

22 October 2021

# Weekly Economic Update

## Inflation likely way above 6%

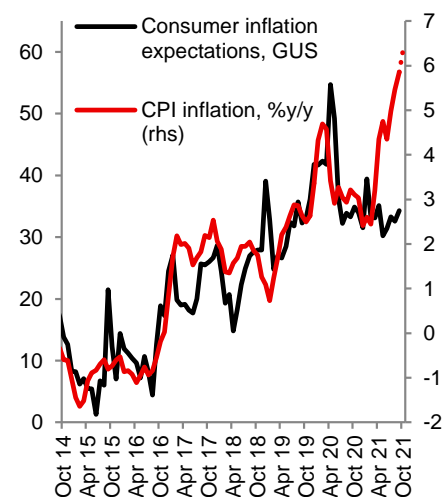
### Economy next week

- In our opinion, the **preliminary CPI reading for October** (publication on Friday) is key, alongside the upward revision of inflation path in the NBP staff projection, for the possible interest rate increase on the MPC meeting on 3 November. Judging from the MPC documents and latest comments it seems majority of the MPC would like to wait for a few months before the next interest rate increase. We think, however, that the pressure from the current CPI data and the inflation outlook will not allow for that. We expect the October CPI inflation reading to pass through the 6.0% level and reach at least 6.4% y/y (market consensus also at 6.4% y/y). On a monthly basis, the CPI might again increase by 0.6-0.7% m/m – such a strong monthly increase was one of the factors which influenced the MPC thinking in October. We remind that market economists' inflation forecasts still have not managed to catch up with inflation – in this wave of growing inflation there was not a single month that market expectations surpassed the actual reading.
- Latest data showed a noticeable deterioration in the consumer confidence in October – in our opinion rather as a result of swiftly increasing prices and not as a result of the interest rate increase. On 25 October GUS will publish its Statistical Bulletin and it will become clear if the consumers are indeed afraid of inflation – so far the **GUS inflation expectations** measure seemed to be anchored at the NBP inflation target. On top of that, in Poland on Monday the **unemployment rate** will be published (our forecast at 5.6%, in line with the preliminary reading from the Ministry of Labour).
- **Abroad there will be flash releases of 3Q21 GDP** in the USA (Thursday), but also in the Eurozone, Germany and Czechia (Friday) – markets expect normalisation after very high 2Q21 growth rates. The main event of the week will most likely be the **ECB meeting** on Thursday. Market focus will be on any information regarding the withdrawal from the pandemic-related asset purchase program, PEPP (the start and end date of the tapering, will it be replaced by a similar program) and if its termination is going to be accompanied by a temporary increase of the main APP program (to reduce the potential impact of the tapering on the market).
- In Europe we will also get flash inflation prints for October from Germany (Thursday, market expectations at 4.4% y/y) and the Eurozone (Friday, 3.7% y/y expected) as well as business sentiment indexes for Germany (Monday, Ifo) and the Eurozone (Thursday, ESI). What is more, German retail sales are due on Wednesday. In the USA, apart from the GDP, the calendar includes consumer sentiment (Tuesday), durable goods orders (Wednesday), pending home sales (Thursday) and PCE inflation (Friday, expected 4.4% y/y).

### Markets next week

- The passing week was not very good for the EM currencies mainly due to the still increasing core markets yields (UST +11bp to 1.69%, Bund +9bp to -0.08%). CEE currencies were outperforming only the likes of Turkish lira (which lost c4% after the 200bp interest rate cut to 16.0% by the CBT). In the coming week upward trend in core market yields might continue hence the pressure on EM currencies might persist. The situation on global markets means that the risks for EURPLN are asymmetric (to the upside). **In the coming week we expect EURPLN to increase to 4.65 or higher, however, the possibility of another significant inflation increase in Poland might prove sufficient to stop the move higher.**
- In the passing week, the IRS and bond yield curve have moved higher by 15bp, some FRA contracts (those with longer tenors) even as much as 20bp. As a result, currently the market expects almost 2 full 50bp interest rate increases by the end of the 2021. We think those expectations are excessive while the MPC will hike only once this year (and rather in November). **In the coming week we expect the front end of the curve to stabilize, while the long end of the curve to slowly march higher following core market yields.** There is a BGK auction scheduled for 25 October with a minimum supply of PLN 0.5bn.

### CPI inflation and consumer expectations



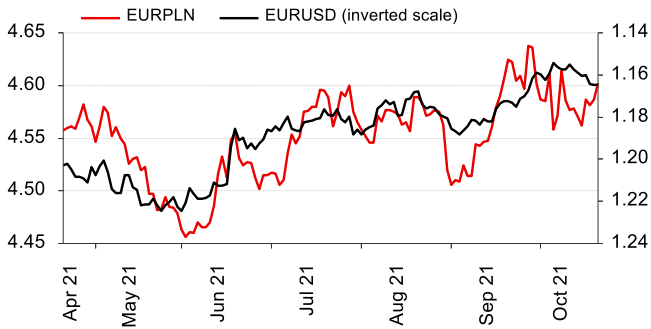
Source: GUS, Santander

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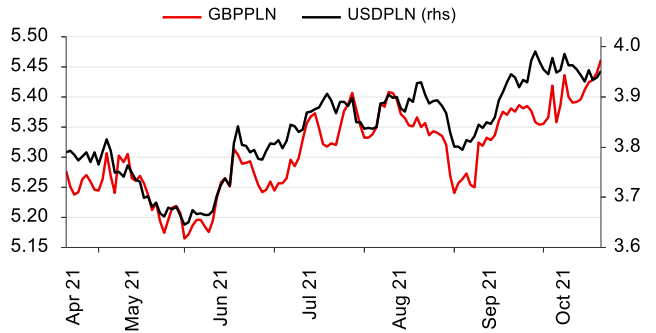
## FX and FI markets

### EURPLN and EURUSD



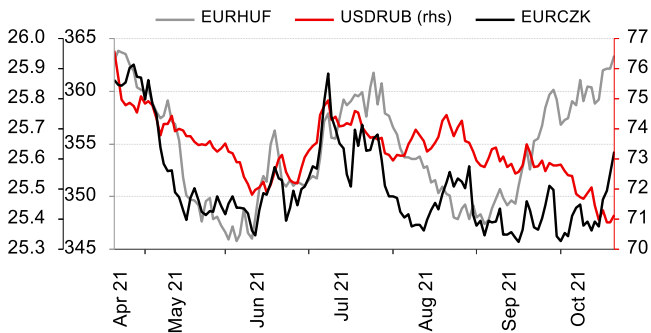
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



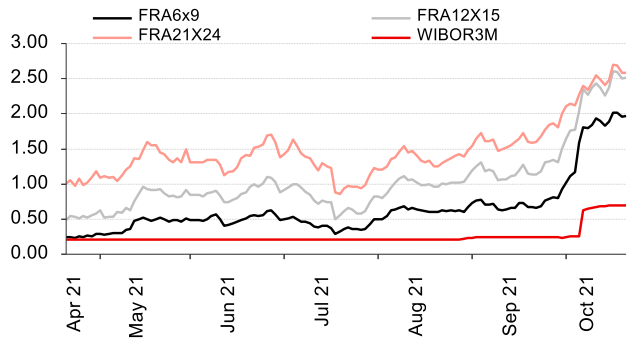
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



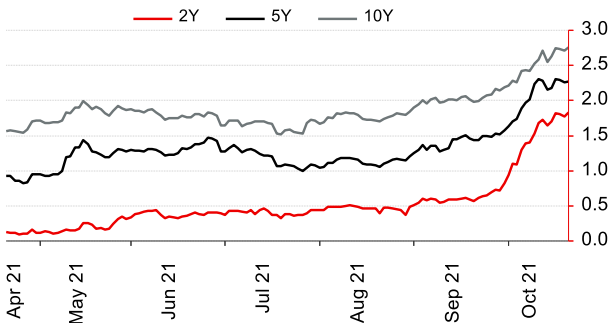
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



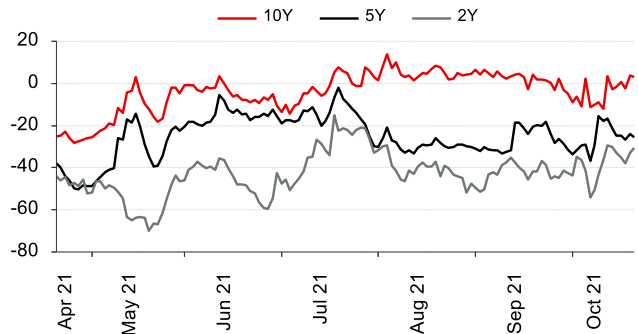
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



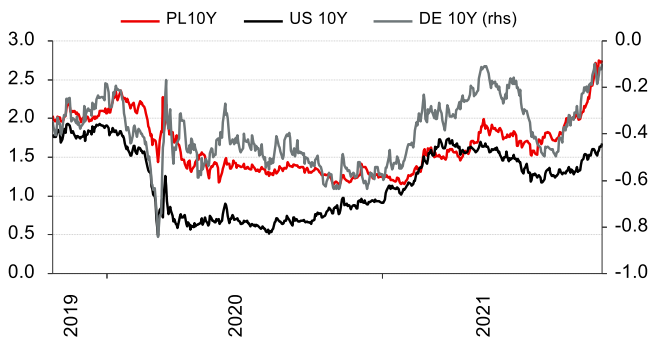
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



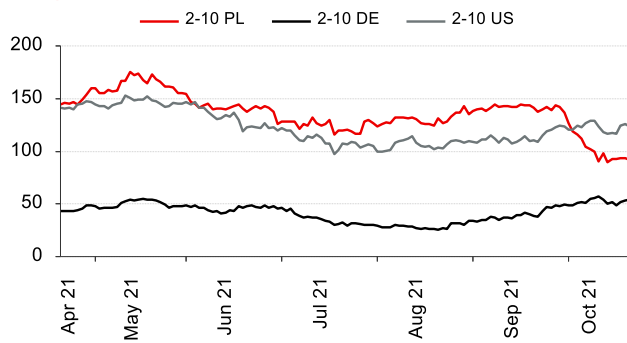
Source: Refinitiv Datastream, Santander Bank Polska

### 10Y bond yields



Source: Refinitiv Datastream, Santander

### Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (25 October)</b>						
10:00	DE	IFO Business Climate	Oct	pts	97.9	98.8
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Sep</b>	<b>%</b>	<b>5.6</b>	<b>5.6</b>
<b>TUESDAY (26 October)</b>						
16:00	US	Consumer Conference Board	Oct	pts	109.5	109.3
16:00	US	New Home Sales	Sep	% m/m	2.4	1.5
<b>WEDNESDAY (27 October)</b>						
	DE	Retail Sales	Sep	% m/m	-0.8	1.1
14:30	US	Durable Goods Orders	Sep	% m/m	-1.0	1.8
<b>THURSDAY (28 October)</b>						
11:00	EZ	ESI	Oct	pct.	-	117.8
13:45	EZ	ECB Main Refinancing Rate	Oct/21	%	0.0	0.0
14:00	DE	HICP	Oct	% m/m	0.0	0.3
14:30	US	GDP Annualized	3Q	% Q/Q	3.0	6.7
14:30	US	Initial Jobless Claims		k		290.0
16:00	US	Pending Home Sales	Sep	% m/m	1.0	8.1
<b>FRIDAY (29 October)</b>						
09:00	CZ	GDP SA	3Q	% y/y	3.2	8.1
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Oct</b>	<b>% y/y</b>	<b>6.4</b>	<b>6.4</b>
10:00	DE	GDP WDA	3Q	% y/y	2.7	9.4
11:00	EZ	Flash HICP	Oct	% y/y	3.7	3.4
11:00	EZ	GDP SA	3Q	% y/y	3.5	14.2
14:30	US	Personal Spending	Sep	% m/m	0.5	0.8
14:30	US	Personal Income	Sep	% m/m	-0.1	0.2
14:30	US	PCE Deflator SA	Sep	% m/m	0.3	0.4
16:00	US	Michigan index	Oct	pts	71.4	71.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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