

17 September 2021

## Eyeopener

### Core inflation climbing higher

Polish core inflation rose in August to 3.9%  
 Gas tariffs to go up third time this year  
 Zloty weaker again, EURUSD clearly lower  
 Bond yields higher in Poland and abroad  
 Today Polish labour market data, euro zone inflation, US consumer confidence

The surprisingly high US August retail sales, even despite the strong downward revision of the previous reading and the very weak car sales, triggered a dollar strengthening and a further rise of core bond yields. US Philly Fed index was markedly above expectations, thanks to a positive assessment of the current situation, as the expectations index fell to the lowest level in five years. The stronger dollar undermined the EM currencies, but on the oil market it only managed to cause a pause in a series of daily rises. Core market yields increased, which could have been due to FT's information that the ECB has at its disposal unpublished inflation forecasts suggesting an earlier than widely expected need to hike rates in the euro zone (already in 2023).

**Core inflation** excluding prices of food, fuel and energy rose from 3.7% y/y in July to 3.9% y/y in August, which is the average 2020 level and slightly above the year-to-date 2021 average (3.8%). All other measures of core inflation also went up, by even more: annual growth rate of CPI excluding administered prices was 5.1% (previously 4.7%) – the highest reading in 200 months, inflation excluding the most volatile components rose to 3.8% y/y from 3.3% (the highest since late 2011) and the 15% trimmed mean was 4.1% y/y, up from 3.6% (the highest in 9 years). We think that in the remaining months of 2021 the main core inflation measure will be slightly lower than in August, but its average level in 2022 may still be close to 4%.

The head of the energy regulator URE approved a **7.4% gas tariff hike** for PGNIG branch supplying natural gas for households. We estimate that it will cause a rise of average household gas bills by 3% from 1 October and add 0.1pp to CPI inflation. Further hikes of natural gas and other energy carriers (electricity and heating in particular) cannot be excluded in the coming months. The probability of inflation pushing above 6% at the turn of the year seems to be growing every week recently.

**MPC's Jerzy Kropiwnicki** is ready to support a 15bp rate hike in November. His decision will depend on the evaluation of potential consequences of the move for the economy and household incomes made at the November meeting. At the same time he explained that the main central banks are no longer bound by the paradigm that one must end its QE purchases before moving to rate hikes. Another MPC member **Eryk Łon** does not see the need for higher rates because in his view the economy still needs to be supported and inflation is transitory. He said that rates could stay in place also for "some part of 2022".

**The Fitch Ratings** raised its GDP forecast for Poland to 5.7% from 5.2% in 2021, while forecasts for 2022 remained unchanged at 4.5%. At the same time, forecast for the global economy was lowered to 6.0% from 6.3% due to supply shortages. The agency is expecting the NBP to hike rates by 15bp this year and twice by 25bp in 2022.

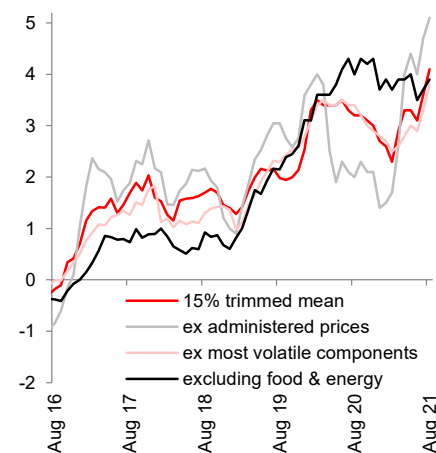
Prior to the US data release **EURUSD** headed towards 1.18, but did not go below the previous day minimum. Shortly after the data release the pair slid to 1.176 and started today's session at this level.

**EURPLN** was stable for the first half of the day at 4.565, but moved to 4.575 given the dollar appreciation and even touched 4.58. As the FRA rates went up (9x12 by 7bp), the core inflation data could have been slowing the zloty depreciation yesterday. If today's data on wages and employment surprise to the upside, then the zloty can manage to resist the dollar appreciation.

As regards **other CEE currencies**, the forint suffered even more than the zloty (EURHUF above 351) while USDRUB and EURCZK were almost unchanged, even though the general market sentiment was favouring their rise – the former thanks to stable crude oil price despite dollar depreciation and the latter thanks to another comment of central banker suggesting that further monetary tightening should come in 50bp steps, and the highest PPI reading in 28 years.

**On the interest rate market**, the 2Y IRS rate moved up +3bp to 1%, while the belly and the long end of the curve increased 5-6bp. Bond curve moved in the same direction but slightly less. At the same time, UST 10Y yield rose 3bp to 1.33% and Bund by 1bp to -0.30%. The Ministry of Finance's second bond switching auction yesterday ended with the sale of bonds worth PLN3.57bn and buyback worth PLN3.36bn.

Polish core inflation measures, % 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](https://santander.pl/en/economic-analysis)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luziński +48 22 534 18 85  
 Wojciech Mazurkiewicz +48 22 534 18 86  
 Grzegorz Ogonek +48 22 534 18 84

### FX market

Today's opening			
EURPLN	4.5709	CZKPLN	0.1804
USDPLN	3.8829	HUFPLN*	1.2924
EURUSD	1.1774	RUBPLN	0.0536
CHFPLN	4.1888	NOKPLN	0.4503
GBPPLN	5.3561	DKKPLN	0.6154
USDCNY	6.4468	SEKPLN	0.4507

\*for 100HUF

Last session in the FX market						16/09/2021
	min	max	open	close	fixing	
EURPLN	4.553	4.582	4.563	4.577	4.574	
USDPLN	3.860	3.899	3.863	3.890	3.885	
EURUSD	1.175	1.181	1.181	1.176	-	

### Interest rate market

16/09/2021

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.61	2
DS0726 (5Y)	1.48	3
DS0432 (10Y)	2.05	5

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.59	2	0.16	0	-0.52	0
2L	1.03	4	0.33	1	-0.45	1
3L	1.33	5	0.58	3	-0.39	1
4L	1.54	5	0.78	4	-0.31	3
5L	1.70	6	0.94	4	-0.25	3
8L	1.92	6	1.24	5	-0.05	3
10L	2.02	6	1.36	4	0.08	3

#### WIBOR rates

Term	%	Change (bps)
O/N	0.11	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	0

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

Term	%	Change (bps)
1x4	0.29	1
3x6	0.44	2
6x9	0.73	7
9x12	0.97	7
3x9	0.53	4
6x12	0.83	7

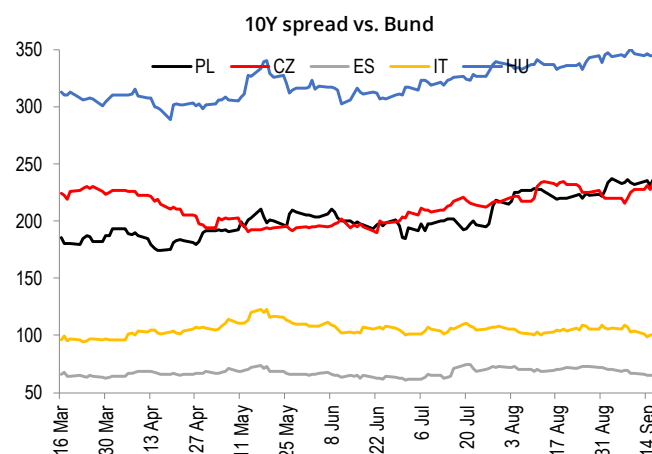
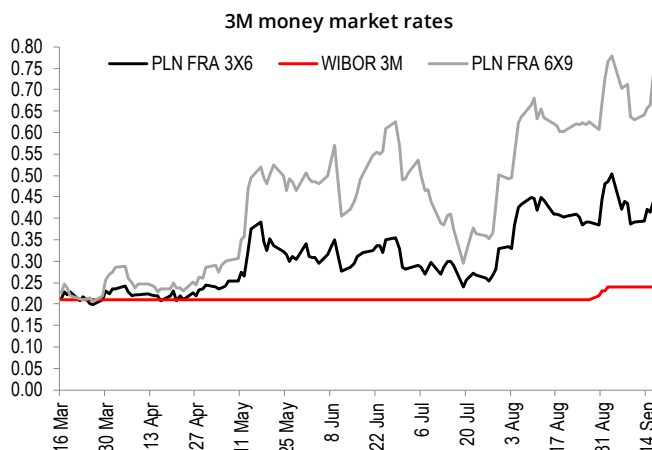
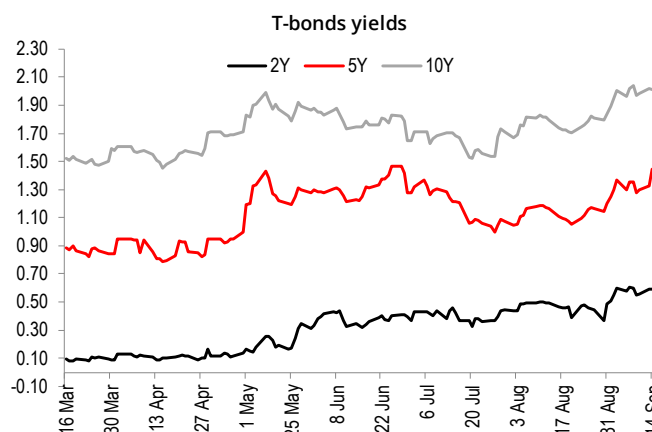
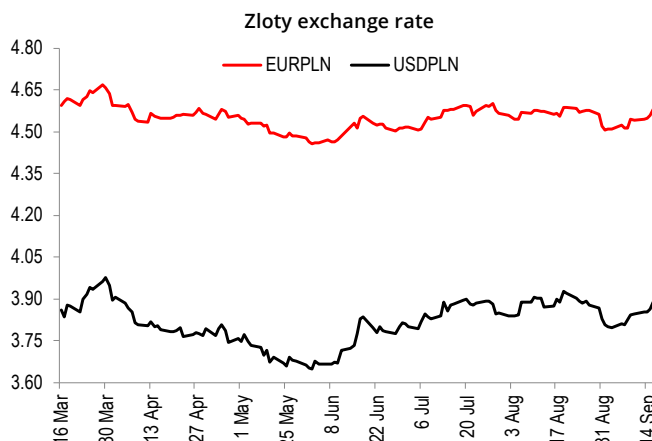
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	236	5
France	9	0	34	0
Hungary	55	0	345	0
Spain	29	0	65	0
Italy	41	0	100	0
Portugal	20	0	56	1
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			
<b>FRIDAY (10 September)</b>								
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	
<b>MONDAY (13 September)</b>								
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
<b>TUESDAY (14 September)</b>								
14:30	US	CPI	Aug	% m/m	0.4	0.3	0.5	
<b>WEDNESDAY (15 September)</b>								
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
<b>THURSDAY (16 September)</b>								
14:00	PL	CPI Core	Aug	% y/y	3.9	3.9	3.9	3.7
14:30	US	Initial Jobless Claims		k	315		332	310
14:30	US	Retail Sales Advance	Aug	% m/m	-1.0		0.7	-1.8
14:30	US	Index Philly Fed	Sep		18.5		30.7	19.4
<b>FRIDAY (17 September)</b>								
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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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.