

19 October 2021

## Eyeopener

### Core inflation approaches the 2020 top

Fitch will consider a rating cut if Poland acts towards leaving the EU  
 US industrial output disappoints  
 Dollar stable, zloty and other EM currencies weaker  
 Further significant loss of value of Polish government bonds  
 Today wages and employment data in Poland, rate decision in Hungary

On Monday the stock exchange indices slightly lost after worse-than-expected September US industrial production print at -1.3% m/m vs expected -0.1% m/m while the August one got revised lower by 0.5pp. One of the reasons for the miss is the lack of computer chips needed in the automobile industry. In our opinion the chip shortages might extend into 1H22. The price of a barrel of Brent oil increased by 0.7% to US\$85.4. The UST 10Y yield moved up to 1.59% (+1bp) but at the front end the moves were stronger 2Y to 1.68% (+6pb).

**MPC member Kamil Zubelewicz** said that in his opinion the NBP reference rate at 2.0% already today would not be too high, it would barely lift the negative real rate to -3.6% from the -5.0% territory. In his opinion, only higher interest rate than before the pandemic (1.5%) would guarantee the comeback of inflation back to the target. Due to liquidity in the banking sector Zubelewicz thinks the reserve requirement ratio should be higher than the current 2.0%. In his opinion the natural strengthening of the zloty would result in much lower CPI, he does not understand MPC fears of zloty appreciation.

The Fitch rating agency has adhered to the Polish constitutional court ruling from the 7 October (confirmation of the supremacy of Polish law over the EU one). The agency judged that the ruling is inconsistent with Poland remaining in the EU, and what's more it creates GDP growth and governance risks. The ruling is a risk factor for Polish membership in the EU which requires that member states acknowledge the supremacy of the EU law. The agency would consider the change of the rating and perhaps the outlook if the Poland would undertake a concrete steps toward leaving the EU. Fitch reminded that in 2016 the UK rating was lowered just after the brexit referendum - by one notch, while the outlook changed to negative from stable.

**Core inflation ex food, fuels and energy rose in September to 4.2% y/y** from 3.9% in August. This is just 0.1 percentage points below the 2020 peak which was the highest reading since 2001. In our view the main measure of core inflation may end this year around 4.5% and stay at or above 5% y/y through 1H22 if not longer. All alternative measures of core inflation also rose significantly in September: CPI ex administered prices pushed from 5.1% y/y to 5.5% (highest since 2001), CPI ex most volatile parts from 3.8% to 4.1% (highest since 2011), CPI ex 15% of the basket with extreme price changes from 4.1% to 4.5% (highest since 2011). We think that while several MPC members have recently expressed willingness to wait with monetary tightening after the October rate hike, the pressure coming from the inflation data as well as the expected high profile of NBP inflation projection will convince them to hike rates already at the November meeting.

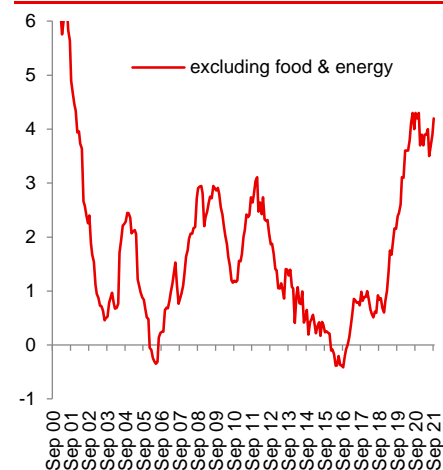
**EURUSD** had low volatility and stayed close to 1.1600 during the day only to rise overnight to 1.1650.

**EURPLN** started the week at 4.5670 but after the Monday comment by Fitch (reported above) and the further rise of yields on core markets as well as the falling stock indexes, the exchange rate was pushed higher to 4.5900. From a technical point of view the target may again become the double top from July at 4.60. If the level is broken, we can see an intense rise, in the first step to around 4.65. Today the European Parliament discusses the ruling of the Polish Constitutional Court and will question Polish PM Mateusz Morawiecki. At the same time the matter will be discussed by EU ministers of the member states.

As for **other CEE currencies**, EURHUF soared 0.6% to 361.7 and thus was testing the July's local peak. Today the Hungarian central bank meets. The rate hike by 15bp expected by the market would be probably too small to stop forint depreciation - we expect the rate to rise to 365.0. EURCZK rose 0.3% to 25.45. September producer prices in Czechia increased just in line with market expectations: 9.9% y/y (0.7% m/m). The ruble value vs the basket of currencies fell 0.6% despite rising crude oil price, which means the ruble could be overbought after c. 2% strengthening vs dollar since the start of the month.

On the **interest rate market** the bond curve was highly volatile again and 10Y yield rose by 11bp to 2.71% amid low market liquidity. 10Y IRS made a similar move by 11bp to 2.74% and short IRS rates jumped even 14bp.

Core inflation in Poland, %y/y



Source: NBP, Santander

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### FX market

Today's opening			
EURPLN	4.5856	CZKPLN	0.1797
USDPLN	3.9356	HUFPLN*	1.2668
EURUSD	1.1653	RUBPLN	0.0554
CHFPLN	4.2732	NOKPLN	0.4701
GBPPLN	5.4200	DKKPLN	0.6162
USDCNY	6.4049	SEKPLN	0.4563

\*for 100HUF

Last session in the FX market						18/10/2021
	min	max	open	close	fixing	
EURPLN	4.555	4.591	4.566	4.587	4.572	
USDPLN	3.936	3.960	3.942	3.954	3.947	
EURUSD	1.157	1.161	1.158	1.161	-	

### Interest rate market 18/10/2021

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.82	12
DS0726 (5Y)	2.31	13
DS0432 (10Y)	2.75	11

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.68	10	0.24	2	-0.50	1
2L	2.17	14	0.58	5	-0.35	5
3L	2.38	14	0.88	5	-0.24	6
4L	2.48	13	1.09	4	-0.15	6
5L	2.55	13	1.23	3	-0.07	6
8L	2.67	11	1.51	4	0.13	4
10L	2.74	9	1.59	1	0.24	3

#### WIBOR rates

Term	%	Change (bps)
O/N	0.32	0
T/N	0.38	1
SW	0.50	0
2W	0.51	0
1M	0.57	0
3M	0.69	0
6M	0.86	1
1Y	1.15	1

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

Term	%	Change (bps)
1x4	1.11	1
3x6	1.57	5
6x9	2.01	12
9x12	2.36	9
3x9	1.76	9
6x12	2.20	11

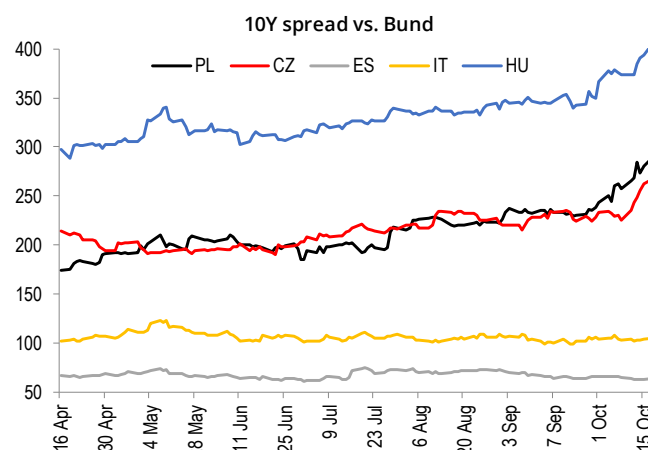
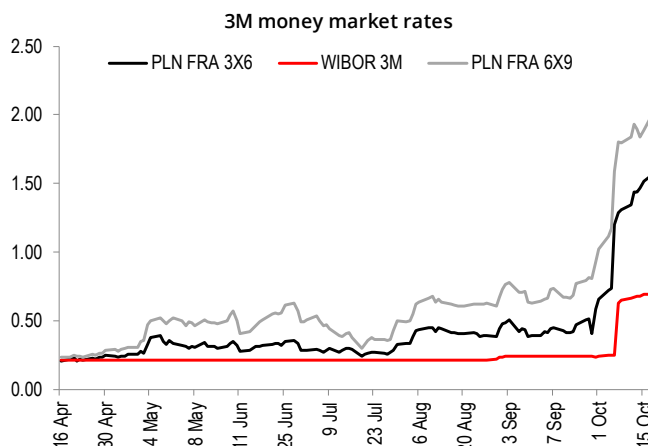
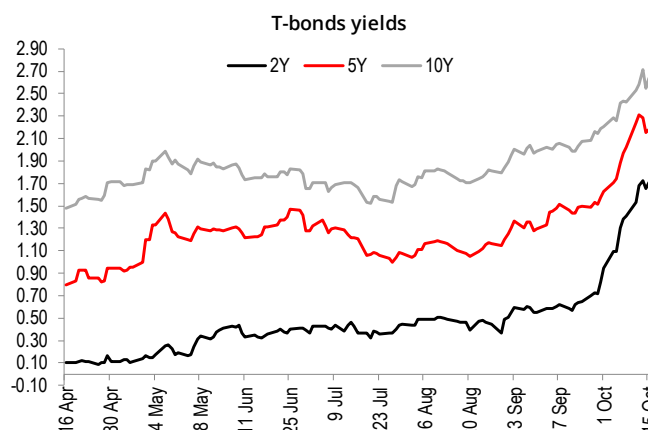
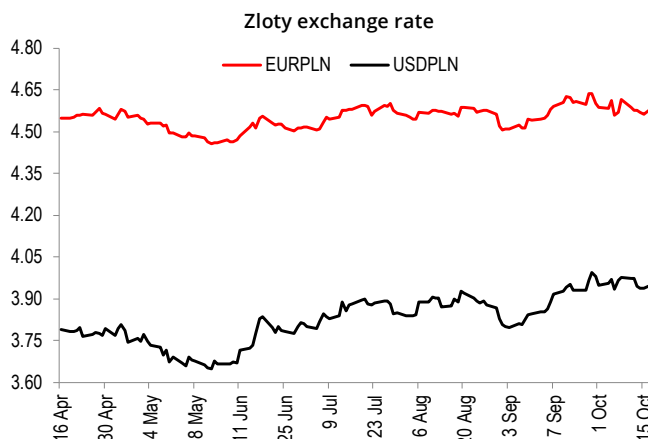
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	289	9
France	10	0	34	1
Hungary	59	0	406	12
Spain	30	0	64	1
Italy	43	0	105	1
Portugal	20	0	53	1
Ireland	10	0	37	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



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
<b>FRIDAY (15 October)</b>								
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
<b>MONDAY (18 October)</b>								
14:00	PL	CPI Core	Sep	% y/y	4.1	4.2	4.2	3.9
15:15	US	Industrial Production	Sep	% m/m	0.1		-1.3	-0.1
<b>TUESDAY (19 October)</b>								
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
<b>WEDNESDAY (20 October)</b>								
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
<b>THURSDAY (21 October)</b>								
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
<b>FRIDAY (22 October)</b>								
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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