

Eyeopener

Inflation surprises to the upside, again

The CPI inflation moved up to 5.8% y/y in September, PMI slightly disappointed
Zloty gained after the CPI data, EURUSD still near 1.16
Significant increases in POLGB yields, FRA and IRS, core markets yields stable
Today factory orders in the US

September was a turbulent month, when S&P500 index lost 4.6%, crude oil gained 7.7%, 10Y UST yield soared 19bp and Bund yield 16bp, Polish yield curve moved up by c.45bp (10Y slightly less, 39bp), zloty depreciated 1.8% vs euro and 3.3% vs dollar. On Friday European equity markets were still declining, but S&P erased previous day's loss. Dollar weakened broadly, amid slightly lower bond yields in the core markets, although not so much against euro (return to 1.16). Manufacturing PMIs in Europe were slightly lower than flash estimates and US slightly better than expected (just like the consumer confidence indicator). Inflation in the euro zone (September) and PCE deflator in the US (August) were a bit higher than predicted.

CPI inflation jumped in September to 5.8% from 5.5% y/y in August versus expectations at 5.5% y/y. The upward surprise was mostly due to higher energy (+0.8% m/m, probably due to higher coal and heat prices), fuel (2.0% m/m – our estimates based on readings from gas stations were closer to 1% m/m) and core inflation, which may have exceeded 4% y/y. Now reaching 6% y/y already this year seems to be a done deal (probably we will surpass this mark in October). Now 7% cannot be ruled out in early 2022. We think that the MPC will finally be forced to acknowledge that inflation is driven by demand and to react with rate hikes. However, the first hike is still very unlikely before November and October's MPC statement may not differ too much from the previous ones, underscoring pandemic uncertainty, which for market aggressively pricing now policy tightening may be a disappointment.

The **PMI index for Polish manufacturing** declined to 53.4pts in September from 56.0pts in August, suggesting a waning momentum of recovery. The decline was mostly due to lower output, new orders and employment indices. Entrepreneurs were reporting problems with finding staff, materials and transporting goods, leading to major delays in production process. Meanwhile, rising prices undermined sales both on domestic and foreign markets.

MPC's Łukasz Hardt wrote after the CPI release that the time window for a signalling rate hike is coming to an end, which means that the Council will have to respond stronger in future. He still thinks that the high inflation has permanent nature and economic growth will be strong, but taking into account the uncertainty related to the pandemic he would prefer the policy normalisation (required urgently in his view) to be done cautiously.

According to Reuters sources at the EU, in November **the European Commission** may approve national development plans of Poland and Hungary, but stressing that the funds would start to flow only after certain rule-of-law conditions are met by the countries.

S&P rating agency did not publish a new full review of Poland on Friday and did only a regular update. Current S&P's credit rating for Poland is A- with stable outlook.

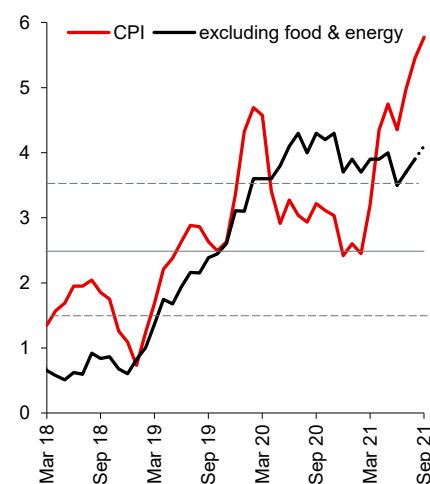
EURUSD still was unable to go much lower from 1.16 – returned there at the end of the day, which he spent near 1.157, but in the light of broad dollar weakening it was a small move anyway, showing that 1.16 acts as a technical resistance.

EURPLN responded to the CPI data by hitting 4.60 from above and later breaking below it, down to 4.58. This week the exchange rate may stay close to 4.60 awaiting the Wednesday MPC meeting. In general we see more factors promoting higher EURPLN which could lead it to 4.70 by the end of the month.

As for the **other regional currencies**, the forint benefitted from the PLN market enthusiasm (EURHUF went down by 0.55 to 357) despite negative PMI reading (decline by 4.5pts to 52.1). The MNB deputy president Barnabás Virág suggested a series of rate hikes by 15bp but noted that less pronounced moves does not mean lower terminal rates and inflation risks are still skewed to the upside. EURCZK was stable at 25.3 (despite PMI decline by 3pts to 58.0), USDRUB was also flat on the daily chart (72.8), even though it reached 73.2 during the day.

On the **domestic interest rate market** the CPI data triggered an abrupt jump on the short end of the curve (2Y by 11bp, while other segments went up by: 5Y +6bp and 10Y +5bp). In case of IRS curve the move was even more pronounced (by 13bp, 8bp and 8bp, respectively), but less still less significant than in case of FRA rates. At the same time, US and German yield curves declined by 1-2bp.

Inflation and core inflation in Poland, %/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.5762	CZKPLN	0.1805
USDPLN	3.9465	HUFPLN*	1.2684
EURUSD	1.1602	RUBPLN	0.0542
CHFPLN	4.2399	NOKPLN	0.4570
GBPPLN	5.3443	DKKPLN	0.6155
USDCNY	6.4452	SEKPLN	0.4511

*for 100HUF

Last session in the FX market 01.10.2021

	min	max	open	close	fixing
EURPLN	4.574	4.612	4.609	4.577	4.594
USDPLN	3.943	3.984	3.980	3.947	3.968
EURUSD	1.157	1.161	1.158	1.160	-

Interest rate market 01.10.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.94	12
DS0726 (5Y)	1.63	6
DS0432 (10Y)	2.21	2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.82	12	0.17	0	-0.52	0
2L	1.38	13	0.37	-1	-0.44	-1
3L	1.68	13	0.62	-2	-0.36	-1
4L	1.85	10	0.84	-3	-0.29	-2
5L	1.97	8	1.01	-3	-0.21	-2
8L	2.18	6	1.34	-3	0.01	-2
10L	2.30	6	1.46	-3	0.15	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.11	1
T/N	0.11	1
SW	0.10	-1
2W	0.16	0
1M	0.18	0
3M	0.24	1
6M	0.32	1
1Y	0.50	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.36	2
3x6	0.66	7
6x9	1.02	10
9x12	1.34	11
3x9	0.77	10
6x12	1.19	14

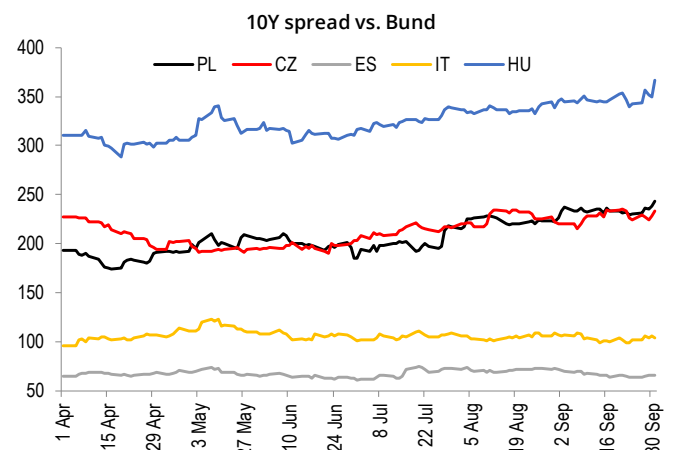
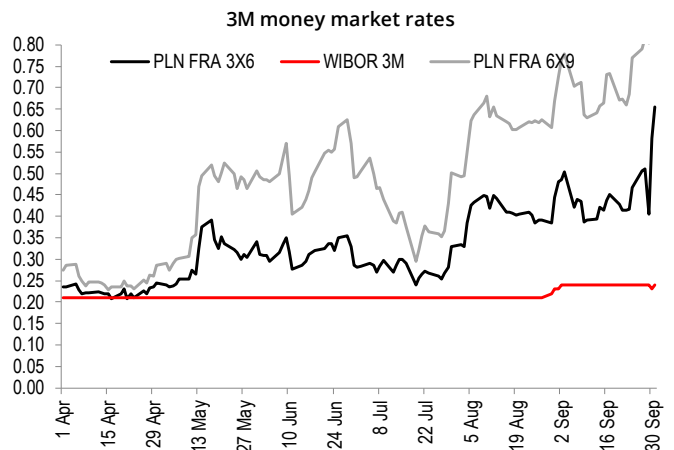
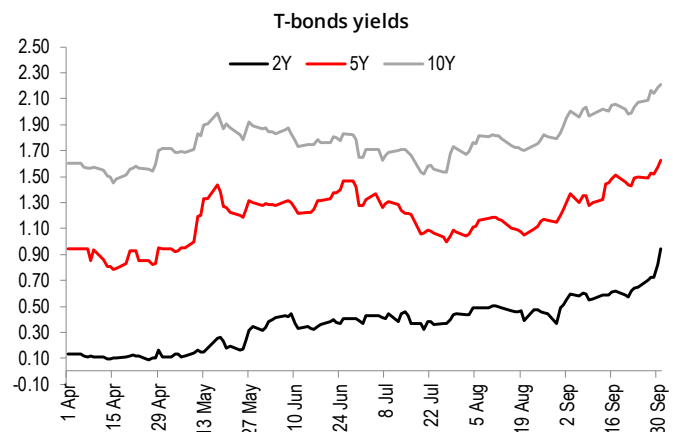
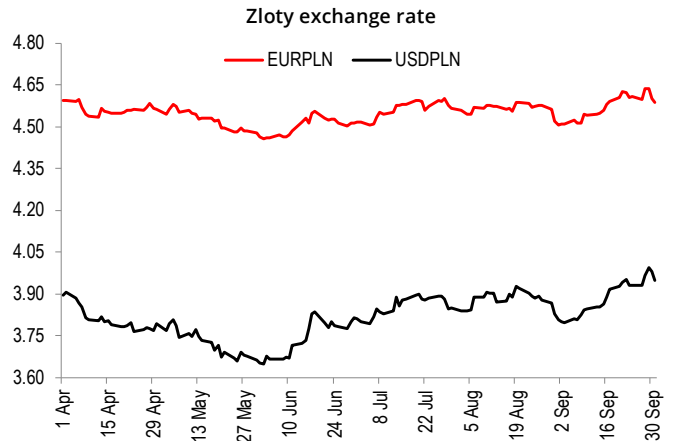
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	243	5
France	10	0	35	0
Hungary	59	0	367	18
Spain	31	0	65	-1
Italy	45	0	104	-2
Portugal	21	0	55	-1
Ireland	11	0	38	-1
Germany	7	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 (1 October)							
08:00	DE	Retail Sales	Aug	% m/m	1.5	1.1	-4.5
09:00	PL	Poland Manufacturing PMI	Sep	pts	54.6	54.5	53.4
09:30	DE	Germany Manufacturing PMI		pts	58.5	58.4	62.6
10:00	EZ	Eurozone Manufacturing PMI		pts	58.7	58.6	61.4
10:00	PL	CPI	Sep	% y/y	5.5	5.5	5.8
11:00	EZ	Flash HICP	Sep	% y/y	3.3	3.4	3.0
14:30	US	Personal Spending	Aug	% m/m	0.7	0.8	-0.1
14:30	US	Personal Income	Aug	% m/m	0.2	0.2	1.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.3	0.4	0.4
16:00	US	Michigan index	Sep	pts	71.0	72.8	70.3
16:00	US	ISM manufacturing	Sep	pts	59.5	61.1	59.9
MONDAY (4 October)							
16:00	US	Durable Goods Orders	Aug	% m/m	0.0		1.8
16:00	US	Factory Orders	Aug	% m/m	1.0		0.4
TUESDAY (5 October)							
09:55	DE	Markit Germany Services PMI	Sep	pts	56.0		60.8
10:00	EZ	Eurozone Services PMI	Sep	pts	56.3		59.0
16:00	US	ISM services	Sep	pts	59.8		61.7
WEDNESDAY (6 October)							
	PL	MPC decision		%	0.1	0.1	0.1
08:00	DE	Factory Orders	Aug	% m/m	-1.5		3.4
09:00	HU	Industrial Production SA	Aug	% y/y			10.2
11:00	EZ	Retail Sales	Aug	% m/m	0.9		-2.3
14:15	US	ADP report	Sep	k	430		374
THURSDAY (7 October)							
08:00	DE	Industrial Production SA	Aug	% m/m	-0.1		1.0
09:00	CZ	Industrial Production	Aug	% y/y	6.9		1.1
14:30	US	Initial Jobless Claims		k			362
FRIDAY (8 October)							
03:45	CN	Caixin China PMI Services	Sep	pts	49.2	-	46.7
08:00	DE	Exports SA	Aug	% m/m	0.5	-	0.5
09:00	HU	CPI	Sep	% y/y		-	4.9
14:30	US	Change in Nonfarm Payrolls	Sep	k	500	-	235
14:30	US	Unemployment Rate	Sep	%	5.1	-	5.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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