

8 March 2023

## Eyeopener

### Fed chairman does not drop hawkish tone

Today MPC decision and first numbers from new NBP projection  
Jerome Powell on higher-than-signalled rate target  
Zloty and Polish bonds resistant to Fed chairman's hawkish message

**Today**, the MPC decides on rates and there is little doubt in the market that it will be a 'no change' decision. However, during this meeting, MPC members will get to know the results of the new NBP projections, which were described earlier as 'exceptionally important' - what they show may determine, among other things, whether the MPC decides to formally end the interest rate hike cycle already now. For this to happen, the projection would have to show a clearly improved outlook for disinflation and a return to target sooner than at the end of 2025 as the previous one showed. It is unfortunate that the MPC, when deciding, will not know February inflation or the impact of the change in weights in the CPI basket on the level of January inflation. The outlook for domestic economic growth has improved rather than deteriorated since November, and recent incoming data from around the world clearly indicate greater resilience of the economy and greater persistence of inflation abroad. We therefore have considerable doubts that the results of the NBP's March projection will be able to strongly justify a formal end to the rate hike cycle, and we do not expect such a decision now.

**Fed chairman Jerome Powell**, in a testimony before the US Senate Banking Committee, said that bringing inflation down to the 2% target would require further rate rises. Their target level will be higher than previously signalled and, once reached, will be sustained for "some time" to ensure an appropriate degree of monetary policy tightness. This will continue until the Fed considers that it has succeeded in permanently reversing the trend of rising inflation. He stressed that the fight against inflation could be a long one, as history knows many examples of monetary policy easing too quickly, allowing it to resurface again. In the Fed's view, what stands in the way of beating inflation is a severely heated labour market, resulting in high inflation in key service sectors except real estate. In this area, too little evidence of a sustained weakening of inflationary pressures has been noted so far.

**EURUSD** dropped below 1.06 from levels close to 1.07. The dollar strengthened after hawkish announcements by Fed chief Jerome Powell, who did not rule out a renewed increase in the pace of US rate hikes, and signalled that the terminal rate would be higher than the institution had previously expected.

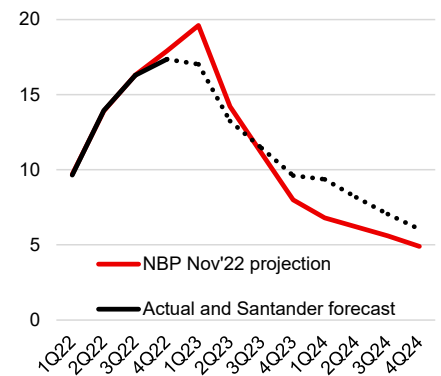
**EURPLN** remained below the 4.69 level for most of the day. China's weaker-than-expected international trade data released in the morning effectively halted attempts to further strengthen the zloty. A hawkish speech by the Fed president and the subsequent strengthening of the dollar on global markets further increased the upside pressure on the exchange rate.

**EURCZK** rose to 23.58 from around 23.54. Newly appointed CNB Board Member Jan Kubicek said that the current level of interest rates is sufficient to dampen inflation as long as wages do not start to rise sharply and the koruna does not start to weaken sharply. Facing a choice between raising rates higher in order to then lower them or keeping the current level of rates unchanged, he strongly opts for the latter.

**EURHUF** rose to 378 from 376. The forint was hurt by noticeably weaker industrial production data and a hawkish Fed. Today's February inflation reading from Hungary showed a slight decline against January (25.4% y/y vs. 25.7%) - too small to stimulate exchange rate volatility.

**Debt market:** Domestic bond curve fell by around 8 bp on average. In the FRA market, expectations for the interest rate level on longer tenors also fell. In the core markets, terminal rate expectations rose. For the euro area, it is already 4% and for the US, levels in the range of 5.50 - 5.75%. This has not translated, as of yet, into more significant increases in the German and US yield curves.

CPI inflation in Poland, % y/y



Source: NBP, GUS, Santander

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### FX market

#### Today's opening

EURPLN	4,6870	CZKPLN	0,1985
USDPLN	4,4456	HUFPLN*	1,2389
EURUSD	1,0544	RUBPLN	0,0581
CHFPLN	4,7136	NOKPLN	0,4151
GBPPLN	5,2530	DKKPLN	0,6295
USDCNY	6,9660	SEKPLN	0,4138

\*for 100HUF

#### Last session in the FX market 07.03.2023

	min	max	open	close	fixing
EURPLN	4,6797	4,6919	4,6813	4,6879	4,6871
USDPLN	4,3792	4,4387	4,3810	4,4351	4,3981
EURUSD	1,0568	1,0694	1,0683	1,0572	-

### Interest rate market 07.03.2023

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6,23	-17
DS0727 (5Y)	6,33	-9
DS0432 (10Y)	6,35	-8

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,04	-4	5,71	14	3,85	7
2L	6,56	-9	5,31	12	3,90	1
3L	6,14	-8	4,87	11	3,69	-1
4L	5,93	-9	4,58	9	3,54	-3
5L	5,85	-8	4,36	4	3,43	-4
8L	5,76	-9	4,05	0	3,28	-5
10L	5,78	-8	3,96	0	3,24	-5

#### WIBOR rates

Term	%	Change (bps)
O/N	6,55	-1
T/N	6,71	1
SW	6,83	0
2W	6,85	1
1M	6,90	2
3M	6,94	0
6M	7,00	0
1Y	7,10	0

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

Term	%	Change (bps)
1x4	6,98	3
3x6	6,98	-2
6x9	6,93	-7
9x12	6,60	-10
3x9	7,01	-2
6x12	6,96	-5

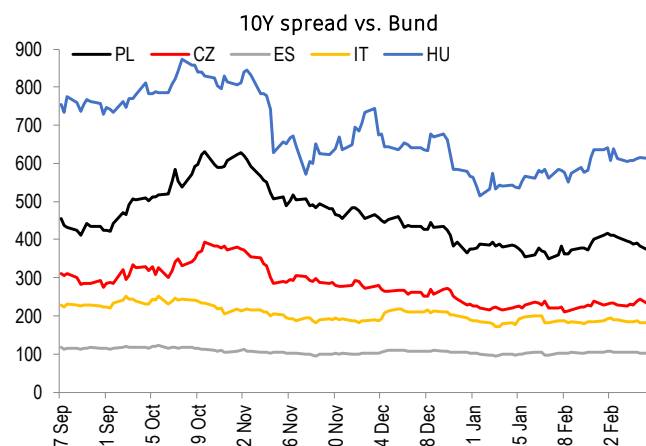
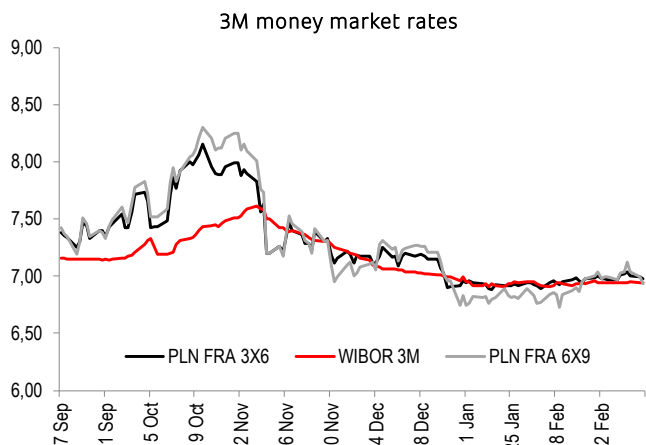
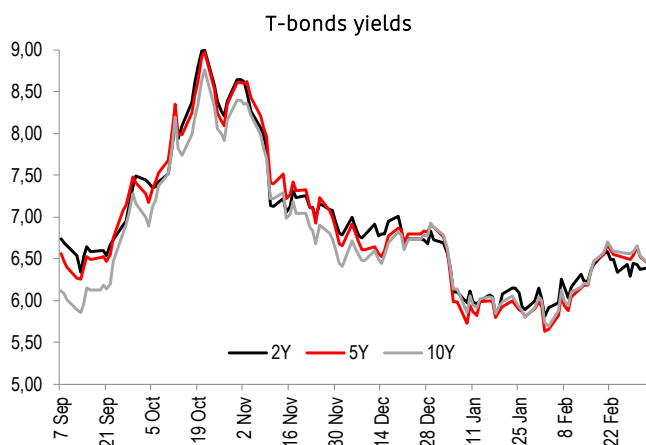
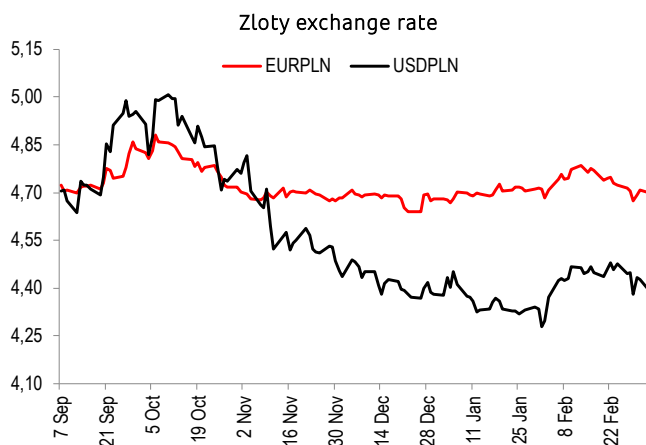
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	0	365	-5
France	10	0	50	0
Hungary	150	0	602	-12
Spain	43	0	103	1
Italy	38	0	184	2
Portugal	28	0	89	0
Ireland	17	0	50	-3
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			
<b>FRIDAY (3 March)</b>								
02:45	CN	Caixin China PMI Services	Feb	pts	54.5	-	55.0	52.9
08:00	DE	Exports SA	Jan	% m/m	1.5	-	2.1	-5.9
09:00	CZ	GDP SA	4Q	% y/y	0.4	-	0.2	1.5
09:55	DE	Markit Germany Services PMI	Feb	pts	51.3	-	50.9	50.7
10:00	EZ	Eurozone Services PMI	Feb	pts	53.0	-	52.7	50.8
16:00	US	ISM services	Feb	pts	54.5	-	55.1	55.2
<b>MONDAY (6 March)</b>								
11:00	EZ	Retail Sales	Jan	% m/m	0.8	-	0.3	-1.7
16:00	US	Durable Goods Orders	Jan	% m/m	-4.5	-	-4.5	5.1
16:00	US	Factory Orders	Jan	% m/m	-1.8	-	-1.6	1.7
<b>TUESDAY (7 March)</b>								
08:00	DE	Factory Orders	Jan	% m/m	-0.7	-	1.0	3.2
08:30	HU	Industrial Production SA	Jan	% y/y	4.3	-	-0.2	5.7
<b>WEDNESDAY (8 March)</b>								
	PL	MPC decision		%	6.75	6.75	-	6.75
08:00	DE	Industrial Production SA	Jan	% m/m	1.5	-	3.5	-2.4
08:00	DE	Retail Sales	Jan	% m/m	2.2	-	-0.3	-4.9
08:30	HU	CPI	Feb	% y/y	25.4	-	25.4	25.7
11:00	EZ	GDP SA	4Q	% y/y	1.9	-	-	2.4
14:15	US	ADP report	Feb	k	200.0	-	-	106.0
<b>THURSDAY (9 March)</b>								
14:30	US	Initial Jobless Claims		k	200.0	-	-	190.0
15:00	PL	NBP President Adam Glapiński's press conference						
<b>FRIDAY (10 March)</b>								
08:00	DE	HICP	Feb	% m/m	1.0	-	-	0.5
09:00	CZ	Industrial Production	Jan	% y/y	3.4	-	-	1.3
09:00	CZ	CPI	Feb	% y/y	16.6	-	-	17.5
14:30	US	Change in Nonfarm Payrolls	Feb	k	200.0	-	-	517.0
14:30	US	Unemployment Rate	Feb	%	3.4	-	-	3.4

Source: Santander Bank Polska. Bloomberg. Parkiet

\* in the case of a revision the data is updated

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