

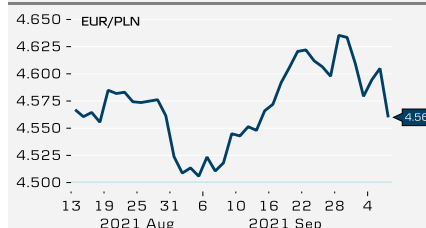
# Flash comment

## A surprisingly large Polish rate hike

- The Polish central bank surprised us and other analysts by hiking rates (main rate from 0.1% to 0.4% and Lombard rate from 0.5% to 1%) and also raised remuneration of reserve requirements from 0.5% to 2%. The size of the rate hike was surprisingly large.
- The monetary policy statement indicated that the central bank sees inflation more persistent warranting the policy adjustment, but they kept dovish language on the need for FX interventions. We are not convinced that the central bank has turned sufficiently hawkish.
- Hence, we are sceptical that the move will initiate a permanent move lower in EUR/PLN also as external headwinds from a slowing global manufacturing sector and stronger USD will weigh on the currency. However, near-term we may see a bit more Zloty strength.

**The central bank today decided to raise its interest rate amid excessively high inflation.** They both raised the Lombard rate and the benchmark rate as well as the rate on reserve requirements. Today's move was not expected by market analysts (or us) as most of the committee members had stressed that they wanted to await the new macro projections in November. The rate hike was also surprising given that central bank had said that Poland should be more or less out of the COVID-19 crisis before hiking rates—in recent weeks, the country had seen rising COVID-19 infections.

### Zloty strengthened on the back of the decision

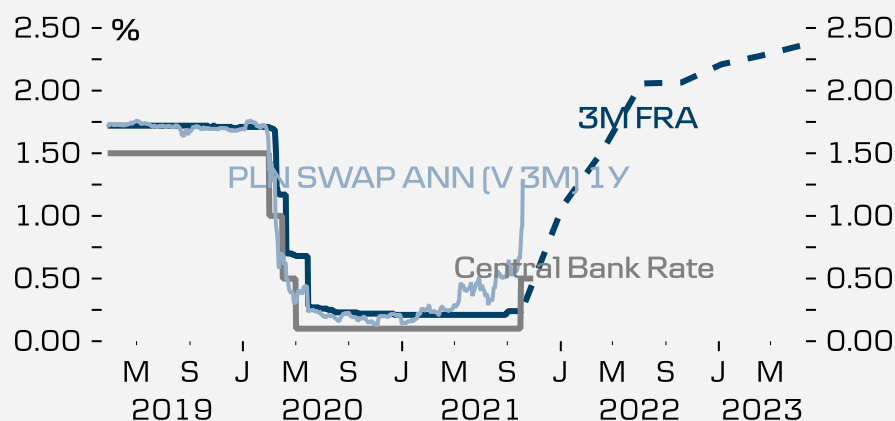


Note: Past or current performance is no guarantee of future performance.

Source: Bloomberg, Macrobond Financials and Danske Bank

### Markets are pricing a full normalisation of the interest rates

#### Market pricing of NBP rate changes



Note: Past or current performance is no guarantee of future performance.

Source: Bloomberg, Macrobond Financials and Danske Bank

#### Chief Analyst

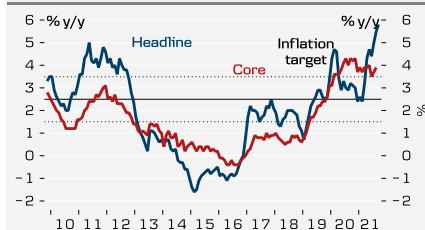
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However we think that the combination of the energy price shock (which had in recent days been exacerbated by the higher oil prices) together with other central banks hiking in the region put the NBP under significant pressures to react, also to avoid a further weakening of the currency and de-anchoring of inflation expectations.

**Despite the rate hike, the policy rate is still highly negative in real terms given the high inflation rate.** Hence, it will be very important whether the central bank stands ready to hike rates even more at the coming meetings if inflation continues to overshoot targets. The statement today suggested indeed that the central bank is growing more concerned that inflation is persistent. However, they left in dovish wording on the need on FX interventions that had been used to keep the exchange rate weak and support economic growth. We will be analysing the views from the central bank at the press conference tomorrow and at the meeting in November, but we remain doubtful that the central bank will be able to live up to significant market expectations over the coming year (see below).

**We are sceptical that today's hike will initiate a more forceful move lower in EUR/PLN.** This is in part because we think that the central bank will not be substantially more hawkish partly as they still see the inflation problem as outside the remit of the central banks policy. Secondly, a lot is already priced in with market pricing expecting the central bank rate to reach 2% (or full normalisation) over the next year. This may be challenging as the slowing global manufacturing cycle may dampen Polish growth, which the MPC pays a lot of attention to as well. In addition, we expect the USD to strengthen (and EUR/USD to fall further) which is typically a headwind for the Zloty. Hence, we maintain our modestly positive view on the Zloty with possible more strength near-term.

### Excessively high inflation



Source: Macrobond Financials and Danske Bank

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