13 September 2021

# Eyeopener

## Another inflation surprise in CEE region

Market trading without clear direction on Friday
EURPLN quite stable at elevated level
FRA and IRS stable after Thursday's correction of rate hike expectations
Today, Polish balance of payments data

On Friday the main equity indices remained indecisive as regards where to go. The same happened with EURUSD. It seems that the Thursday's ECB message was not clear enough to set new trading directions. Core debt markets were a bit more interesting, but mostly due to the fact that they were busy retreating from their post-ECB reaction (10Y UST went up 3bp to Thursday pre-noon level, 10Y Bund by 2by, i.e. 2/3 of the decline on Thursday). Oil price also made up for its Thursday decline and returned to USD73 per barrel.

**The NBP president Adam Glapiński** said in the interview for Polish Radio 1 that the NBP is not disregarding high inflation, but the latter is generated mainly by external factors and factors that are outside the scope of monetary policy. According to Glapiński there is no reason to hike interest rates right now, but such a decision will be taken in the future. November and March can be focal points, as new NBP forecasts will be available in these months. Interestingly, one of Glapiński's arguments not to hike rates is the forecast that inflation will decline in 2022 "to slightly above 3.5%", while he refuses to suggest any time frame for the return to 2.5% inflation target. This is clearly showing the NBP president's flexibility in his approach to the NBP targeting regime.

**GUS report on labour demand** in 2Q21 showed a major improvement in the number of newly created jobs – it was just 0.7% lower than the 2Q19 value, while in 1Q21, despite the already visible rebound, job creation was still some 27% lower than two years earlier. The total number of vacancies (the unfilled freshly created ones and the ones passed from previous periods) is already at the 2019 level. The job destruction remained at historically very low levels (in 2Q21 they were lower by 28.6% than in 2Q19). Companies signalled that 15% of jobs liquidations (around 9k) had to do with the pandemic (in the previous quarter the number was almost 17k). Net job creation (the difference between job creation and job destruction in the quarter) was +87.3k, more than in the same period of 2019. 6.8% of employees were doing remote work due to the pandemic compared to 10.2% a year earlier.

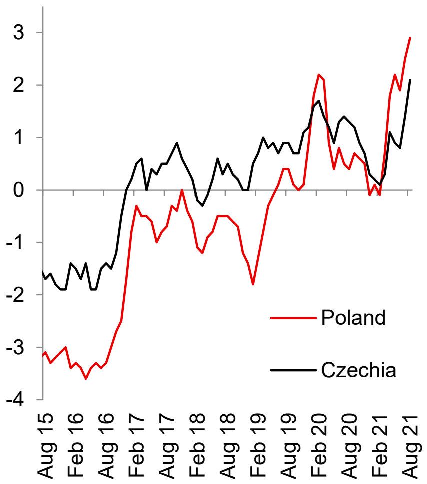
**EURUSD**, after a failed attempt to drop below 1.18 on Thursday after the ECB press conference, on Friday tried to push higher, but the move was reversed before the exchange rate managed to reach 1.185. During the weekend there was another change of direction and this week is starting below 1.179.

**EURPLN** stabilised near 4.545 – a level to which it was sent by the NBP governor's dovish rhetoric focused on lowering the market's conviction that rates would be lifted in November. We expect EURPLN to rise even more and re-enter the recent 4.57-4.60 range. These factors can support the move: upcoming data on C/A (turning worse in our view), high inflation seeing (so far) no response of the NBP, a growing wave of Covid-19 and the dollar appreciation. In the background there is risk of further negative news about rule of law argument between Poland and the EU and the military exercises Zapad-21 until 16 September.

As regards **other CEE currencies**, the surprisingly high inflation in Czechia (4.1% y/y; highest in 2008 and 0.5pp above expectations) caused a strong appreciation of the koruna to 25.32 against the euro. The Czech currency was at this level last time in June 2021 and in early 2020. This was also a good day for the forint – EURHUF declined to 350 (Thursday opening level) despite comment of EU Commissioner for Economy Paolo Gentiloni, who said that progress in securing the rule of law is necessary to accept recovery plans of Hungary and Poland and the European Commission is legally bound to conduct such actions. USDRUB ended the day close to 73, almost unchanged, while it was jumping around 72.8 for the entire day. The Russian central bank raised rates by 25bp and announced its readiness to raise rates further should inflation go up in line with bank's forecasts (it is expected to decline in 4Q21). At the same time, it was stressed that the risk is skewed upwards, labour market pressures are mounting and inflation expectations are set high. The bank's head Elvira Nabiullina said that even inflation driven by temporary factors should be fought against.

**On the domestic interest rate market**, bond yield curve moved up 1-2bp. The move at the long end or IRS curve was stronger (c.4bp) while 2Y segment remained at 0.92%. FRA rates were stable after Thursday's downward correction. Possible comments of MPC members in the nearest days will probably have little impact, as the hawkish policymakers are clearly in minority. On Wednesday the NBP will hold bond purchase auction and one day later the FinMin will hold bond switching auction. We think that bond yields at the short end of the curve will remain stable this week, while at the long end they may go up a bit further.

**Deviation of CPI inflation from the central bank target, percentage points**




*Source: Bloomberg, Santander*

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FX market

Today's opening

| | | | |
|---|---|---|---|
| EURPLN | 4.5438 | CZKPLN | 0.1789 |
| USDPLN | 3.8566 | HUFPLN* | 1.2866 |
| EURUSD | 1.1783 | RUBPLN | 0.0528 |
| CHFPLN | 4.1915 | NOKPLN | 0.4443 |
| GBPPLN | 5.3256 | DKKPLN | 0.6109 |
| USDCNY | 6.4547 | SEKPLN | 0.4454 |

*for 100HUF

Last session in the FX market 10/09/2021

| | min | max | open | close | fixing |
|---|---|---|---|---|---|
| EURPLN | 4.535 | 4.551 | 4.546 | 4.539 | 4.550 |
| USDPLN | 3.834 | 3.847 | 3.842 | 3.840 | 3.840 |
| EURUSD | 1.182 | 1.185 | 1.183 | 1.182 | - |

Interest rate market 10/09/2021

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|---|---|---|
| DS1023 (2Y) | 0.56 | 1 |
| DS0726 (5Y) | 1.30 | 2 |
| DS0432 (10Y) | 1.98 | 1 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|---|---|---|---|---|---|---|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 0.53 | 0 | 0.16 | 0 | -0.53 | 0 |
| 2L | 0.93 | 0 | 0.31 | 1 | -0.46 | 1 |
| 3L | 1.25 | 1 | 0.55 | 2 | -0.41 | 1 |
| 4L | 1.47 | 0 | 0.74 | 2 | -0.35 | 2 |
| 5L | 1.63 | 1 | 0.90 | 3 | -0.29 | 3 |
| 8L | 1.85 | 1 | 1.23 | 4 | -0.10 | 4 |
| 10L | 1.96 | 3 | 1.36 | 4 | 0.03 | 3 |

WIBOR rates

| Term | % | Change (bps) |
|---|---|---|
| O/N | 0.10 | 0 |
| T/N | 0.09 | -1 |
| SW | 0.10 | 0 |
| 2W | 0.16 | 0 |
| 1M | 0.18 | 0 |
| 3M | 0.24 | 0 |
| 6M | 0.28 | 0 |
| 1Y | 0.43 | 0 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|---|---|---|
| 1x4 | 0.26 | -1 |
| 3x6 | 0.39 | 0 |
| 6x9 | 0.63 | -1 |
| 9x12 | 0.84 | -1 |
| 3x9 | 0.46 | -1 |
| 6x12 | 0.71 | 1 |

Measures of fiscal risk

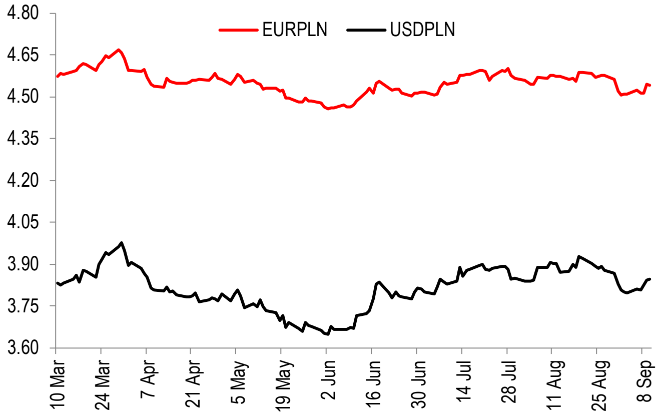
| Country | CDS 5Y USD | | 10Y spread* | |
|---|---|---|---|---|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 46 | 0 | 232 | -2 |
| France | 9 | 0 | 33 | 1 |
| Hungary | 55 | 0 | 346 | -4 |
| Spain | 30 | 0 | 67 | 1 |
| Italy | 42 | -1 | 104 | 1 |
| Portugal | 20 | 0 | 57 | 1 |
| Ireland | 10 | 0 | 38 | 0 |
| Germany | 8 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

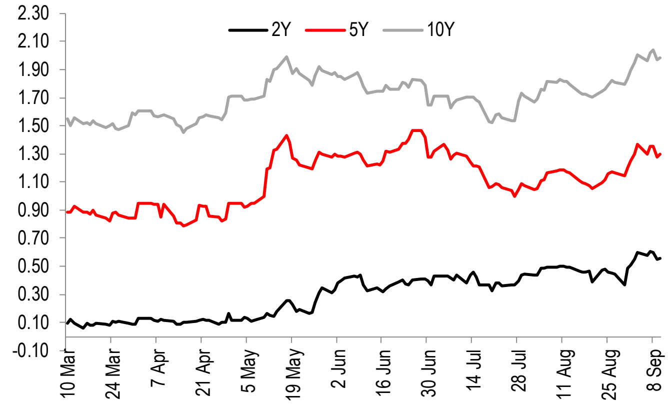
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

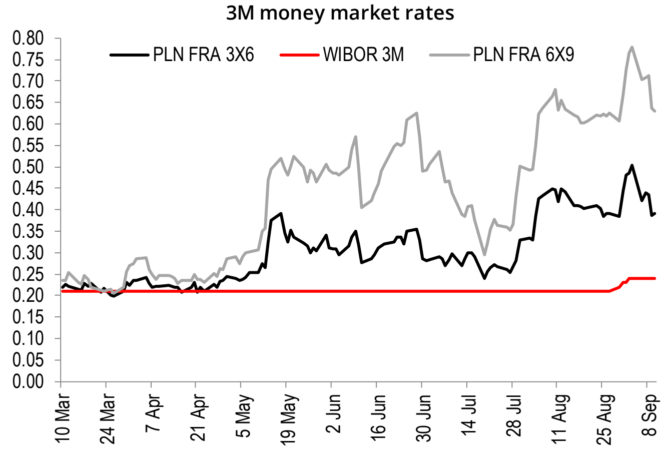
Zloty exchange rate



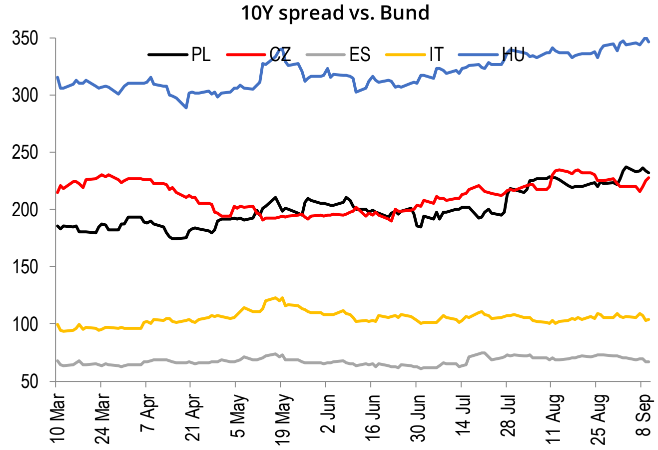

T-bonds yields




3M money market rates




10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | | FORECAST MARKET | FORECAST SANTANDER | ACTUAL VALUE | LAST VALUE* |
|---|---|---|---|---|---|---|---|---|
| | | | **FRIDAY (10 September)** | | | | | |
| 08:00 | DE | HICP | Aug | % m/m | 0.1 | | 0.1 | 0.1 |
| 09:00 | CZ | CPI | Aug | % y/y | 3.6 | | 4.1 | 3.4 |
| | | | **MONDAY (13 September)** | | | | | |
| **14:00** | **PL** | **Current Account Balance** | **Jul** | **€mn** | **-270** | **-341** | **-** | **281** |
| **14:00** | **PL** | **Trade Balance** | **Jul** | **€mn** | **258** | **3** | **-** | **761** |
| **14:00** | **PL** | **Exports** | **Jul** | **€mn** | **22799-** | **22032** | **-** | **23680** |
| **14:00** | **PL** | **Imports** | **Jul** | **€mn** | **22477** | **22029** | **-** | **22919** |
| | | | **TUESDAY (14 September)** | | | | | |
| 14:30 | US | CPI | Aug | % m/m | 0.4 | | - | 0.5 |
| | | | **WEDNESDAY (15 September)** | | | | | |
| **10:00** | **PL** | **CPI** | **Aug** | **% y/y** | **5.4** | **5.4** | **-** | **5.0** |
| 11:00 | EZ | Industrial Production SA | Jul | % m/m | 0.6 | | - | -0.3 |
| 15:15 | US | Industrial Production | Aug | % m/m | 0.4 | | - | 0.9 |
| | | | **THURSDAY (16 September)** | | | | | |
| **14:00** | **PL** | **CPI Core** | **Aug** | **% y/y** | **3.9** | **3.9** | **-** | **3.7** |
| 14:30 | US | Initial Jobless Claims | | k | 315 | | - | 310 |
| 14:30 | US | Retail Sales Advance | Aug | % m/m | -1.0 | | - | -1.1 |
| 14:30 | US | Index Philly Fed | Sep | | 18.5 | | - | 19.4 |
| | | | **FRIDAY (17 September)** | | | | | |
| **10:00** | **PL** | **Employment in corporate sector** | **Aug** | **% y/y** | **1.1** | **1.1** | **-** | **1.8** |
| **10:00** | **PL** | **Average Gross Wages** | **Aug** | **% y/y** | **8.7** | **9.1** | - | **8.7** |
| 11:00 | EZ | HICP | Aug | % y/y | 3.0 | | - | 3.0 |
| 16:00 | US | Michigan index | Sep | pts | 72.0 | | - | 70.3 |

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