

18 October 2021

Eyeopener

High inflation revised even higher

Mixed US data, negative surprises in China
 Dollar stable on Friday, core market bond yields up
 EURPLN slightly lower, higher domestic bond yields and IRS rates
 Today Polish core inflation, US industrial output

On Friday equity markets were rising after better-than-expected data on September US retail sales (0.3pp above forecast), the dollar was stable, 10Y UST yield soared 5bp to 1.56% (Bund by 3bp to -0.16%). Empire Manufacturing index slightly disappointed and fell vs previous month (from 34.3 pts to 19.8). October's Michigan consumer confidence survey was worse than expected – the confidence index fell from 72.8 pts to 71.4, vs expected 73.1 and the worries were not about the coronavirus Delta variant but about inflation eating up real purchasing power. Today's data from China clearly disappointed: GDP growth in 3Q21 rose 0.2% q/q, while market expected 0.5%. The result was influenced by blackouts, attempts to cool down housing market and problems of the biggest developer, new restrictions, including ports' closures. Chinese industrial production in September also disappointed, while retail sales surprised to the upside.

September CPI inflation was revised higher to 5.9% y/y from flash reading at 5.8% y/y and versus August print at 5.5% y/y. According to our estimates core inflation rose in September to 4.2% y/y from 3.9% y/y in August (the official data will be released by NBP today). We expect CPI to easily breach 6.0% y/y in October and to end the year above 6.5%. A reading above 7% in early 2022 is also increasingly likely. In our view the further rise of inflation will make MPC hike rates several times more, possibly already at the November meeting. [More in Economic comment.](#)

Preliminary **August foreign trade** as reported by GUS (Main Statistical Office) showed an exports increase of 21% y/y and imports increase by 34.7% y/y. Comparing vs the average 2019 level, the export was higher by 12% (in July by 15%), with exports to Germany up by 21%, to Czech Republic by 17%, to France by 1%, while exports to the UK were smaller by 4%. As for import, it was 20% higher than the 2019 average (18% in previous month), where: imports from Russia higher by 38% (the August value of imports was the highest since 2014), China by 52%, Germany by 9%. Comparing to the August 2020, the trade balance in goods was lower by EUR 2.2bn, but the balance vs Germany was higher by EUR 0.4bn, while with the rest of the EU countries lower by EUR 1.0bn. The balance vs Russia deteriorated by EUR 0.8bn over the same period.

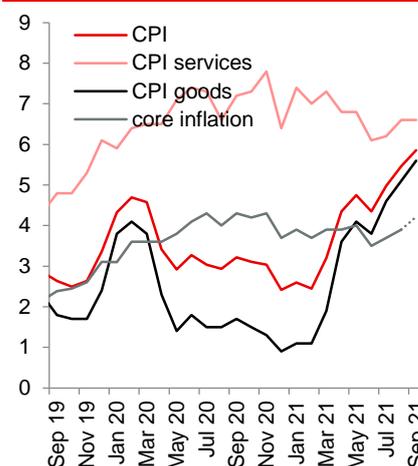
EURUSD closed the week at 1.1600 - barely changed vs Thursday, and 0.3% higher vs previous week's Friday. Today in the morning, after negative Chinese GDP data surprise, EURUSD moved lower to 1.1580.

EURPLN fell to 4.5666 testing the 50-day moving average (4.5730). In the coming week the EURPLN level will largely depend on the PM Morawiecki stance during his appearance in the European Parliament on Tuesday. The topic of the Polish Constitutional Court ruling will likely remain in focus also on Thursday and Friday (EU summit). From the technical analysis perspective, if there is a rebound from the 50-day moving average after, not long ago, the rebound from the 200-day moving average (4.5500), the outlook for zloty could be negative.

As for **other CEE currencies**, EURHUF trimmed all its Thursday's decline and returned to c.360. Even though markets are expecting another rate hike at the Tuesday's MNB meeting, it could be too small (+15bp to 1.80%) to stop the forint depreciation. We expect EURHUF at the end of the year at 365.0. EURCZ remained stable. USDRUB fell again, this time by 0.3% to 71.20, as the crude oil price went up again (Brent oil at \$85).

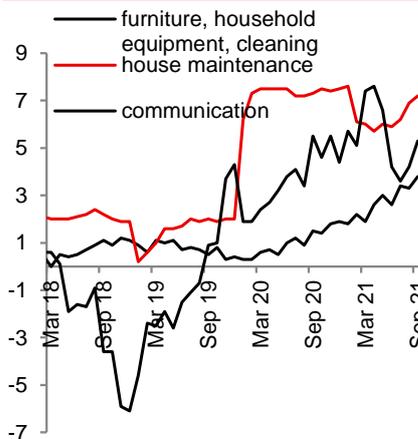
On the **interest rate market** bond curve was rising on Friday by 5-7bp, IRS curve by 5bp. During the week, they moved up correspondingly by 30-20bp (more at the short end) and 10bp. This week curves will be under the influence of inflation data, among others (today core inflation, tomorrow wages, on Wednesday PPI). On Thursday the Ministry of Finance holds a switching auction.

CPI inflation, % y/y



Source: GUS, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5687	CZKPLN	0.1797
USDPLN	3.9451	HUFPLN*	1.2565
EURUSD	1.1574	RUBPLN	0.0555
CHFPLN	4.2634	NOKPLN	0.4668
GBPPLN	5.4117	DKKPLN	0.6137
USDCNY	6.4360	SEKPLN	0.4567

*for 100HUF

Last session in the FX market						15/10/2021
	min	max	open	close	fixing	
EURPLN	4.558	4.575	4.573	4.562	4.573	
USDPLN	3.926	3.943	3.939	3.935	3.941	
EURUSD	1.159	1.162	1.161	1.159	-	

Interest rate market 15/10/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.70	5
DS0726 (5Y)	2.18	3
DS0432 (10Y)	2.63	9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.58	4	0.23	2	-0.51	1
2L	2.03	8	0.53	4	-0.40	1
3L	2.24	8	0.83	6	-0.30	1
4L	2.35	7	1.05	7	-0.21	2
5L	2.43	6	1.19	7	-0.13	2
8L	2.56	7	1.47	6	0.09	2
10L	2.65	8	1.57	6	0.22	3

WIBOR rates

Term	%	Change (bps)
O/N	0.32	8
T/N	0.37	0
SW	0.50	0
2W	0.51	0
1M	0.57	-1
3M	0.69	1
6M	0.85	1
1Y	1.14	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.09	5
3x6	1.52	5
6x9	1.89	6
9x12	2.26	13
3x9	1.67	2
6x12	2.09	7

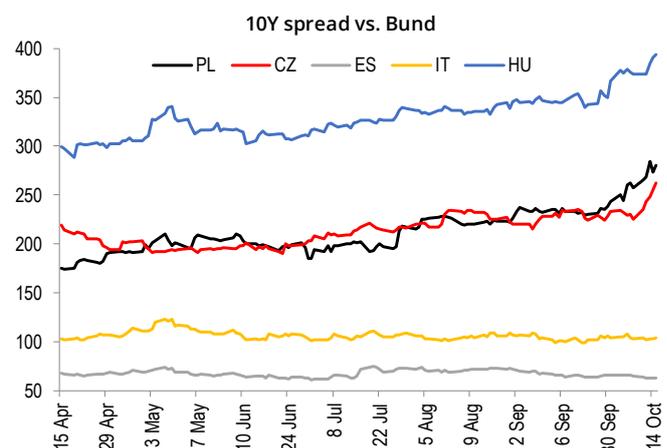
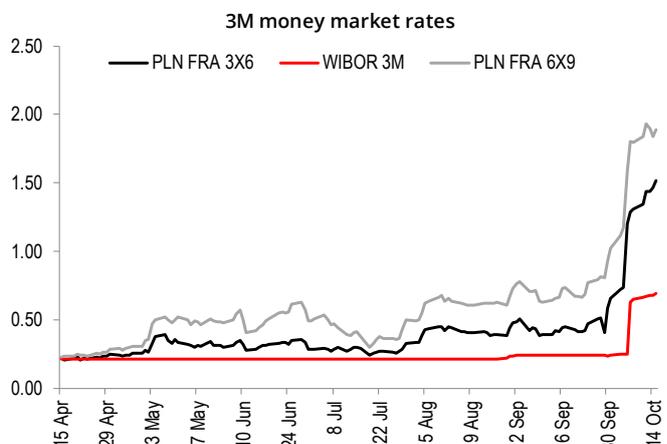
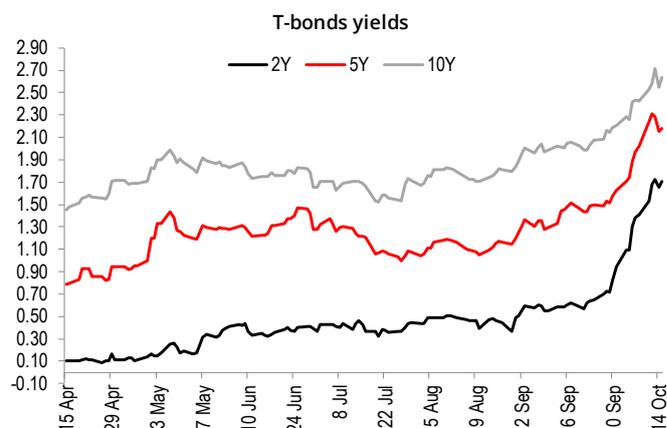
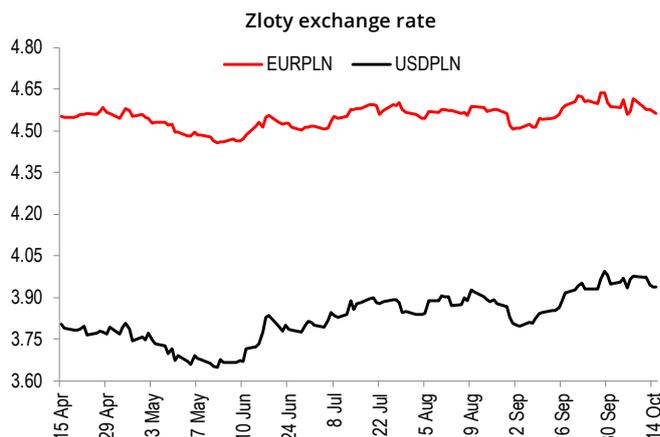
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	280	7
France	10	0	33	1
Hungary	59	0	394	3
Spain	30	-1	63	1
Italy	43	0	104	1
Portugal	19	-1	52	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		
FRIDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	5.8		5.9	5.8
14:30	US	Retail Sales Advance	Sep	% m/m	-0.2		0.7	0.7
16:00	US	Michigan index	Oct	pts	73.0		71.4	72.8
MONDAY (18 October)								
14:00	PL	CPI Core	Sep	% y/y	4.1	4.2	-	3.9
15:15	US	Industrial Production	Sep	% m/m	0.2		-	0.4
TUESDAY (19 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	0.7	0.5	-	0.9
10:00	PL	Average Gross Wages	Sep	% y/y	8.7	9.1	-	9.5
14:00	HU	Central Bank Rate Decision	Oct/21	%	1.80		-	1.65
14:30	US	Housing Starts	Sep	% m/m	-0.3		-	3.9
WEDNESDAY (20 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	8.2	7.6	-	13.2
10:00	PL	PPI	Sep	% y/y	10.0	9.9	-	9.5
11:00	EZ	HICP	Sep	% y/y	3.4		-	3.4
THURSDAY (21 October)								
10:00	PL	Construction Output	Sep	% y/y	8.2	6.8	-	10.2
10:00	PL	Retail Sales Real	Sep	% y/y	5.5	6.2	-	5.4
14:30	US	Initial Jobless Claims		k	320.0		-	293.0
14:30	US	Index Philly Fed	Oct		24.0		-	30.7
16:00	US	Existing Home Sales	Sep	% m/m	2.83		-	-2.0
FRIDAY (22 October)								
09:30	DE	Germany Manufacturing PMI	Oct	pts	56.8		-	58.4
09:30	DE	Markit Germany Services PMI	Oct	pts	55.0		-	56.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	57.3		-	58.6
10:00	EZ	Eurozone Services PMI	Oct	pts	55.5		-	56.4
14:00	PL	Money Supply M3	Sep	% y/y	8.6	9.1	-	9.1

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

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