

29 October 2021

Eyeopener

ECB admits inflation might be higher for longer

Lagarde assured that the conditions for interest rate hikes are not yet met
 EURUSD higher, EURPLN stable, forint continues gains
 POLGB yields and IRS strongly up
 Today Polish flash October CPI, Eurozone inflation

Even though the ECB is trying to be as dovish as possible and stress it is in no hurry to tighten monetary policy, yesterday EURUSD rebounded by 0.7%. Stock indices in Europe barely changed, while in the USA increased. UST yields moved slowly up towards 1.60%. Inflation in Germany surprised to the upside and moved to 4.6% y/y from 4.1% y/y (consensus at 4.5% y/y). The first reading of the US GDP in 3Q21 was lower than expected by the market. The main ESI indicator for the euro zone climbed slightly above levels seen in last two months, especially thanks to better assessment of business climate in services. Total employment expectations index (EEI) climbed to the highest level in three years.

The ECB did not change interest rates and assured that it will be buying assets (in net terms) within its PEPP programme at least until end of March 2022, but at a lower scale than in 2Q21 and 3Q21. During the press conference Christine Lagarde stressed that the elevated inflation will be present longer than assumed, but the pressure should go down in 2022. At the same time, according to Lagarde conditions for rate hikes will not be met in the nearest future – contrary to market expectations. The ECB head also said that so far supply limitations and high energy costs are not hurting the recovery, but this may become the case should problems hold for longer.

MPC's Łukasz Hardt stressed the importance of FX rate in fighting inflation. According to him, weaker zloty is not crucial for exports, but can generate inflation pressure in imported goods. Hardt also thought that rates should go up at the November MPC meeting (next Wednesday). He also mentioned NBP's consumer inflation expectations measure already exceeding 6% and other analyses showing that high inflation is fuelling into wage expectations. According to Hardt, a slight monetary adjustment was also justified by looser fiscal policy because of the Polish Deal.

Head of the European Commission Ursula von der Leyen said that Polish National Recovery Plan will be approved if it includes pledge to conduct changes in the judiciary system, which are the crux of the conflict between the Polish government and the EU. Polish government representatives claimed that lack of approval for the Plan could trigger a complaint against the Commission to the ECJ.

October ESI indicators from Poland did not deviate markedly from the previous readings. More interesting features include a rebound in expected output in industry and rising price expectations to the highest level since 2004. Construction saw rising problems with finding staff (highest in 1,5 years) and materials (highest since comparable data are available, i.e. 1993) Even though industry managed to improve its low stocks of finished goods, retail trade saw their stocks at the lowest level since 2007. Consumer inflation expectations reached the second highest level in the history of the survey (following April 2020).

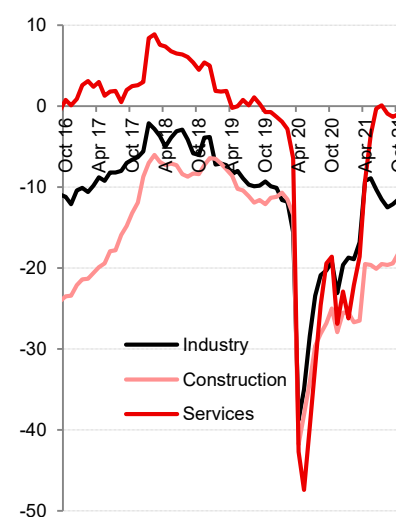
EURUSD was awaiting the ECB decision and its communication near 1.16 level, and then spiked to 1.168 and remained there for the rest of the day.

EURPLN moved up slightly. USDPLN was more volatile, as it fell from just below 4.00 to 3.96. Today in the morning the zloty may be affected by the release of flash CPI for October. Surprise to the upside (market consensus is at 6.5%) would strengthen expectations for quite big interest rate hike at the November's MPC meeting. However, the market pricing of such move is already quite high, so the downward surprise potentially may destabilise the zloty more (it would be the first downward surprise in the current wave of inflation rise).

As regards **other CEE currencies**, EURCZK rose slightly, just like EURPLN. EURHUF fell significantly for the third day in a row – by 0.5%, below 361.5. Even though crude oil initially extended its drop yesterday, ultimately its change was small, which allowed USDRUB to stay near 70.3 – the level at which it spent most of the session.

On the **interest rate market** the day before the flash CPI release for October the selloff affected mainly the short-term bonds (2Y yield up 9bp to 1.93%). In the belly of the curve the move reached +6bp and the long end remained stable. On the IRS curve the moves were even bigger: 15bp in 2Y (to 2.30%), 10bp in 5Y, 5bp in 10Y (to 2.75%). The FRA 9x12 moved up by another 10bp.

Sectoral ESI business climate indicators for Poland



Source: European Commission, Santander

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FX market

Today's opening			
EURPLN	4,6249	CZKPLN	0,1795
USDPLN	3,9642	HUFPLN*	1,2660
EURUSD	1,1664	RUBPLN	0,0564
CHFPLN	4,3473	NOKPLN	0,4735
GBPPLN	5,4668	DKKPLN	0,6215
USDCNY	6,3903	SEKPLN	0,4642

*for 100HUF

Last session in the FX market 28.10.2021

	min	max	open	close	fixing
EURPLN	4,610	4,631	4,622	4,623	4,628
USDPLN	3,949	3,998	3,980	3,956	3,994
EURUSD	1,158	1,169	1,161	1,168	-

Interest rate market 28.10.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1,93	9
DS0726 (5Y)	2,37	8
DS0432 (10Y)	2,90	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1,81	7	0,30	1	-0,45	2
2L	2,31	14	0,64	-1	-0,27	5
3L	2,50	13	0,92	0	-0,14	5
4L	2,58	12	1,12	1	-0,07	5
5L	2,64	11	1,21	-1	-0,01	5
8L	2,70	6	1,51	4	0,15	5
10L	2,76	4	1,56	0	0,25	5

WIBOR rates

Term	%	Change (bps)
O/N	0,26	2
T/N	0,33	-1
SW	0,51	0
2W	0,54	0
1M	0,60	0
3M	0,72	0
6M	0,94	0
1Y	1,23	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1,16	3
3x6	1,75	10
6x9	2,16	6
9x12	2,58	11
3x9	1,93	15
6x12	2,39	15

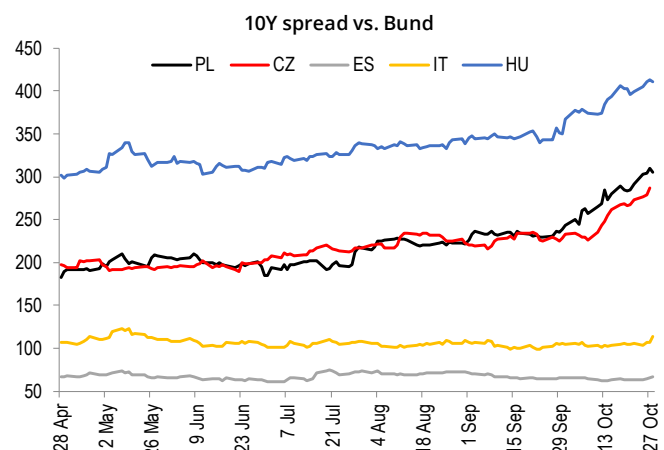
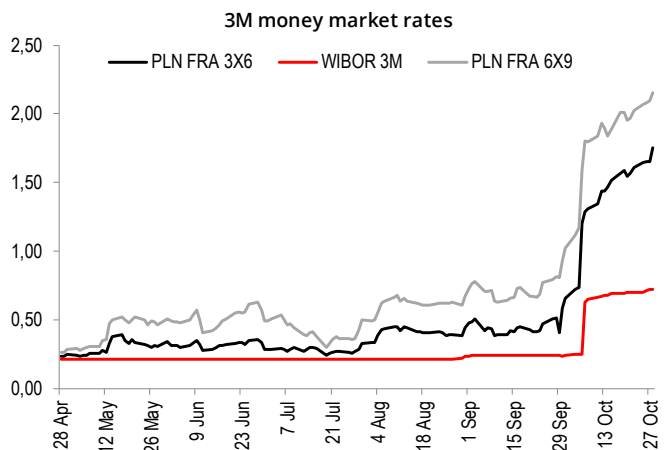
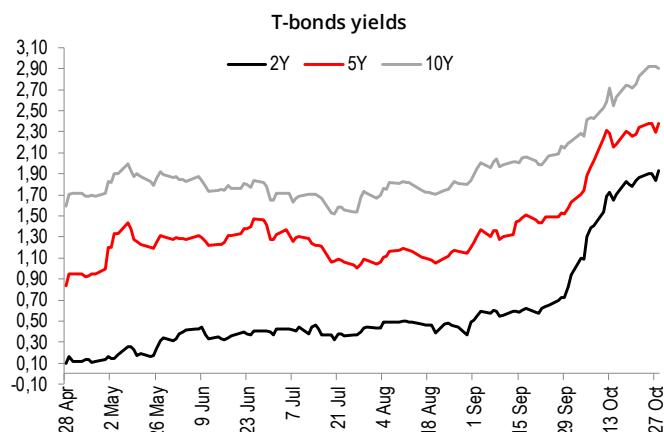
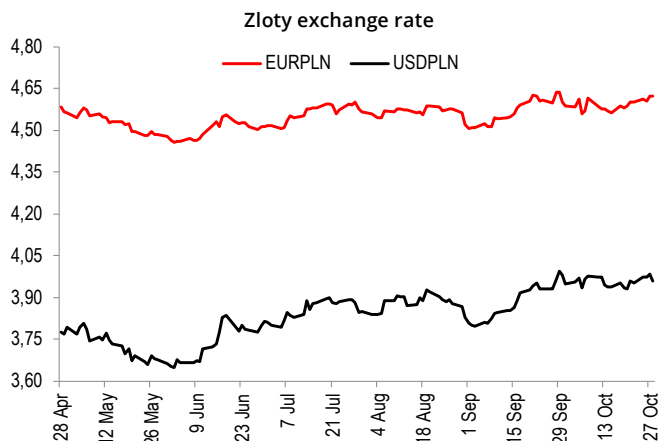
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	305	-4
France	10	0	35	0
Hungary	60	0	411	-2
Spain	31	1	66	1
Italy	45	2	114	7
Portugal	20	0	56	1
Ireland	11	0	42	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 (22 October)								
09:30	DE	Germany Manufacturing PMI	Oct	pts	56.6		58.2	58.4
09:30	DE	Markit Germany Services PMI	Oct	pts	55.2		52.4	56.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	57.1		54.7	58.6
10:00	EZ	Eurozone Services PMI	Oct	pts	55.4		54.7	56.4
14:00	PL	Money Supply M3	Sep	% y/y	8.6	8.5	8.6	9.1
MONDAY (25 October)								
10:00	DE	IFO Business Climate	Oct	pts	97.9		97.7	98.8
10:00	PL	Unemployment Rate	Sep	%	5.6	5.6	5.6	5.8
TUESDAY (26 October)								
16:00	US	Consumer Conference Board	Oct	pts	109.5		113.8	109.8
16:00	US	New Home Sales	Sep	% m/m	2.4		14.0	-1.4
WEDNESDAY (27 October)								
	DE	Consumer Confidence (GfK)	Sep	% m/m	-0.5		0.9	0.3
14:30	US	Durable Goods Orders	Sep	% m/m	-1.0		-0.4	1.3
THURSDAY (28 October)								
11:00	EZ	ESI	Oct	pct.	-		119.0	117.9
13:45	EZ	ECB Main Refinancing Rate	Oct/21	%	0.0		0.0	0.0
14:00	DE	HICP	Oct	% m/m	0.4		0.5	0.3
14:30	US	GDP Annualized	3Q	% Q/Q	3.0		2.0	6.7
14:30	US	Initial Jobless Claims		k	290		281	291
16:00	US	Pending Home Sales	Sep	% m/m	1.0		-2.3	8.1
FRIDAY (29 October)								
09:00	CZ	GDP SA	3Q	% y/y	3.2		2.8	8.1
10:00	PL	CPI	Oct	% y/y	6.4	6.4	-	5.9
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, Bloomberg, Parkiet
* in the case of a revision the data is updated

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