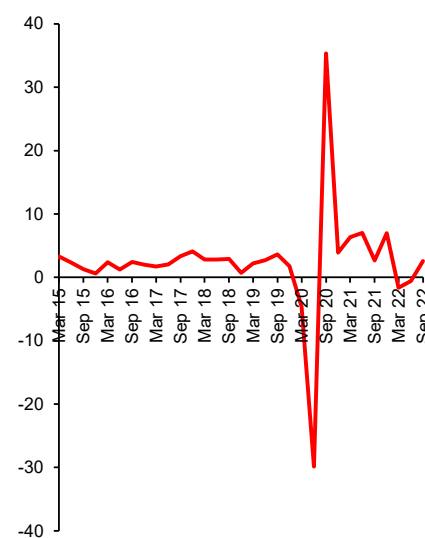
**EURUSD** has dropped below parity from near 1.01. The weakening of the euro is the result of disappointment with the tones of the ECB meeting and conference, where Christine Lagarde emphasized the recessionary risks of the Eurozone economy. Overnight, the exchange rate tried to return to parity, so far unsuccessfully.

**EURPLN** fell to 4.72 from about 4.74. The domestic currency market has been reacting with clear optimism for several days to the prospect of a reduction in interest rate expectations in the core markets and an increase in global risk appetite. Statements by some politicians from the ruling camp (e.g., MEP Adam Bielan) on the necessary greater flexibility in talks with the European Commission on unblocking EU funds may also help the zloty.

**Other CEE currencies:** EURCZK fell to 24.47 from near 24.51. EURHUF rose to 409 from near 407. The forint weakened in anticipation of today's Hungarian PPI publication.

**Debt market:** Domestic yield curve averaged a decline of about 7 bps. Yields on 10-year Treasury bonds returned below 8%. Yields also fell in the main markets. Although the ECB's interest rate rose for the second consecutive time by 75 bps, as expected, and Christine Lagarde stressed that interest rates would still have to be raised at several more meetings, market was concerned by the ECB Council's expectation of a marked economic slowdown this year and next. This resulted in a drop in the expected ECB terminal rate.

US GDP, % q/q annualised



Source: Refinitiv, Santander

#### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://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	4.7278	CZKPLN	0.1928
USDPLN	4.7432	HUFPLN*	1.1538
EURUSD	0.9963	RUBPLN	0.0770
CHFPLN	4.7775	NOKPLN	0.4607
GBPPLN	5.4747	DKKPLN	0.6352
USDCNY	7.2347	SEKPLN	0.4318

\*for 100HUF

**Last session in the FX market** 27/10/2022

	min	max	open	close	fixing
EURPLN	4.7187	4.7627	4.7440	4.7223	4.7504
USDPLN	4.7028	4.7529	4.7122	4.7290	4.7216
EURUSD	0.9970	1.0083	1.0069	0.9982	-

**Interest rate market** 27/10/2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8.21	-5
DS0727 (5Y)	8.09	-6
DS0432 (10Y)	7.92	-9

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.13	-1	4.88	-8	2.37	-12
2L	8.06	-4	4.61	-13	2.66	-17
3L	7.73	-6	4.35	-13	2.66	-19
4L	7.49	-6	4.19	-13	2.69	-17
5L	7.37	-5	4.09	-13	2.72	-17
8L	7.23	-7	3.94	-9	2.79	-15
10L	7.22	-5	3.91	-10	2.84	-13

**WIBOR rates**

Term	%	Change (bps)
O/N	6.48	2
T/N	6.83	23
SW	6.94	7
2W	6.99	2
1M	7.10	1
3M	7.46	3
6M	7.66	1
1Y	7.81	2

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

Term	%	Change (bps)
1x4	7.61	4
3x6	7.89	0
6x9	8.12	0
9x12	8.07	-1
3x9	8.08	0
6x12	8.27	-1

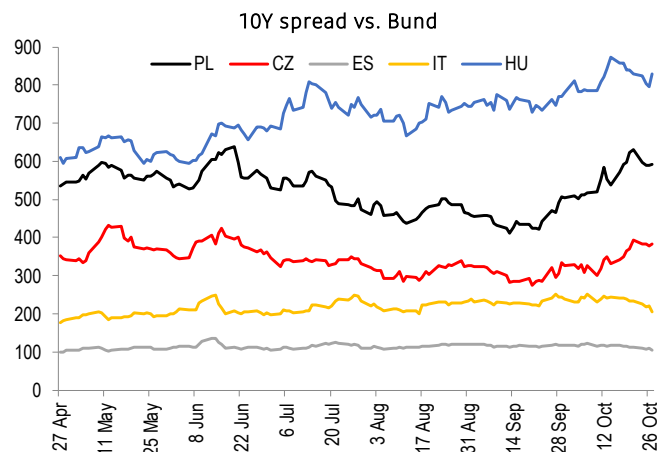
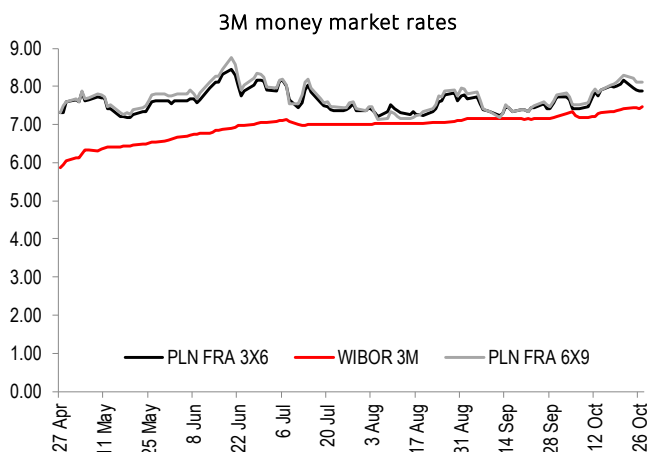
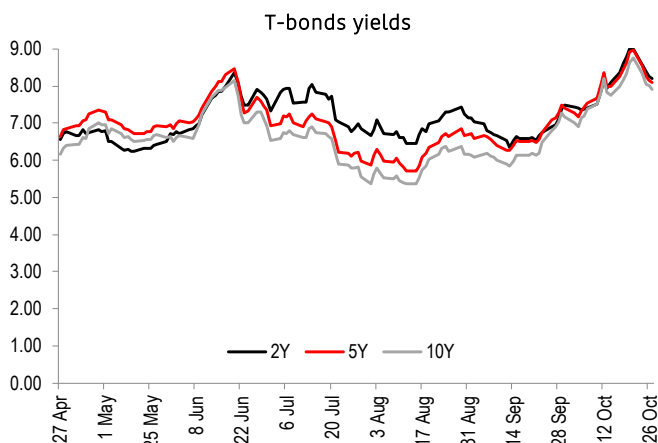
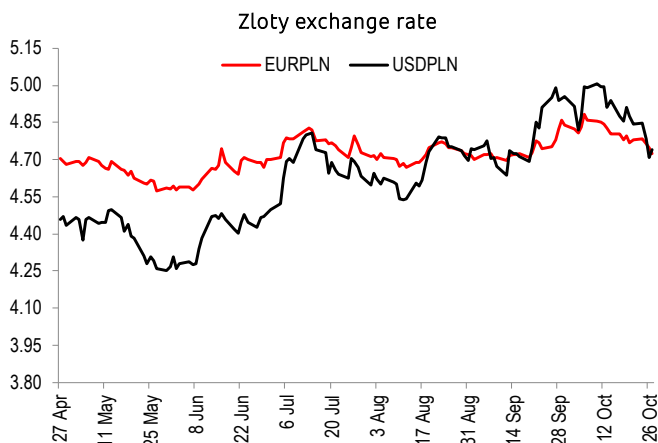
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	150	0	593	5
France	20	0	51	-2
Hungary	258	0	830	34
Spain	63	0	104	-5
Italy	63	-2	206	-15
Portugal	48	0	98	-6
Ireland	23	0	41	-7
Germany	21	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 (21 October)</b>								
10:00	PL	Construction output	IX	% r/r	6.5	9.2	0.3	6.1
10:00	PL	Retail sales	IX	% r/r	4.5	3.5	4.1	4.2
<b>MONDAY (24 October)</b>								
09:30	DE	PMI manufacturing	X	pkt	47.1		45.7	47.8
09:30	DE	PMI services	X	pkt	45.1		44.9	45.0
10:00	EZ	PMI manufacturing	X	pkt	48.0		46.6	48.4
10:00	EZ	PMI services	X	pkt	48.5		48.2	48.8
14:00	PL	M3 money supply	IX	% r/r	7.6	7.7	7.7	7.4
<b>TUESDAY (25 October)</b>								
10:00	DE	Ifo	X	pkt	83.8		84.3	84.4
10:00	PL	Unemployment rate	IX	%	4.8	4.8	5.1	5.2
14:00	HU	Central bank decision		%	13.0		13.0	13.0
16:00	US	Conference Board	X	pkt	105.0		102.5	108.0
<b>WEDNESDAY (26 October)</b>								
16:00	US	New home sales	IX	% m/m	-12.4		-10.9	24.7
<b>THURSDAY (27 October)</b>								
14:15	EZ	ECB decision		%	2.00		2.00	1.25
14:30	US	Durable goods orders	IX	% m/m	0.6		0.4	-0.2
14:30	US	GDP	III kw.	% k/k	2.1		2.6	-0.6
<b>FRIDAY (28 October)</b>								
10:00	DE	GDP WDA	III kw.	% r/r	0.8			1.7
11:00	EZ	ESI	X	pkt	0.0			93.7
14:00	DE	HICP inflation	X	% m/m	0.4			2.2
14:30	US	Personal spending	IX	% m/m	0.3			0.4
14:30	US	Personel incomes	IX	% m/m	0.3			0.3
14:30	US	PCE price index	IX	% m/m	0.3			0.3
16:00	US	Michigan	X	pkt	59.5			59.8
16:00	US	Pending home sales	IX	% m/m	-5.0			-2.0
	PL	Moody's rating review						

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.