

21 October 2021

Eyeopener

Solid output growth despite input shortages

Strong Polish industrial output in m/m terms, PPI inflation pushed above 10% y/y
 UST yields and US dollar unchanged, Bunds gained a bit
 Zloty weaker, domestic IRS rates and yields slightly lower
 Today construction output and retail sales in Poland, EU summit starts

On Wednesday stock markets were in black thanks to positive surprises with US companies' results. Still, there were some negative news as well, e.g. China saw a decline in housing prices for the first time in six years, reflecting deteriorating consumer sentiment and suggesting a weaker economic growth. The second HICP inflation reading for the euro zone did not show any surprises (rise by 3.4% y/y). Inflation in the United Kingdom went a bit back (by 0.1pp to 3.1% y/y) and accelerated in Canada (also by 0.1pp to 4.4% y/y). German PPI surprised to the upside as it advanced by 14.2% y/y in September (12.0% in August vs expectations at 12.8%).

Jens Weidmann resigned from his role as Bundesbank head. He was assumed a hawk in the ECB. Weidmann will hold his function until December and thus take part in the December ECB meeting, where the central bank will take decision whether to increase APP purchases together with falling purchases within PEPP programme. Weidmann is likely to oppose such a decision.

MPC member Jerzy Żyżyński said that the next rate hike can take place in December or January should the November projection show worrying rise of inflation. This is a change versus his earlier comments, when he said that interest rates should remain unchanged in 2021. According to Żyżyński, the optimal level of rates for the Polish economy is 1.50% - the same as before the pandemic. According to the MPC member, the current situation does not need to see rates going beyond 1.50%. He admitted that information about inflation jumping by 0.6% m/m in September (at the time of the meeting, later revised to 0.7% by the stats office) was an important contributor to the decision to hike rates. We think that the next reading will be equally invigorating as it is likely to be greater or equal 0.6% m/m. Żyżyński also said that the NBP should be eyeing actions of the Czech and Hungarian central banks as they are dealing with similar problems as Poland.

S&P Global Ratings head analyst for Poland said that in his view the base case is a compromise between Poland and EU, and he is quite far from considering rating action due to the conflict. A rating cut could be possible in case of severe delay or freeze of EU transfers to Poland.

Industrial output surprised positively in September rising 8.8% y/y vs 8.2% consensus and our 7.6% forecast. The seasonally adjusted growth rate was 0.9% m/m, the strongest since March. It seems the Polish industry is resilient to the material shortages issues. **PPI inflation** rose in September to 10.2% y/y from 9.6% in August. Our estimate of core PPI rose to 7.6% y/y from 7.3% and by 0.5% m/m. We expect a further acceleration of PPI in the coming months. More in [Economic Comment](#).

In October **consumer confidence** has decreased significantly. Both the current assessment as well as the expectations indices fell to the lowest level from April 2021 (the first one by 4.8pts to -17.8pts, the latter by 6.4pts to -14.5pts). All sub-indices have deteriorated. Particularly impacted was the indicator showing the ability to save money in the next 12 months (second biggest, post April 2020, monthly decline in the history of the survey). Significant declines were also seen in the expectations of big purchases and also assessment of the economy. The changes probably had not much to do with the new pandemic wave because the extra questions pertaining to the impact of Covid on different aspects of life showed only a minimal increase in fears.

According to the data from the PZL (Polish Leasing Association), in 3Q21 the value of the **leasing contracts** moved up 20.9% y/y, of which car financing up 20.7% y/y, while tools and machinery financing up 25.5% y/y. In total, the value of the portfolio moved up by PLN 22.6bn and it was the highest reading in 3Q21 since the historical data are available (2003). High demand for leasing means that it was the period of increased investment activity of Polish corporates.

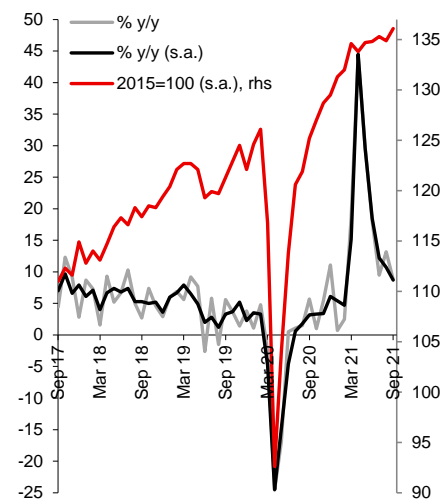
EURUSD on Wednesday remained between 1.1620 and 1.1650.

EURPLN started Wednesday near 4.5850 and at first fell to 4.58, after which it abruptly increased towards 4.60. EURPLN finished the day at 4.59, today opens slightly above the level.

As for the **other regional currencies**, EURHUF remained without much changes near 362.0 (but today opens already at 363.0), similarly stable was the USDRUB which was testing the 71.0 level. On the other hand EURCZK has increased for a 3rd session in a row to 25.55, by 0.2%. The 3-day move already stands at 0.7%.

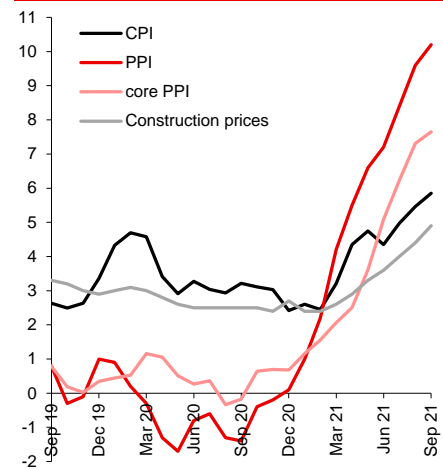
On the **fixed income market** another day of stabilization of the bond yield curve which moved lower following the Bund by only 1bp. The IRS moved lower by 6-8bp. Ministry of Finance said that at the end of September the state debt increased by PLN 9.1bn (+0.8%) to the level of PLN 1144.8bn, of which local debt constitutes 75.6% (PLN 865.0bn) while the foreign one 24.4% (PLN 279.8bn).

Industrial output in Poland



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5797	CZKPLN	0.1792
USDPLN	3.9305	HUFPLN*	1.2560
EURUSD	1.1655	RUBPLN	0.0554
CHFPLN	4.2762	NOKPLN	0.4716
GBPPLN	5.4294	DKKPLN	0.6154
USDCNY	6.3937	SEKPLN	0.4571

*for 100HUF

Last session in the FX market						20/10/2021	
	min	max	open	close	fixing		
EURPLN	4.574	4.600	4.581	4.585	4.584		
USDPLN	3.929	3.953	3.932	3.938	3.943		
EURUSD	1.162	1.165	1.165	1.164	-		

Interest rate market

20/10/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.78	-3
DS0726 (5Y)	2.25	-3
DS0432 (10Y)	2.72	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.64	-5	0.24	0	-0.51	-2
2L	2.11	-8	0.54	-1	-0.37	-3
3L	2.32	-7	0.86	1	-0.26	-4
4L	2.42	-6	1.07	0	-0.17	-4
5L	2.50	-6	1.23	1	-0.09	-4
8L	2.60	-8	1.54	2	0.13	-3
10L	2.68	-8	1.65	2	0.25	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.27	-2
T/N	0.37	-2
SW	0.50	0
2W	0.51	0
1M	0.59	1
3M	0.70	1
6M	0.89	2
1Y	1.17	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.08	-1
3x6	1.55	-4
6x9	1.96	-6
9x12	2.33	-10
3x9	1.71	-5
6x12	2.14	-8

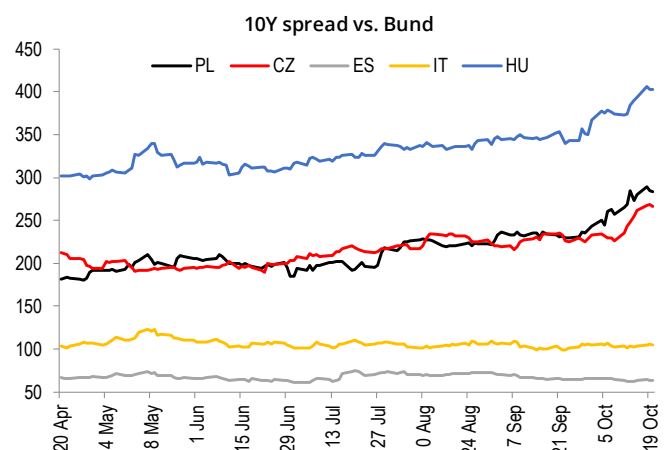
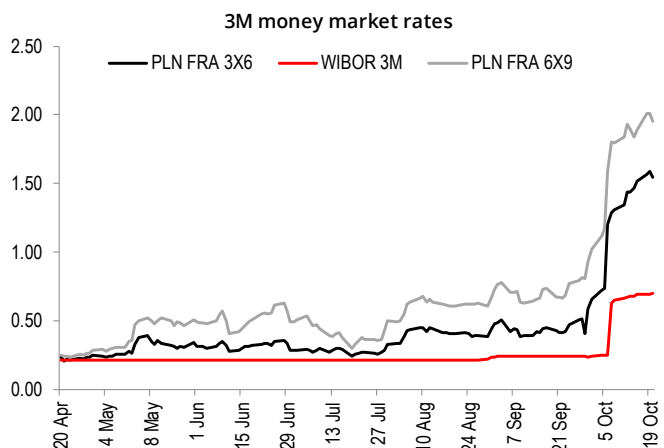
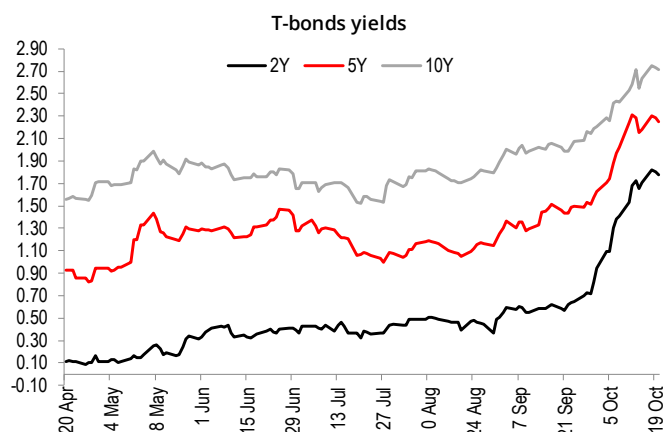
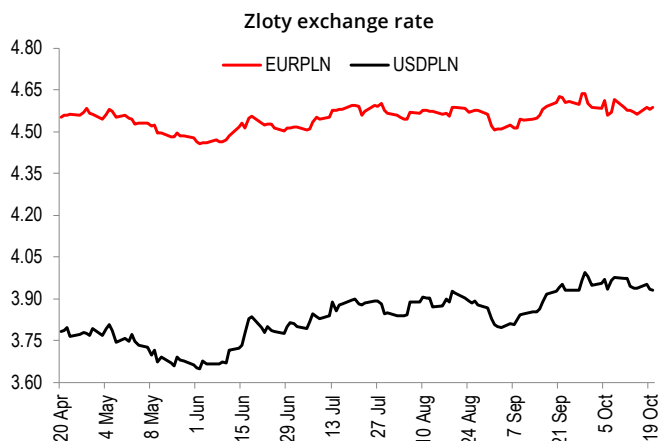
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	284	-1
France	10	0	34	0
Hungary	60	0	402	0
Spain	30	0	63	-1
Italy	43	0	104	-1
Portugal	20	0	51	-1
Ireland	11	-1	36	-2
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	4.2	3.9
15:15	US	Industrial Production	Sep	% m/m	0.1		-1.3	-0.1
TUESDAY (19 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	0.7	0.5	0.6	0.9
10:00	PL	Average Gross Wages	Sep	% y/y	8.7	9.0	8.7	9.5
14:00	HU	Central Bank Rate Decision	Oct/21	%	1.80		1.80	1.65
14:30	US	Housing Starts	Sep	% m/m	0.0		-1.6	3.9
WEDNESDAY (20 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	8.2	7.6	8.8	13.2
10:00	PL	PPI	Sep	% y/y	10.0	9.9	10.2	9.5
11:00	EZ	HICP	Sep	% y/y	3.4		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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