

16 September 2021

Eyeopener

Inflation surprised again in August

CPI inflation rose to 5.5% y/y in August, above the flash estimate
 Zloty keeps weakening, EURUSD stable
 Core market bonds retreated from the Tuesday's gains
 Today, Polish core inflation data, US retail sales and Philly Fed

There were significant declines yesterday on European stock exchanges to the tune of 0.6-1%, while in the USA the main indices went up. The pattern of real data was somewhat different: Eurozone industrial output (in July) proved stronger than expected while the US equivalent (in August) only matched expectations. What is more, the NY Fed Empire index suddenly jumped to 34.3 pts (vs. 18 expected) with both the current situation component and the expectations component reaching one of the highest levels of the last 10 years. After the large strengthening of UST after the Tuesday US CPI data, yesterday the bonds could not come lower in yield and later rebounded by 4bp. Trading in German bonds looked similar, but with the rebound reaching above -0.31%, to the Tuesday tops. EURUSD did not change much. Oil price was rising at an accelerated pace (the daily move was around +2.7%) and the last time Brent price was above \$75.7/barrel was in the first half of July – the move was triggered by the report showing a large decline in US oil stock.

CPI inflation was 5.5% y/y in August (the flash release showed 5.4% y/y), which means that it strengthened at the highest level in 20 years. Core inflation probably rose in August to 3.9-4.0% y/y from 3.7% in July (official print will be released today at 14:00CET). The price pressure is seen in many categories and is particularly strong in footwear, water supply, telecommunication services, hotels and restaurants. In our view CPI inflation will hold above 5% y/y for at least a few quarters. In 1Q22 it is possible that it goes up to 6% y/y, but the key issue here will be the scale of electricity price hikes at the start of the year. Heightened inflation is to a growing extent generated by demand-side factors so it is increasingly pointing to the need for monetary policy normalisation. We expect to see the start of the normalisation soon – if not in November then in one of the next months at the turn of the year. See more in the [Economic Comment](#).

Data from the Polish Leasing Association showed an increase in **financing via leasing** in July by 18.9% y/y: vehicles up by 17.5% y/y, machinery and equipment by 25.4% y/y. The data suggest that investment demand of Polish companies is high which supports our forecast of strong investment growth in 3Q21.

GUS data on **foreign trade in goods** showed that in July export was up by 16.6% y/y and import by 23.5% y/y. The trade balance with the EU worsened substantially from €4.8bn in June to €3.4bn in July (it was also down vs. July 2020 at €4.0bn). What improved was the balance with developing countries: from -€4.4bn in June to -€4.0bn in July (and vs. -€4.3bn a year ago). For several months import from Russia has been quickly recovering, as a result its July level was the highest and Poland's trade balance with the country (-€0.8bn) the lowest since the final months of 2018.

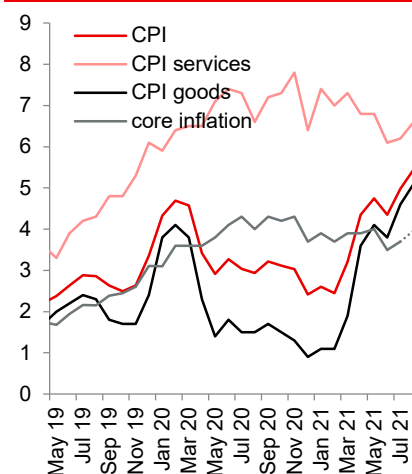
Yesterday **EURUSD** did not leave the Tuesday trading range and was more or less unchanged versus the previous session and the end of the day.

EURPLN was quite stable around 4.55 in the first part of the day but began to go up with the start of the US session and reached 4.565 (the zloty lost about 0.4% in one day). In our view the confirmation of high inflation in Poland amid no MPC reaction is a burden for the Polish currency. This move allowed EURPLN to return to 4.56-4.60 range, where it stayed for the better part of July and August and in our view will remain in it at least until end of the week.

As regards **other CEE currencies**, both the koruna and the forint appreciated a bit (in contrast to the zloty), while the ruble gained almost 0.5% against the dollar thanks to higher oil prices (USDRUB close to 72.5).

On the interest rate market, despite large moves on the core markets, Polish yield curve remained almost unchanged. 10Y IRS rate declined very slightly and 2Y returned above 0.97% after a few days of staying below that level. NBP at the QE auction bought government bonds worth PLN430m (c.28% of bonds offered for repurchase by market participants) and BGK bonds worth PLN1.4bn (83% from the offered pool). Before the auction the NBP informed that it has the capacity to buy up to PLN10bn of bonds. Today the Ministry of Finance holds the second bond switching auction this month.

Polish CPI inflation, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5576	CZKPLN	0.1798
USDPLN	3.8614	HUFPLN*	1.3053
EURUSD	1.1803	RUBPLN	0.0533
CHFPLN	4.1922	NOKPLN	0.4491
GBPPLN	5.3367	DKKPLN	0.6128
USDCNY	6.4324	SEKPLN	0.4490

*for 100HUF

Last session in the FX market 15/09/2021

	min	max	open	close	fixing
EURPLN	4.540	4.564	4.551	4.564	4.550
USDPLN	3.844	3.865	3.855	3.863	3.848
EURUSD	1.180	1.183	1.181	1.181	-

Interest rate market 15/09/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.59	0
DS0726 (5Y)	1.45	1
DS0432 (10Y)	2.00	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.57	2	0.16	-2	-0.52	0
2L	0.99	2	0.32	2	-0.46	0
3L	1.28	2	0.55	1	-0.40	1
4L	1.49	1	0.74	1	-0.34	1
5L	1.64	1	0.89	1	-0.28	2
8L	1.86	-2	1.19	2	-0.08	3
10L	1.96	-1	1.32	2	0.05	3

WIBOR rates

Term	%	Change (bps)
O/N	0.10	1
T/N	0.10	0
SW	0.10	0
2W	0.16	0
1M	0.18	0
3M	0.24	0
6M	0.28	0
1Y	0.45	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.28	0
3x6	0.42	-1
6x9	0.67	1
9x12	0.90	0
3x9	0.49	-1
6x12	0.77	0

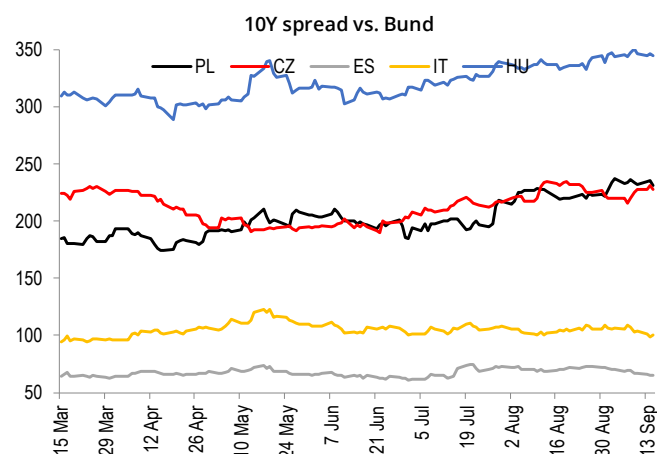
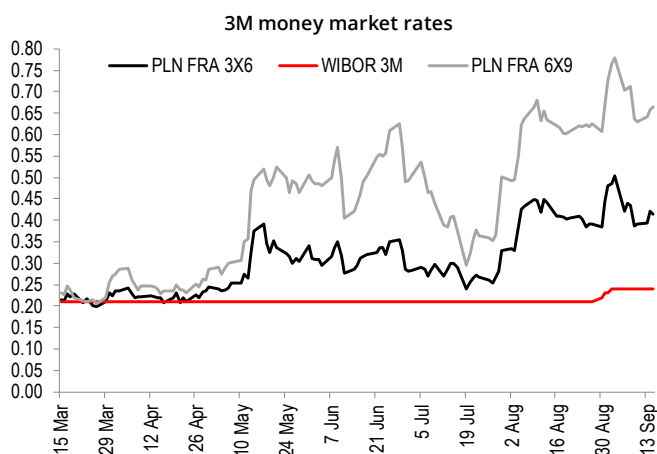
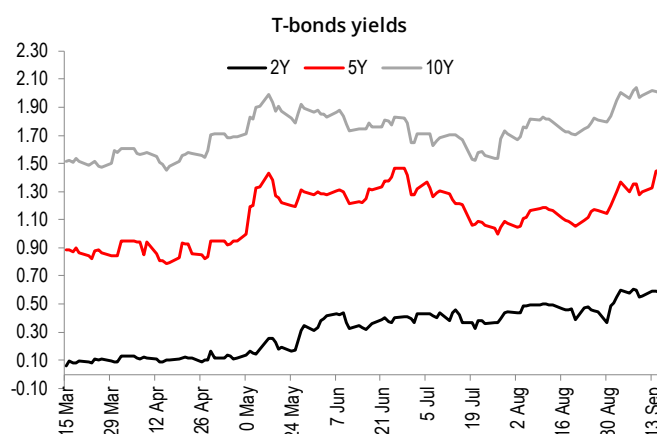
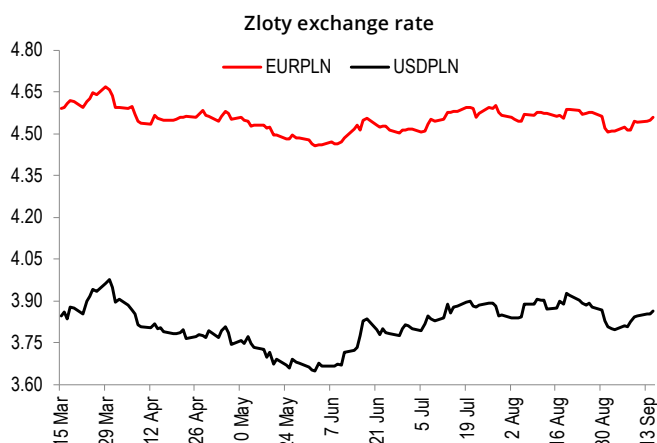
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	231	-4
France	9	0	33	1
Hungary	55	0	345	-1
Spain	29	0	65	0
Italy	41	0	101	2
Portugal	21	0	55	0
Ireland	10	0	38	1
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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
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	-1827	281
14:00	PL	Trade Balance	Jul	€mn	258	3	-714	761
14:00	PL	Exports	Jul	€mn	22799-	22032	22346	23680
14:00	PL	Imports	Jul	€mn	22477	22029	23060	22919
TUESDAY (14 September)								
14:30	US	CPI	Aug	% m/m	0.4		0.3	0.5
WEDNESDAY (15 September)								
10:00	PL	CPI	Aug	% y/y	5.4	5.4	5.5	5.0
11:00	EZ	Industrial Production SA	Jul	% m/m	0.6		1.5	-0.1
15:15	US	Industrial Production	Aug	% m/m	0.4		0.4	0.8
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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