

23 March 2023

Eyeopener

Dovish rate hike in the USA

Today Polish Statistical Bulletin and aggregate financial results of companies in 4Q
FOMC lifts rates but signals that the end of rate hikes is near
Polish Consumer and business sentiment a bit better, money supply acceleration
Złoty somewhat weaker, domestic bond yields marginally higher

Today in Poland we will get GUS Statistical Bulletin and 4Q corporate earnings data. In the US, the number of new jobless claims and data from the real estate market. Swiss and British central banks make decisions on interest rates (upward moves of 50 and 25bp are expected, respectively).

The **Fed raised rates by 25bp**, the range for the federal funds rate is now 4.75 – 5.00%. The FOMC removed the phrase "ongoing increases in the target range" from its statement in favour of signalling its imminent end, through only "some additional policy firming". The median forecast of future rates among FOMC members indicates that there will be one more 25bp hike in 2023 (middle of the range at 5.1%), rates are expected to be at 4.3% in 2024 (4.1% previously) and at 3.1% in 2025 (unchanged). FOMC forecasts show there was no pivot in views. However, they also show that the market expectations about rate hikes were too high and a downward correction was warranted, although not going as far as signalling cuts already in 2023. The Fed continues to view fighting inflation as crucial, but currently assumes that the recent turbulence in the US banking market will lead to a marked tightening of credit conditions for customers. This will act as a substitute for further rate increases.

ECB's Christine Lagarde reaffirmed readiness to fight inflation despite the risks in the financial markets. According to her, the objective of bringing inflation back to 2% in the medium term is firm and the ECB will achieve it using a data-dependent strategy. She added that for the time being there is no downward trend in core inflation and the ECB also has plenty of tools to support liquidity in the financial system.

MPC's Przemysław Litwiniuk considered a fall in inflation this year to 8% as possible, but sees chances of CPI dropping to 3.5% in 2025 as low. He added that the NBP rate should be at 7.00%, and he does not see room for rate cuts before 2025.

Consumer optimism improved slightly in March, driven by a better assessment of the future economic situation and their own financial situation, as well as greater optimism about unemployment and the conditions for saving money. In our view, the improvement in consumer mood in recent months will have a positive impact on consumption in the coming quarters. However, pressure on consumer income will limit the potential for a rebound.

All **sectoral indicators of economic sentiment** went up in March, with the exception of transportation, flat at highest level in more than a year. As in February, the vast majority of sectors signalled a deterioration in the current situation but a marked improvement in expectations. This pattern is in line with our forecast for economic activity in Poland, with a bottom in 1Q and a rebound after that.

M3 money supply growth accelerated in February to 7.4% y/y from 6.9% y/y in January, against our forecast of 6.4% y/y. Deposit growth went to 9.2% y/y from 7.4% y/y in January, while the volume of cash in circulation fell 1.7% y/y and was lower than a year earlier for the first time since 2010. The increase in M3 supply was again mainly behind an increase in the banking sector's foreign assets, which were 23.4% higher y/y in February, compared to 20.5% y/y in January. No improvement in loans - they slowed to 0.3% y/y from 0.8% y/y in January (corrected for exchange rate effects). Loans to individuals declined 4.7% y/y after falling 4.3% y/y in January, of which PLN mortgages were 3.1% lower than a year earlier (vs. -2.4% in January). Business loans slowed to 7.9% y/y from 9.4% y/y. In our view, credit demand may soon begin to recover, but rather slowly.

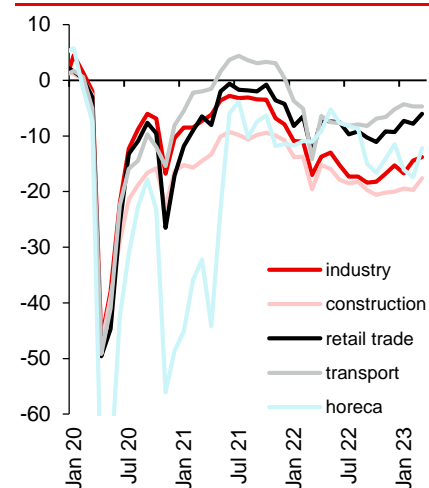
EURUSD rose from levels just above 1.075 to about 1.085. The Fed's signalled willingness to end the rate hike cycle soon against the backdrop of the still hawkish ECB, which is far from such suggestions, negatively affected the value of the dollar.

EURPLN rose from around 4.67 to about 4.685. The weakening of the zloty is the aftermath of an increase in the M3 money supply and growing recessionary fears in mainstream markets following the Fed's conference, which expects the economy to decelerate faster as a result of anticipated credit weakness in the US.

Other CEE currencies: **EURCZK** fell from 23.78 to 23.71. CNB member Eva Zamrazilova rules out rate cuts before inflation falls to single-digit levels. **EURHUF** fell to 387 from 388.5. The strengthening of the forint and Czech koruna is a result of the further normalisation of market sentiment that has been taking place since the beginning of the week after the fate of Credit Suisse became clear.

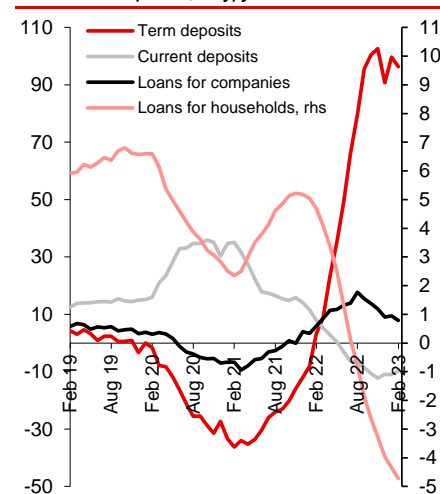
Debt market: Domestic yield curve continued its gradual rise across the board approaching 6%. The German yield curve continued to rise thanks to the ECB's hawkish stance. In contrast, the US curve fell by an average of about 20 bps following the Fed's dovish rhetoric.

Sectoral business climate indicators, pts, SA



Source: GUS, Santander

Loans and deposits, % y/y



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: 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	4.6830	CZKPLN	0.1976
USDPLN	4.2902	HUFPLN*	1.2137
EURUSD	1.0916	RUBPLN	0.0557
CHFPLN	4.6861	NOKPLN	0.4136
GBPPLN	5.2860	DKKPLN	0.6287
USDCNY	6.8190	SEKPLN	0.4191

*for 100HUF

Last session in the FX market 22.03.2023

	min	max	open	close	fixing
EURPLN	4.6807	4.6932	4.6816	4.6860	4.6888
USDPLN	4.3369	4.3601	4.3454	4.3408	4.3467
EURUSD	1.0757	1.0800	1.0771	1.0797	-

Interest rate market 22.03.2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.99	11
DS0727 (5Y)	5.95	4
DS0432 (10Y)	6.01	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	6.78	4.89	3.37
2L	6.18	4.25	3.28
3L	5.66	4.07	3.24
4L	5.46	3.81	3.16
5L	5.37	3.58	2.99
8L	5.30	3.48	3.01
10L	5.33	3.43	3.00

WIBOR rates

Term	%	Change (bps)
O/N	6.46	-8
T/N	6.70	1
SW	6.83	1
2W	6.84	0
1M	6.85	-1
3M	6.90	0
6M	6.95	-1
1Y	7.06	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.89	2
3x6	6.76	1
6x9	6.60	11
9x12	6.15	9
3x9	6.79	2
6x12	6.57	10

Measures of fiscal risk

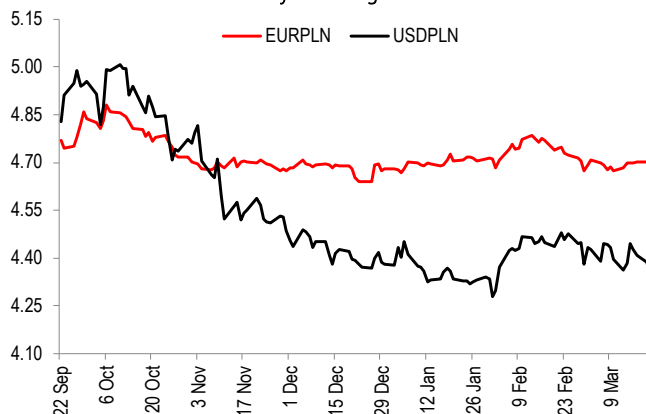
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	104	368
France	14	52
Hungary	169	638
Spain	51	104
Italy	50	185
Portugal	36	88
Ireland	22	44
Germany	11	-

* 10Y treasury bonds over 10Y Bunds

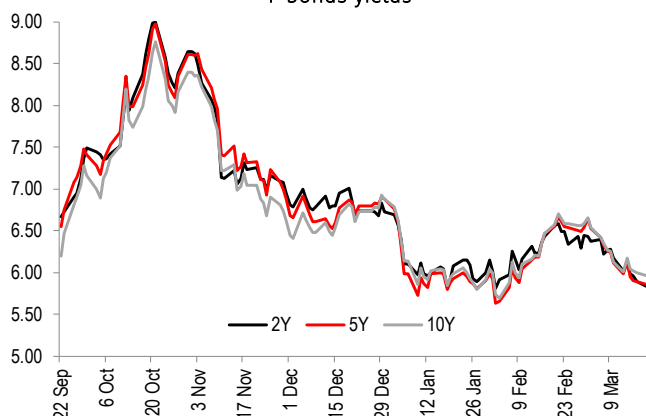
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

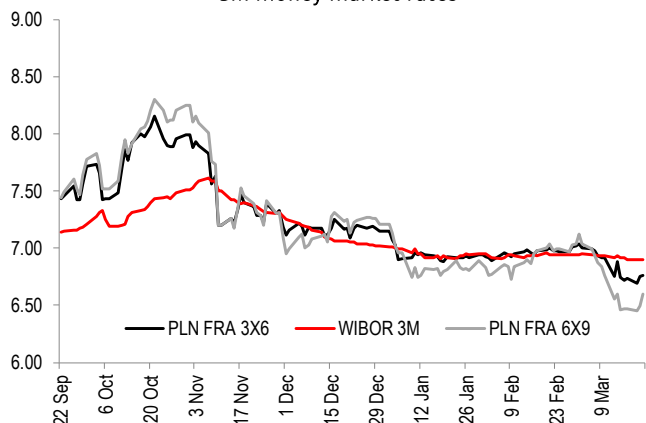
Zloty exchange rate



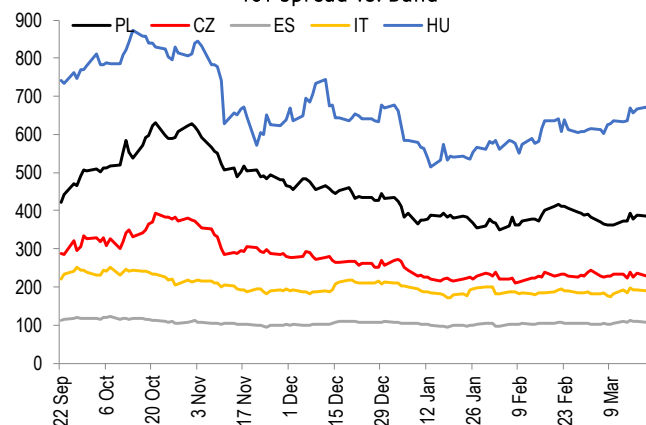
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (17 March)								
11:00	EZ	HICP	Dec.23	% y/y	8.5	-	8.5	8.5
14:15	US	Industrial Production	Dec.23	% m/m	0.2	-	0.0	0.03
15:00	US	Michigan index	Jan.23	pts	67.0	-	63.4	67.0
MONDAY (20 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	1.0	0.9	0.8	1.1
10:00	PL	Sold Industrial Output	Feb	% y/y	1.1	1.4	-1.2	1.8
10:00	PL	PPI	Feb	% y/y	17.7	17.7	18.4	20.1
10:00	PL	Average Gross Wages	Feb	% y/y	11.9	12.0	13.6	13.5
TUESDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	1.0	0.7	6.6	2.4
10:00	PL	Retail Sales Real	Feb	% y/y	-1.5	-1.2	-5.0	-0.3
11:00	DE	ZEW Survey Current Situation	Mar	pts	-45.0	-	-46.5	-45.1
15:00	US	Existing Home Sales	Feb	% m/m	4.8	-	14.5	-0.7
WEDNESDAY (22 March)								
14:00	PL	Money Supply M3	Feb	% y/y	6.5	6.4	7.4	6.9
19:00	US	FOMC decision (lower bound of range)			4.75	-	4.75	4.50
THURSDAY (23 March)								
10:00	PL	Unemployment Rate	Feb	%	5.5	5.5	-	5.5
13:30	US	Initial Jobless Claims	week	k		-	-	192
15:00	US	New Home Sales	Feb	% m/m	-3.0	-	-	7.2
FRIDAY (24 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	47.0	-	-	46.3
09:30	DE	Markit Germany Services PMI	Mar	pts	51.0	-	-	50.9
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.0	-	-	48.5
10:00	EZ	Eurozone Services PMI	Mar	pts	52.5	-	-	52.7
13:30	US	Durable Goods Orders	Feb	% m/m	1.5	-	-	-4.5
	PL	Rating review by Moody's				A2/stable		A2/stable

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.