

3 February 2023

Eyeopener

ECB slightly more dovish

Today abroad PMI in services, US labour market report
 ECB and BOE raised rates by 50bp, CNB kept rates on hold
 Zloty stronger versus euro, bond yields lower

Today, no important data from Poland. Abroad, we will get to see a series of PMIs for the service sector, including Germany, the euro area and the USA. Last night, the corresponding indicator for China was released, and it turned out to be significantly higher than previously and than expected, reflecting a clear increase in consumer activity after pandemic restrictions were lifted. The main event today will be the publication of US labour market data for January. Investors will eye these data for answers on how much the US interest rate hikes so far have affected the labour market. Its cooling is one of the key elements of the Fed's strategy to fight inflation.

The ECB raised rates by 50 bp. The main refinancing rate rose to 3.00% and the deposit rate to 2.50%. The central bank announced that it also intends to raise rates by 50bp at its March meeting and to assess the further path of monetary policy. According to the ECB, the hike is justified by pressures on core inflation, fiscal policy and wages. The ECB expects economic growth to remain weak and tighter financing conditions to contribute to a contraction in demand and output. Unemployment may rise and new job growth may slow down. From the point of view of the ECB's reaction function, it is important that fiscal support starts to be phased out, as loose fiscal policy may force a stronger interest rate response policy as it is reinforcing inflationary processes. According to the central bank, risks to economic growth and inflation are quite balanced. The ECB has maintained its current path of balance sheet reduction, i.e. by an average of €15 billion per month until the end of June this year.

The Bank of England raised rates by 50 bp in a 7:2 vote. The base rate rose to 4%. According to the central bank, inflation forecasts point to a "quite sharp" fall in inflation. BoE Governor Andrew Bailey stressed that it is still too early to declare the end of the rate hike cycle at this stage, as further observation is needed on how well inflation will follow the path from the bank's forecasts. However he also said that the change in BoE rhetoric should be interpreted as a growing likelihood that a monetary policy tipping point is approaching.

Polish Prime Minister Mateusz Morawiecki announced that **bakeries and confectioneries will be granted reduced gas rates from 1 April**. The rate of PLN200.17 per MWh is to be guaranteed on a de minimis aid basis. The proposed rate will be 2-3 times lower than the market rate. The offer is only aimed at small family businesses, it will not apply to large chain shops. The cost of the aid is expected to be around PLN300mn, according to the Development Ministry. The announced measure has the potential to slightly accelerate the drop in the CPI growth but the impact will be difficult to capture, in our view (of the order of the second decimal place), while at the same time causing inflation to react the other way in the following year, after it expires.

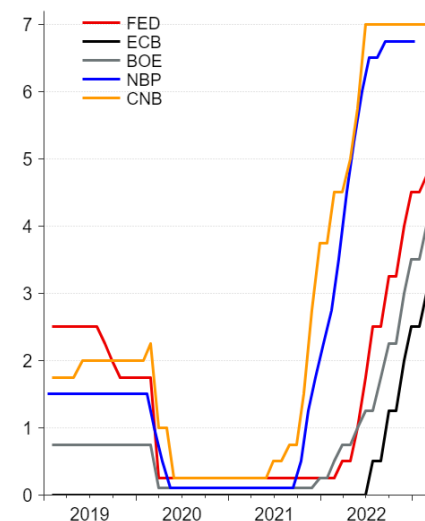
EURUSD went from near 1.10 to near 1.09, and even below overnight. The dollar was helped by better-than-expected data from the US on industrial and durable goods orders, as well as the ECB's slightly more dovish stance in the market's perception. Although another 50bp rate hike has been announced, further moves seem less obvious now.

EURPLN fluctuated slightly above 4.70 for the first part of the day, before diving to around 4.68 in reaction to the market's dovish assessment of the ECB conference message, boosting risk appetite.

Other CEE currencies: EURCZK held near 23.77 for another day. The CNB, as expected, left the key interest rate at 7%. The majority of the central bank's board has opted to keep interest rates at elevated levels for an extended period. The CNB expects that there may have been a sharp rise in inflation in January, but inflation should fall to single-digit levels in the second half of the year. EURHUF fell from 389 to around 385. Support for the forint appeared to be the ECB's more dovish stance on the further path of interest rates in the Eurozone.

Debt market: Domestic yield curve fell by an average of about 25 bps, while the IRS curve fell by about 19 bps. On the longer-dated FRA market, interest rate expectations also fell on similar scale. The strengthening of the domestic debt market is a reaction to more dovish rhetoric from major central banks, which may signal that they are beginning to approach the end of the rate hike cycle.

Main policy rates, %



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.6819	CZKPLN	0.1972
USDPLN	4.2971	HUFPLN*	1.2209
EURUSD	1.0887	RUBPLN	0.0611
CHFPLN	4.7220	NOKPLN	0.4311
GBPPLN	5.2827	DKKPLN	0.6322
USDCNY	6.7442	SEKPLN	0.4176

*for 100HUF

Last session in the FX market 02/02/2023

	min	max	open	close	fixing
EURPLN	4.6777	4.7104	4.7007	4.6815	4.7079
USDPLN	4.2635	4.3038	4.2654	4.2873	4.2803
EURUSD	1.0883	1.1021	1.1018	1.0915	-

Interest rate market 02/02/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.82	-21
DS0727 (5Y)	5.64	-29
DS0432 (10Y)	5.75	-26

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.89	-7	4.97	-1	3.21	-6
2L	6.20	-13	4.34	0	3.17	-14
3L	5.62	-16	3.89	-4	2.91	-16
4L	5.31	-18	3.65	-4	2.78	-18
5L	5.16	-20	3.54	-1	2.75	-15
8L	5.05	-21	3.39	-1	2.63	-22
10L	5.09	-21	3.37	-2	2.64	-21

WIBOR rates

Term	%	Change (bps)
O/N	6.74	12
T/N	6.71	11
SW	6.84	-1
2W	6.87	1
1M	6.90	4
3M	6.93	-2
6M	6.99	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.93	0
3x6	6.92	0
6x9	6.76	-7
9x12	6.31	-11
3x9	6.92	-3
6x12	6.73	-8

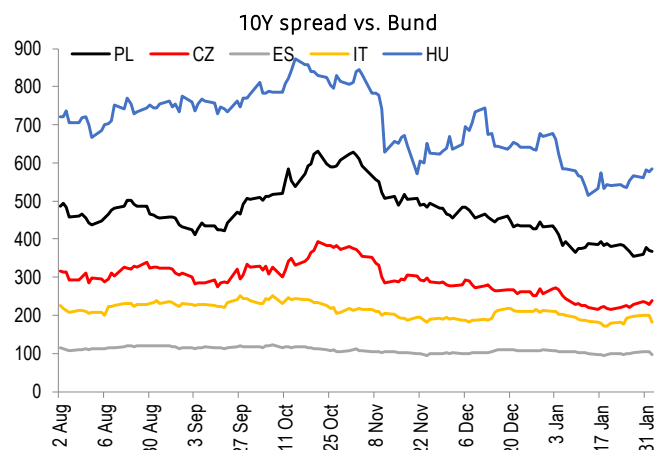
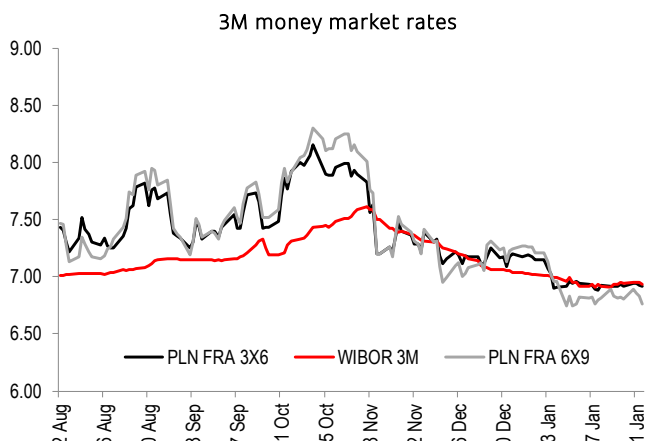
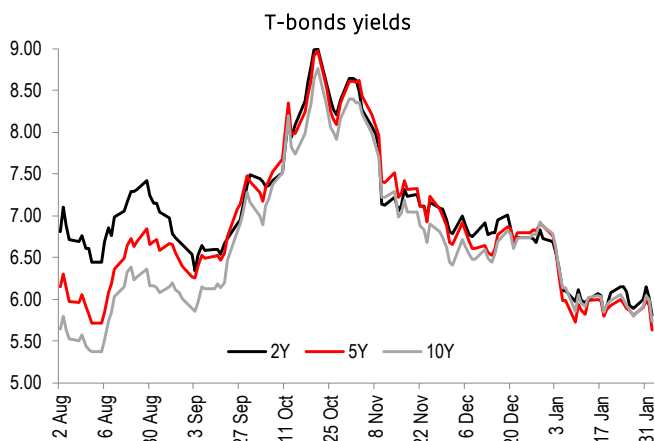
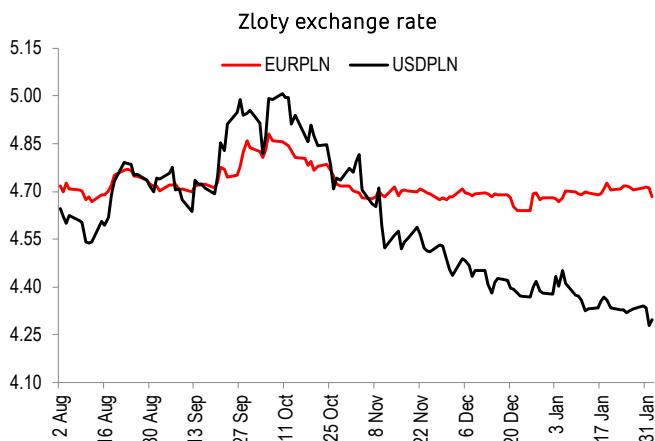
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	100	-7	368	-3
France	8	-3	45	-2
Hungary	169	-18	584	8
Spain	43	-3	97	-7
Italy	43	-2	182	-18
Portugal	28	-3	85	-8
Ireland	15	-2	42	-2
Germany	11	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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (27 January)								
14:30	US	Personal Spending	Dec	% m/m	-0.1	-	-0.2	0.1
14:30	US	Personal Income	Dec	% m/m	0.2	-	0.2	0.3
14:30	US	PCE Deflator SA	Dec	% m/m	-	-	0.1	0.1
16:00	US	Michigan index	Jan	pts	64.6	-	64.9	59,7
16:00	US	Pending Home Sales	Dec	% m/m	-1.0	-	2.5	-2.6
MONDAY (30 January)								
10:00	PL	GDP	2022	% y/y	4.8	4.8	4.9	6.8
10:00	DE	GDP WDA	4Q	% y/y	1.3	-	1.1	1.4
11:00	EZ	ESI	Jan	pct.	97	-	99.9	97.1
TUESDAY (31 January)								
08:00	DE	Retail Sales	Dec	% m/m	-0.2	-	-5,3	1.9
09:00	CZ	GDP SA	4Q	% y/y	0.2	-	0.4	1.5
11:00	EZ	GDP SA	4Q	% y/y	1.8	-	1.9	2.3
16:00	US	Consumer Conference Board	Jan	pts	109.4	-	107.1	109
WEDNESDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	-	46.0	47.5	45.6
09:55	DE	Germany Manufacturing PMI	Jan	pts	47.0	-	47.3	47.1
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	48.8	-	48.8	47.8
11:00	EZ	Flash HICP	Jan	% y/y	9.1	-	8.5	9.2
11:00	EZ	Unemployment Rate	Dec	%	6.5	-	6.6	6.6
14:15	US	ADP report	Jan	k	160	-	106	253
16:00	US	ISM manufacturing	Jan	pts	48.2	-	47.4	48.4
20:00	US	FOMC decision		%	4.75	-	4.75	4.5
THURSDAY (2 February)								
08:00	DE	Exports SA	Dec	% m/m	-3.0	-	-6.3	0.4
14:15	EZ	ECB Main Refinancing Rate		%	3.00	-	3.00	2.50
14:30	US	Durable Goods Orders	Dec	% m/m	2.5	-	5.6	5.6
14:30	US	Initial Jobless Claims	week	k	205.0	-	183	186.0
14:30	CZ	Central Bank Rate Decision			7.0	-	7.0	7.0
16:00	US	Factory Orders	Dec	% m/m	1,2	-	1.8	-1.9
FRIDAY (3 February)								
02:45	CN	Caixin China PMI Services	Jan	pts	51.0	-	52.9	48.0
09:55	DE	Markit Germany Services PMI	Jan	pts	50.4	-	-	49,2
10:00	EZ	Eurozone Services PMI	Jan	pts	50.7	-	-	49,8
14:30	US	Change in Nonfarm Payrolls	Jan	k	175,0	-	-	223
14:30	US	Unemployment Rate	Jan	%	3,6	-	-	3,5
16:00	US	ISM services	Jan	pts	50.5	-	-	49.2

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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