

Eyeopener

Złoty under pressure

Today MPC meeting, a vote in Sejm on key bill for tapping EU Recovery Funds
Further depreciation of the zloty
The whole Polish bond yield curve above 6%

Today MPC meeting. Interest rates are likely to remain unchanged for the fifth time in a row and the Council will remain in a wait-and-see mode, looking out for more reliable signals from the economy on growth and inflation trends. The information that emerged recently has been mixed. On the part of MPC members (not only the ones chosen by the Senate), there have been signals in recent weeks cooling somewhat market expectations of possible interest rate cuts this year. On the other hand, the recent Fed and ECB conferences, interpreted by the markets as less hawkish, plus Prime Minister Morawiecki's statement, on rate cuts being quite likely in 2023, pushed the market towards pricing in a renewed higher chance of a start of monetary easing before the end of this year. In our view, the NBP president will continue to avoid declaring the end of the monetary tightening phase, stressing that future MPC decisions will depend on incoming data and information.

A **Sejm vote on Senate's amendment to Supreme Court bill** is probable today. The bill is crucial for unblocking the Recovery Funds. Meanwhile, EU Commissioner for Justice Didier Reynders said that Poland has to fulfil milestones on the judiciary before any disbursement of the funds can take place.

The **KNF** (Financial Supervision Authority) has recommended that for fixed-rate mortgages, banks should assume a 2.5 percentage point increase in the interest rate during the creditworthiness assessment process. Until now, the KNF recommended that a buffer of 5pp be applied. This change means an increase in the attractiveness of fixed-rate loans and a potential boost to demand.

NBP's official reserve assets amounted to €154.4bn at the end of January, compared to €156.5bn a month earlier. Their level corresponds to 4.6 times the value of Poland's average monthly imports and this indicator continues to decline - at the beginning of 2022 it exceeded 5 and at the beginning of 2021 it exceeded 6. In international comparisons it is assumed that an indicator below 3 means the risk of a currency crisis, but this threshold rather applies to countries much less developed than Poland.

The **Polish railways** (PKP) will reduce ticket prices since March 1, by around 11% for the lower-budget connections (TLK and IC) and by around 15% for premium EIC and EIP trains. This follows the jump in ticket prices introduced on January 11 and implies that the prices will pretty much return to the level before their increase. The impact on the CPI is negligible.

The **ECB** has announced that it will reduce the maximum interest rate on government deposits in central bank accounts to motivate governments to redirect these funds to the financial markets. **ECB's Joachim Nagel** said yesterday that the Eurozone needs more strong interest rate rises to bring inflation down to 2%. However, the high level of uncertainty argues for gradual action.

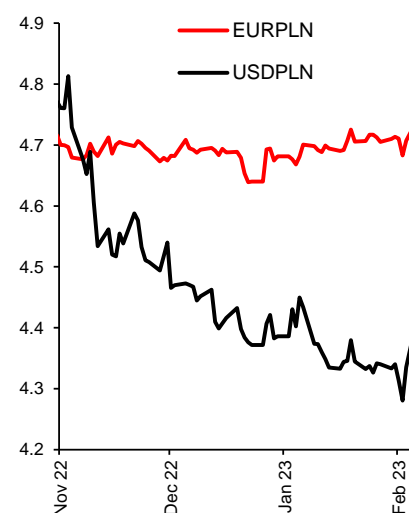
EURUSD fluctuated in a wide band around the level of 1.07. During the European session, the rate tried to descend towards 1.06, but by the end of the US session it returned above 1.07. This was helped by a statement by Fed chairman Jerome Powell, who, while admitting that he did not expect such strong readings from the US labour market, denied that this reading automatically means that interest rates will have to rise higher than previously planned. However, he admitted that the latest data justifies the adopted strategy of maintaining a restrictive monetary policy for an extended period of time, as it may take "quite a bit of time" to bring inflation down to target.

EURPLN rose to 4.75 from below 4.74, and during the day it even tried to exceed 4.77. The zloty was hurt by weak industrial data from Germany and the strengthening of the dollar on global markets. Support for the zloty at the end of the day came only from the Fed, which tried to tone down a bit the expectations for significantly higher interest rates in the US, which had been growing since Friday.

Other CEE currencies: EURHUF fell from nearer 392 to closer to 391. A strong industrial production reading at the start of the day did not prove supportive for the Hungarian currency, which weakened as much as 396 by the end of the European session. Only the reassuring statement by the Fed chairman helped strengthen the forint. The Czech koruna was also a beneficiary of this statement. EURCZK fell to 23.77 from around 23.86.

Debt market: Domestic yield curve rose by an average of about 26 bps. The entire width of the curve including the middle part of the curve exceeded the 6% level. Expectations for higher interest rates in the long-dated domestic FRA market also grew. Statements by Fed members reinforced debt markets' belief that inflation may be more persistent than the market had previously expected. They are now beginning to tilt from the scenario of a rapid decline of inflation under conditions of soft landing to the variant of more persistent inflation and higher interest rates, resulting in an increase in the degree of negative slope of the yield curve.

Zloty exchange rate vs main currencies



Source: Refinitiv, Santander

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FX market

Today's opening

EURPLN	4.7410	CZKPLN	0.1993
USDPLN	4.4157	HUFPLN*	1.2170
EURUSD	1.0734	RUBPLN	0.0616
CHFPLN	4.7921	NOKPLN	0.4287
GBPPLN	5.3230	DKKPLN	0.6370
USDCNY	6.7847	SEKPLN	0.4188

*for 100HUF

Last session in the FX market 07/02/2023

	min	max	open	close	fixing
EURPLN	4.7382	4.7744	4.7424	4.7559	4.7476
USDPLN	4.4123	4.4738	4.4158	4.4426	4.4325
EURUSD	1.0665	1.0743	1.0738	1.0702	-

Interest rate market 07/02/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.25	28
DS0727 (5Y)	6.06	23
DS0432 (10Y)	6.13	25

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.97	3	5.26	-1	3.33	4
2L	6.37	9	4.71	-1	3.30	2
3L	5.85	11	4.28	0	3.12	2
4L	5.64	16	4.03	-1	3.02	3
5L	5.53	18	3.89	0	2.97	3
8L	5.43	20	3.69	1	2.89	3
10L	5.47	19	3.65	3	2.90	2

WIBOR rates

Term	%	Change (bps)
O/N	6.58	-4
T/N	6.66	-2
SW	6.82	-1
2W	6.83	-2
1M	6.88	1
3M	6.92	1
6M	6.99	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.93	0
3x6	6.96	1
6x9	6.85	1
9x12	6.47	8
3x9	6.99	2
6x12	6.87	4

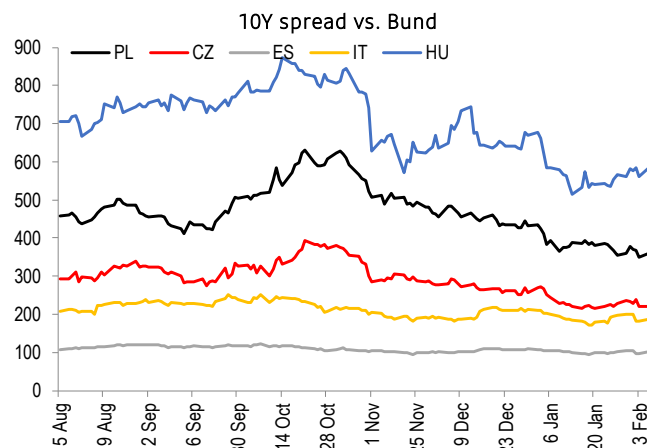
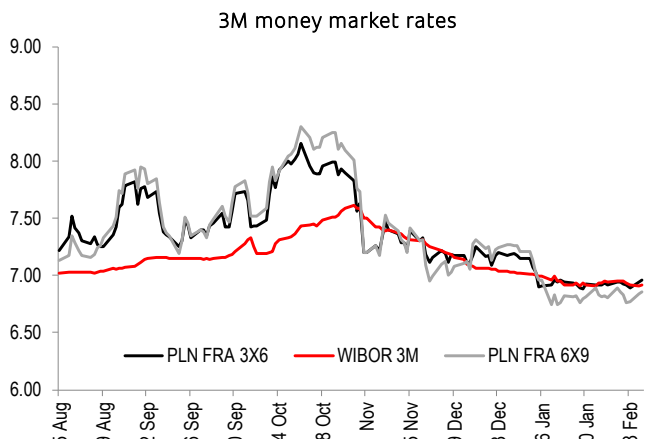
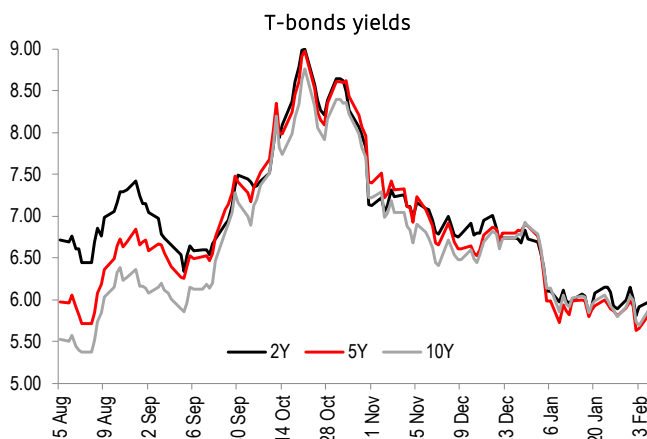
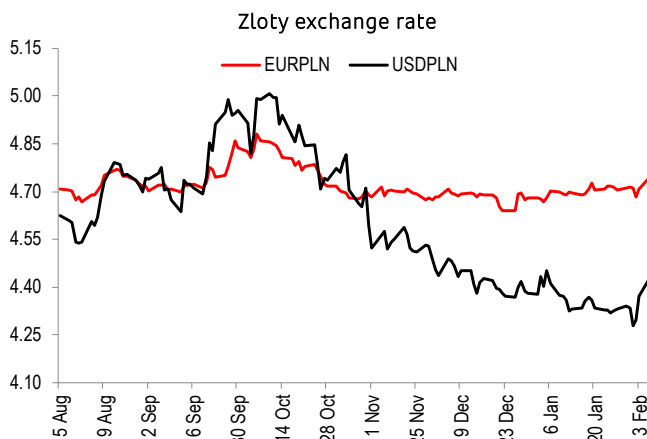
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	98	-2	382	23
France	10	0	45	0
Hungary	165	0	583	-2
Spain	45	0	102	1
Italy	45	0	188	1
Portugal	30	0	87	1
Ireland	18	0	45	1
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 (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	-	50.7	49.2
10:00	EZ	Eurozone Services PMI	Jan	pts	50.7	-	50.8	49.8
14:30	US	Change in Nonfarm Payrolls	Jan	k	185	-	517	260
14:30	US	Unemployment Rate	Jan	%	3.6	-	3.4	3.5
16:00	US	ISM services	Jan	pts	50.5	-	-	49.2
MONDAY (6 February)								
08:00	DE	Factory Orders	Dec	% m/m	2.0	-	3.2	-4.4
09:00	CZ	Industrial Production	Dec	% y/y	3.3	-	4.0	0.5
11:00	EZ	Retail Sales	Dec	% m/m	-2.5	-	-2.7	0.8
TUESDAY (7 February)								
08:00	DE	Industrial Production SA	Dec	% m/m	-0.8	-	-3.1	0.4
08:30	HU	Industrial Production SA	Dec	% y/y	-0.5	-	5.7	0.9
WEDNESDAY (8 February)								
	PL	MPC decision		%	6.75	6.75	-	6.75
THURSDAY (9 February)								
08:00	DE	HICP inflation	Jan	% m/m	1.4	-	-	-1.2
14:30	US	Initial Jobless Claims		k	195	-	-	183
15:00	PL	NBP head press conference						
FRIDAY (10 February)								
08:30	HU	CPI	Jan	% y/y	25.1	-	-	24.5
09:00	CZ	CPI	Jan	% y/y	17.1	-	-	15.8
16:00	US	Michigan index	Feb	pts	65.0	-	-	64.9

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

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