

14 November 2022

Eyeopener

NBP puts the tightening cycle on hold

Today Polish C/A data, NBP presents Report on Inflation
 Glapiński: NBP has put rate hikes on hold
 Average wage in the national economy up 14.6% y/y in 3Q
 USD depreciation made room for stronger zloty, Polish bond yields much lower

Today, NBP presents details of its new projection, Polish data on September C/A are due.

The NBP President Adam Glapiński said at the Thursday press conference that the MPC's decision to keep interest rates on hold was a fully conscious choice that inflation's return to the target should be gradual, not a rapid one, as the latter could trigger significant yet unnecessary social and economic costs. The MPC expects a beginning of a steady inflation decline from March, to c.8% in 4Q23 and towards the official target in 2025. Glapiński emphasised that disinflation in Poland will be assisted by, among other factors, a significant deceleration of GDP growth in Poland ("further deterioration of economic activity is certain"). He also said that recent comments of PM Morawiecki imply that fiscal policy outlook has changed and the fiscal policy next year will not be pro-inflationary, but rather neutral for inflation. He said that the tightening cycle has been put on hold, not terminated. We think that interest rates will remain on hold at least until March. We do not rule out additional +50bp in March-April (in one or two steps) in the scenario when inflation jumps above 20% or PLN sells off significantly. Read more in our [Economic Comment](#).

MPC's Ludwik Kotecki told Business Insider that next year's inflation decline will be due to statistical effects rather than a proper disinflation process and sees high risk that inflation will remain galloping if the MPC withholds rate hikes. In his view a sustained move of USDPLN much above 5 is possible, which could prod the MPC to change its approach. Also, in an interview with Dziennik Gazeta Prawna he said that hikes by more than 25bp are needed.

Average wage in the national economy accelerated in 3Q22 to 14.6% y/y, the highest since 2000, from 11.8% y/y in 2Q. Surprisingly, the acceleration was much greater than in the corporate sector, where wage growth rose to 14.3% from 13.5% y/y. In the previous two quarters, wage growth in the total economy had clearly lagged behind that in the corporate sector, due in part to timid wage increases in the public sector. The data show that labour market pressures remain strong and are increasingly broad-based, making it difficult to tame inflation. The looming recession and deteriorating corporate earnings should ease the pressure somewhat, but the slowdown may not be significant, due to a large jump in the minimum wage in 2023 (in two steps, by about 20% in total).

In its **autumn forecasting round**, the EC estimated that Poland could achieve growth of 0.7% in 2023 with inflation averaging 13.8%. According to the EC, 2H22 will still be relatively strong and in 2023 military and local government investments will outweigh the weakening of private outlays, consumption will also remain relatively solid thanks to government measures to protect households from energy crisis, low unemployment and the influx of Ukrainians. Overall, growth forecasts for the EU for 2023 have been lowered by the EC and inflation forecasts raised.

EURUSD tried to descend towards 0.99, but significantly lower-than-expected data from the USA (CPI, core inflation, consumer sentiment) pushed it to around 1.035. The decline in inflationary pressure supports the scenario of a slowdown in the pace of Fed rate hikes and a potentially faster end to the cycle of hikes.

EURPLN fell from around 4.72 to around 4.68. The dollar's depreciation in global markets offset the downward pressure on the zloty from the NBP president's announcement of a pause in rate hikes.

Other CEE currencies: EURHUF oscillated around the 400 level on Thursday, but rebounded above 405 on Friday - the highest in the past week. As the MNB's account evolves from yesteryear gains to losses in 2022, the Hungarian government plans to amend the central bank law to extend the time to make up those losses from 8 days to 5 years after the year closes. EURCZK fell from near 24.30 to around 24.29. The October inflation reading came in well below expectations thanks to the introduction of caps on electricity prices. According to the CNB, without this factor inflation would have been 3.5% higher, which would have translated into a further increase rather than a decrease in inflation.

Debt market: Domestic yield curve fell strongly on Thursday, by about 68 bps at the short end and about 47 bps at the long end. The reason for the repricing was a dovish speech by the NBP president, who announced a pause in hikes which triggered a further decline in expectations for a rate hike in Poland. This effect was further reinforced by global debt appreciation trends, which accelerated sharply after a significantly lower-than-expected US inflation reading.

EC forecast update: Poland

	EC 2023	EC Spring forecast*	Santander 2023	EC 2024
GDP (%y/y)	0.7	3.0(1.5)	0.2	2.6
Priv. consumption	2.3	3.7	2.6	2.4
Investments	2.5	3.9	-1.3	4.3
CPI	13.8	7.3(9.0)	13.8	4.9
Core CPI	10.9	4.9	9.2	5.6
C/A balance (%GDP)	-2.5	-0.2	-4.0	-1.6
GG balance	-5.5	-4.4	-5.9	-5.2
Structural deficit	-4.7	-4.0	-	-4.2
GG debt	52.9	49.8	50.5	54.2

* numbers in parentheses come from the EC Summer forecasting round where only some numbers are updated

Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.6850	CZKPLN	0.1924
USDPLN	4.5358	HUFPLN*	1.1606
EURUSD	1.0323	RUBPLN	0.0750
CHFPLN	4.7917	NOKPLN	0.4557
GBPPLN	5.3441	DKKPLN	0.6286
USDCNY	7.0337	SEKPLN	0.4357

*for 100HUF

Last session in the FX market 11.11.2022

	min	max	open	close	fixing
EURPLN	4.6705	4.6879	4.6842	4.6790	4.7146
USDPLN	4.5254	4.5887	4.5848	4.5295	4.7328
EURUSD	1.0206	1.0338	1.0217	1.0331	-

Interest rate market 11.11.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.13	-1
DS0727 (5Y)	7.40	-1
DS0432 (10Y)	7.22	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.45	0	5.05	0	2.73	7
2L	7.33	0	4.67	0	2.93	8
3L	6.98	0	4.32	-2	2.88	8
4L	6.70	0	4.26	13	2.84	9
5L	6.56	0	4.27	27	2.84	10
8L	6.41	0	3.85	0	2.86	10
10L	6.39	0	3.82	0	2.90	10

WIBOR rates

Term	%	Change (bps)
O/N	6.65	-23
T/N	6.84	-14
SW	6.89	-16
2W	6.92	-17
1M	7.07	-9
3M	7.50	-9
6M	7.69	-10
1Y	7.86	-6

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.18	0
3x6	7.20	0
6x9	7.20	0
9x12	7.05	0
3x9	7.36	0
6x12	7.33	0

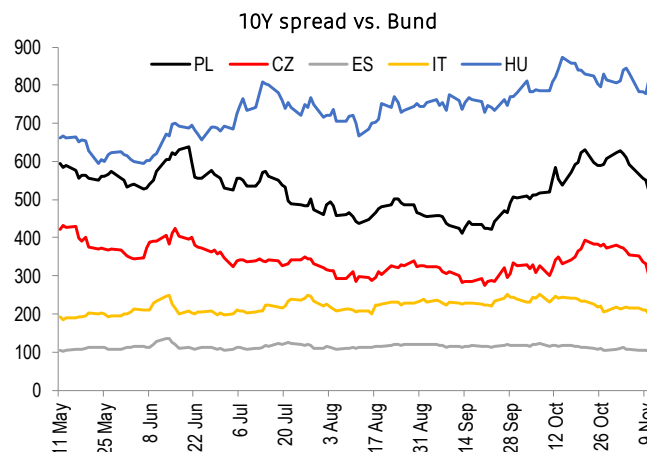
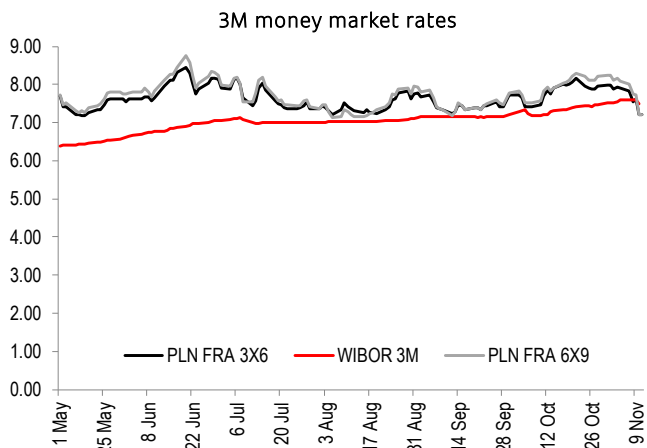
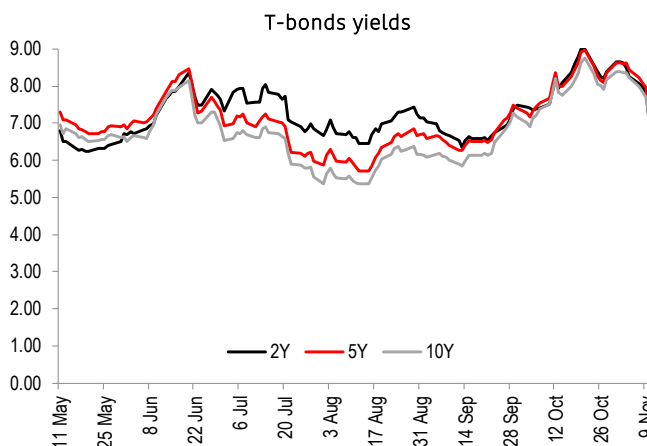
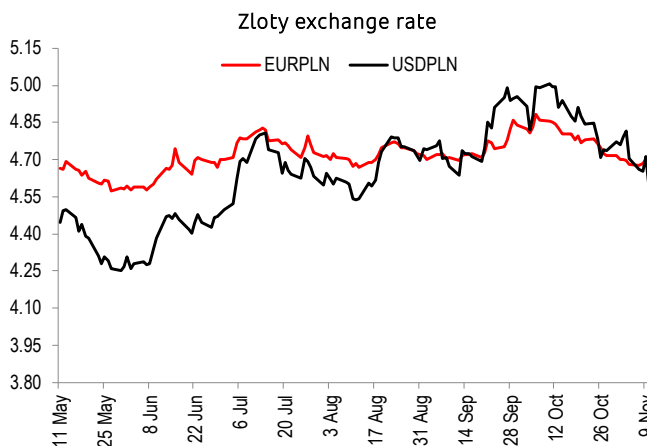
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	138	0	506	-16
France	15	-5	51	2
Hungary	233	1	815	1
Spain	57	-2	105	2
Italy	58	-2	205	5
Portugal	41	-2	100	3
Ireland	20	-2	50	2
Germany	18	-3	-	-

* 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			
THURSDAY (10 November)								
09:00	CZ	CPI	Oct	% y/y	17.9	-	15.1	18.0
14:30	US	CPI	Oct	% m/m	0.6	-	0.4	0.4
14:30	US	Initial Jobless Claims	Nov.22	k	220	-	225	218
FRIDAY (11 November)								
	PL	National holiday						
08:00	DE	HICP	Oct	% m/m	1.1	-	-	2.2
16:00	US	Michigan index	Nov	pts	59.5	-	-	59.9
MONDAY (14 November)								
11:00	EZ	Industrial Production SA	Sep	% m/m	-	-	-	1.5
14:00	PL	Current Account Balance	Sep	€mn	-2929	-2915	-	-3967
14:00	PL	Trade Balance	Sep	€mn	-1921	-2135	-	-2927
14:00	PL	Exports	Sep	€mn	27746	27422	-	25358
14:00	PL	Imports	Sep	€mn	29667	29557	-	28285
TUESDAY (15 November)								
09:00	HU	GDP	3Q	% y/y	-	-	-	6.5
10:00	PL	CPI	Oct	% y/y	17.9	17.9	-	17.2
10:00	PL	GDP	3Q	% y/y	3.0	3.5	-	5.8
11:00	EZ	GDP SA	3Q	% y/y	-	-	-	2.1
11:00	DE	ZEW Survey Current Situation	Nov	pts	-	-	-	-72.2
WEDNESDAY (16 November)								
14:00	PL	CPI Core	Oct	% y/y	11.2	11.1	-	10.7
14:30	US	Retail Sales Advance	Oct	% m/m	0.9	-	-	0.0
15:15	US	Industrial Production	Oct	% m/m	0.0	-	-	0.4
THURSDAY (17 November)								
11:00	EZ	HICP	Oct	% y/y	9.9	-	-	10.7
14:30	US	Housing Starts	Oct	% m/m	-1.0	-	-	-8.1
FRIDAY (18 November)								
16:00	US	Existing Home Sales	Oct	% m/m	-7.0	-	-	-1.5

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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