

16 December 2022

## Eyeopener

### ECB wants more 50bp hikes and to cut balance sheet

Today core inflation print in Poland, final HICP inflation data, flash PMIs  
 Polish CPI inflation down to 17.5% y/y from 17.9%, coal and fuel caused the drop  
 ECB, SNB and BoE raised rates by 50bp  
 Zloty still in place, domestic yields rose

**Today** we will get to know the domestic core inflation reading for November, we expect an increase to 11.3% y/y from 11.0% in October. Abroad, the final euro zone HICP inflation reading for November will be published, as well as December manufacturing and services PMIs for Germany and the euro zone, among others.

**November CPI inflation** was revised to 17.5% y/y from flash estimate at 17.4% y/y. Detailed data confirm that the decline vs October's 17.9% y/y was mostly driven by energy prices. We think that CPI is likely to remain fairly stable or decline in December. Later on, it should embark on a downward trend. We think CPI is likely to remain above 10% throughout 2023, though. See more in our [Economic Comment](#).

**The ECB** raised interest rates by 50bp, with the refinancing rate rising to 2.5% and the deposit rate to 2.0%. The communiqué read that interest rates would need to continue to rise significantly at a steady pace to ensure a sufficient level of monetary policy tightness necessary to make the inflation return to target by lowering demand and anchoring inflation expectations at low levels. The ECB also announced a gradual reduction of the balance sheet starting in March 2023 at an average scale of €15bn per month until the end of 2Q, after which the further scale of reduction will be reassessed. At the press conference, ECB chief Christine Lagarde emphasised that inflation risks remain tilted to the upside, however, and factors that are hampering the fight against inflation are the weak euro exchange rate and expansionary fiscal policy in the euro area. Recent declines in inflation have been driven by the fall in energy commodity prices but inflationary pressures in the economy remain strong and this is likely to continue. As a result, the ECB will need to keep tightening monetary policy at 50bp per meeting for some time.

**The SNB** raised the key interest rate by 50 bps to 1.00%. The need to fight inflation was cited as the main reason. According to the Swiss central bank, current inflation levels are above the range that guarantees price stability in the medium term. The bank has not ruled out further increases to ensure it and said it may remain active in the FX market in order to support the franc, with the interest rate to remain the primary instrument of monetary policy. However, the SNB is not setting itself a target level for interest rates at this point.

**Bank of England** raised interest rates by 50 bps to 3.50% in a 7-2 vote. According to the central bank's latest forecasts, inflation has already peaked but may remain "very high" in subsequent periods making further rate hikes necessary to bring it down to target. The labour market remains heated which calls for a further decisive response from the BoE.

Parliamentary work on a **bill on the Supreme Court**, crucial to unlocking EU funding for the Polish recovery plan, which was supposed to start yesterday, was postponed until the next session of the Sejm on 11 January after objections from the president. The Sejm passed yesterday the 2023 budget law. As we understand, this removes the risk of early elections triggered by a failure to approve the budget in time.

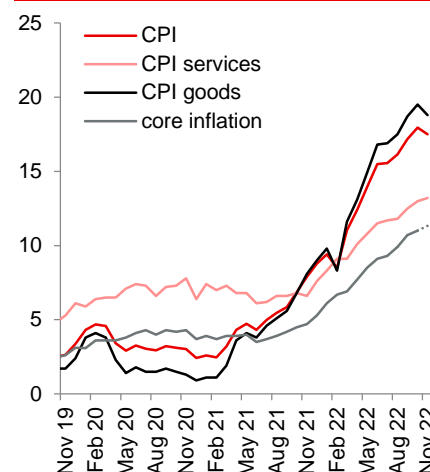
**EURUSD** rose above 1.07 from just below this level following the ECB's decision to reduce the balance sheet from March and to continue interest rate hikes of 50 bps in coming meetings. By the end of the day, however, the rate had slipped below 1.07 again.

**EURPLN** continued to fluctuate in the 4.68 - 4.70 zone. The attention of the local market seems to be focused primarily on information related to further legislative progress linked to the acquisition of EU funds for the recovery plan.

**Other CEE currencies:** **EURHUF** rose to around 407 from around 404. According to the economy minister, inflation in Hungary should peak around January-February at 25-27%. **EURCZK** kept trading near 24.27. CNB chairman said that monetary policy in Czechia is already restrictive enough to lower inflation, although fiscal policy remains a hurdle on this process.

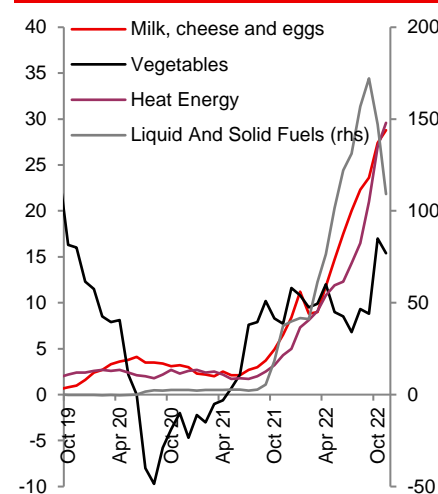
**Debt market:** Domestic yield curve rose by about 5 bps on average in the middle and longer end of the curve. Interest rate expectations also bounced a bit higher on longer terms. This was helped by a higher final CPI inflation reading for November and hawkish announcements by the ECB chief on the further prospects for rate hikes in the Eurozone. The German curve rose by an average of about 26 bp after the ECB meeting. The US curve remained stable. A worse-than-expected reading for US industrial production reassured markets that inflation may be on a downward trend.

CPI inflation, % y/y



Source: NBP, Santander

CPI inflation, selected categories, % y/y



Source: GUS, 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  
**Jarosław Kosaty** +48 887 842 480  
**Marcin Luzziński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

**FX market**

**Today's opening**

EURPLN	4.6863	CZKPLN	0.1924
USDPLN	4.3990	HUFPLN*	1.1404
EURUSD	1.0651	RUBPLN	0.0691
CHFPLN	4.7407	NOKPLN	0.4469
GBPPLN	5.3776	DKKPLN	0.6294
USDCNY	6.9654	SEKPLN	0.4263

\*for 100HUF

**Last session in the FX market 15.12.2022**

	min	max	open	close	fixing
EURPLN	4.6766	4.6984	4.6771	4.6949	4.6843
USDPLN	4.3676	4.4212	4.3896	4.4180	4.41
EURUSD	1.0604	1.0735	1.0657	1.0635	-

**Interest rate market 15.12.2022**

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.80	1
DS0727 (5Y)	6.60	8
DS0432 (10Y)	6.54	9

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.31	7	5.05	3	2.95	16
2L	6.85	14	4.52	3	3.04	15
3L	6.33	16	4.06	1	2.94	15
4L	6.03	16	3.80	0	2.87	15
5L	5.87	18	3.66	1	2.82	14
8L	5.71	16	3.46	-1	2.73	13
10L	5.71	16	3.42	-2	2.71	11

**WIBOR rates**

Term	%	Change (bps)
O/N	6.57	0
T/N	6.76	15
SW	6.84	-1
2W	6.88	0
1M	6.99	-1
3M	7.08	-1
6M	7.21	-1
1Y	7.33	-2

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

Term	%	Change (bps)
1x4	7.08	-1
3x6	7.17	6
6x9	7.28	22
9x12	7.06	24
3x9	7.30	8
6x12	7.28	5

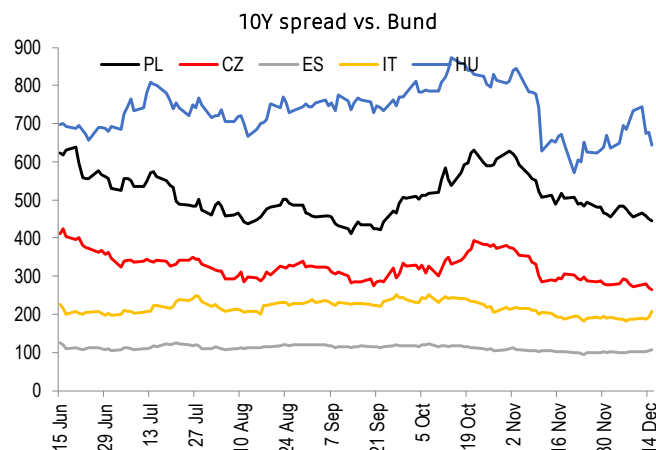
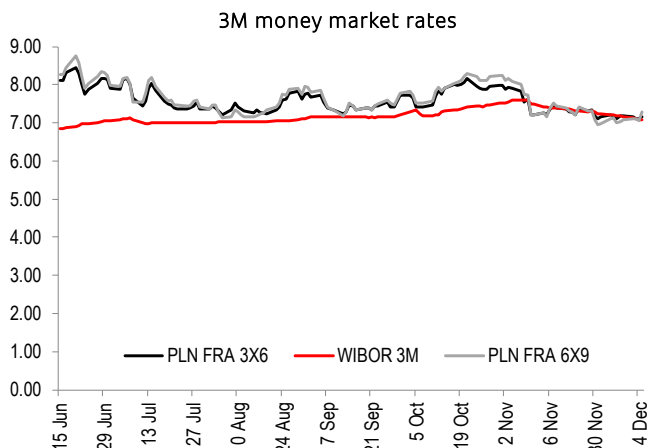
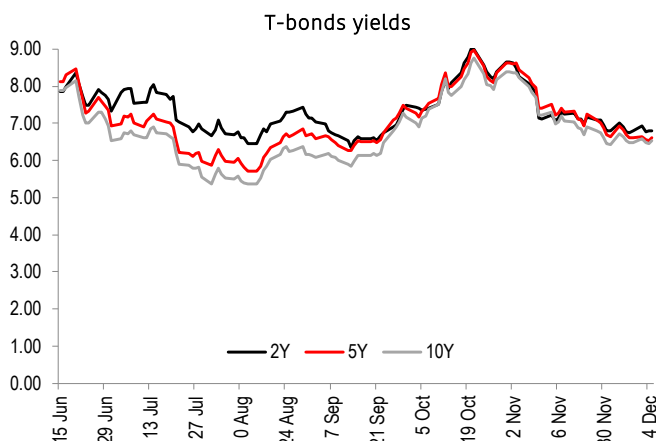
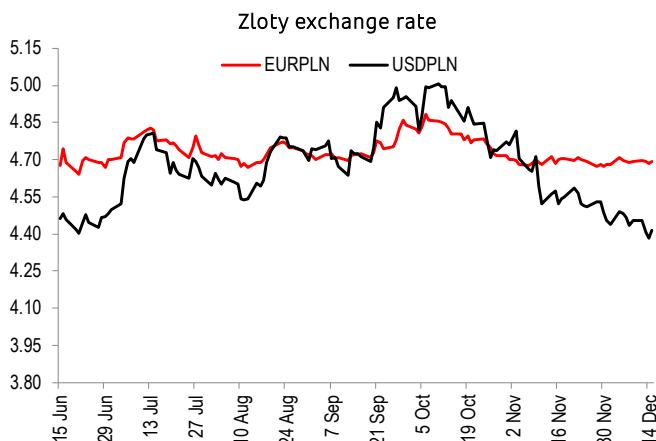
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	117	0	446	-6
France	15	0	51	2
Hungary	202	0	643	-35
Spain	55	2	108	4
Italy	55	2	207	15
Portugal	40	2	101	5
Ireland	21	2	49	4
Germany	15	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>MONDAY (12 December)</b>								
09:00	CZ	CPI	Nov	% y/y	15.5		16.2	15.1
<b>TUESDAY (13 December)</b>								
08:00	DE	HICP	Nov	% m/m	0.0		0.0	1.1
11:00	DE	ZEW Survey Current Situation	Dec	pts	-57.5		-61.4	-64.5
14:30	US	CPI	Nov	% m/m	0.3		0.1	0.4
<b>WEDNESDAY (14 December)</b>								
11:00	EZ	Industrial Production SA	Oct	% m/m	-1.2		-2.0	0.8
14:00	PL	Current Account Balance	Oct	€mn	-796	-1578	-549	-1561
14:00	PL	Trade Balance	Oct	€mn	-2316	-2599	-2277	-2054
14:00	PL	Exports	Oct	€mn	28072	28264	28677	28498
14:00	PL	Imports	Oct	€mn	30392	30863	30954	30552
20:00	US	FOMC decision			4.50		4.50	4.00
<b>THURSDAY (15 December)</b>								
10:00	PL	CPI	Nov	% y/y	17.4	17.4	17.5	17.9
14:15	EZ	ECB Main Refinancing Rate		%	2.50		2.50	2.00
14:30	US	Initial Jobless Claims	week	k	230		211	231
14:30	US	Retail Sales Advance	Nov	% m/m	0.0		-0.2	1.2
15:15	US	Industrial Production	Nov	% m/m	0.2		-0.2	-0.1
<b>FRIDAY (16 December)</b>								
09:30	DE	Germany Manufacturing PMI	Dec	pts	46.2		-	46.2
09:30	DE	Markit Germany Services PMI	Dec	pts	46.3		-	46.1
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	47.1		-	47.1
10:00	EZ	Eurozone Services PMI	Dec	pts	48.5		-	48.5
11:00	EZ	HICP	Nov	% y/y	10.0		-	10.6
14:00	PL	CPI Core	Nov	% y/y	11.3	11.3	-	11.0

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>.