

Eyeopener

NBP projection might have underestimated CPI

We think inflation may soon escape above the NBP projection, forcing another rate hike
 Dollar down, EM currencies gained, incl. the zloty
 10Y UST and Bund yield up 2bp, more weakness of Polish bonds
 Today ZEW indices for Eurozone and Germany, Hungarian CPI

Stock markets started the week in black despite lack of important data from core markets (among less important statistics: euro zone Sentix sentiment climbed to 18.3pts from 16.9pts one month earlier, exceeding expectations). 10Y UST yield climbed by 2bp to 1.48% but is still markedly below 1.55% seen in early November. Similarly, 10Y Bund yield climbed by 2bp to -0.26%, 16bp below early November. Fed's James Bullard said that if there is a need to fight inflation more intensively, then the Fed can end its QE programme earlier than in mid-2022. According to Bullard, next year the FOMC can hike rates twice, but not more. Today's data on German foreign trade in September showed a surplus at €16.2bn, in line with market expectations, but both exports and imports surprised to the downside.

MPC's Jerzy Żyżyński said in a Bloomberg interview that if inflation is higher than expected in the NBP staff projection (which is quite probable, in our view), then a rate hike by 75bp would be necessary. He also suggested that the MPC mulled a hike by 100bp in November.

The **details of the NBP November economic projections** show that the top of CPI inflation is expected in 1Q22 at 7.0% y/y (the quarterly average). We assume it can be 7.8% at that time. We also think that the 4Q21 average can be significantly above the NBP estimates (7.1% y/y vs. 6.7%). The NBP projection is also showing that inflation is going to be marginally above the upper bound of the +/-1pp band around the central bank target, without any clear upside trend in the final quarters of the projection (the probability of re-entry into the NBP tolerance zone in 2H23 was estimated at 46-48%). However, core CPI is expected to descend to 3.4% in 1H23 but may start to rise again in the final two quarters of the projection (to 3.6% and 3.7% respectively). Authors of the projection see the risks to the projected CPI path as balanced. The output gap is going to be moderately positive in 2022, but in 2023 it may grow to around 2% of potential GDP, which means a growing demand pressure on CPI in the period that can be affected by current monetary policy decisions. Also, the unemployment gap (unemployment rate minus the rate that would stabilise wage growth) will remain below -1pp throughout the projection – this can be read as a permanent risk of second round effects. The projection showed maintained historically high pace of the rise of unit labour costs in the whole time span. The NBP staff has significantly reduced the contribution to GDP growth from domestic demand while at the same time raising the net exports part (on stronger external growth, the negative effect on domestic demand of the October rate hike). We think that the shape of the projection suggested the MPC that a strong one-off adjustment of policy could be enough to bend the CPI path towards the target. We believe however that the next readings of CPI will be deviating upwards from the projection, which will affect the December MPC decision (we currently see a 50bp hike there, but this will be data dependent).

NBP issued [2022 meetings calendar](#).

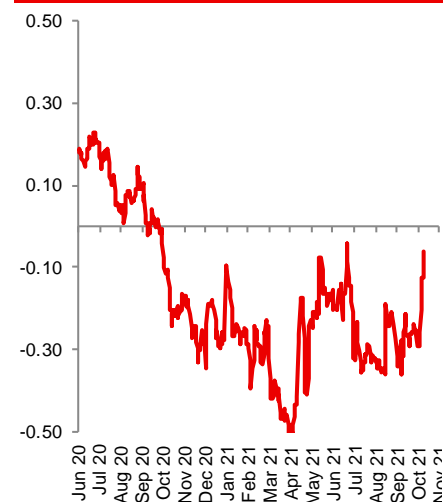
EURUSD on Monday was not overly volatile - it has opened near 1.1550 and during the day was slowly crawling higher to finish the day at 1.1580 (+0.2%). This slow move higher continued overnight and in the morning EURUSD opens near 1.1600.

EURPLN still remains below 4.60 however it is difficult to find a strong tendency either way and especially to the downside - the currency pair did not even manage to reach a relatively close 50-day moving average at 4.5830 which possibly suggest a short-term neutral stance on the currency by investors.

As for **other CEE currencies**, EURHUF (after earlier declines and consolidation lasting few days) rebounded up by 0.4% to 360.2. It took place despite a sizeable improvement of trade balance, which in September reached EUR1m surplus, after the record high deficit EUR750m in August. It was caused by export rebound by 24% m/m (while imports rose 14% m/m). EURCZK also rebounded, slightly less i.e. 0.3% to 25.30. Czech trade balance also improved (to -CZK13.3bn from -CZK27.5bn previously) but was lower than expected. Also Czech industrial production disappointed in September, falling 4.0% y/y vs. expected -1.7% y/y and after +1.4% y/y in the previous month. USDRUB did not change (71.30).

On the **interest rate market** the IRS curve moved up by 5-6bp during the day (2Y 2.88%, 5Y 2.94%) while investors' activity was low. Bond curve increased even more, c.10bp (10Y 2.91%) Thus, the normalisation of asset swap spreads is taking place; for 2Y, 5Y and 10Y they are currently at -0.12%, -0.06% and 0.02%, correspondingly, and they are approaching the pre-pandemic levels. BGK sold bonds worth PLN0.3bn.

5Y asset swap spread in Poland, %



Source: Bloomberg, Santander

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FX market

Today's opening			
EURPLN	4.5867	CZKPLN	0.1804
USDPLN	3.9543	HUFPLN*	1.2635
EURUSD	1.1599	RUBPLN	0.0554
CHFPLN	4.3331	NOKPLN	0.4650
GBPPLN	5.3677	DKKPLN	0.6212
USDCNY	6.3930	SEKPLN	0.4614

*for 100HUF

Last session in the FX market						08.11.2021
	min	max	open	close	fixing	
EURPLN	4.585	4.600	4.596	4.588	4.595	
USDPLN	3.954	3.980	3.974	3.957	3.975	
EURUSD	1.155	1.159	1.156	1.159	-	

Interest rate market 08.11.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.84	12
DS0726 (5Y)	2.92	11
DS0432 (10Y)	2.99	8

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	2.58	4	0.29	2	-0.50	1
2L	2.87	4	0.65	5	-0.36	2
3L	2.97	6	0.91	7	-0.26	2
4L	2.97	6	1.08	6	-0.19	3
5L	2.93	7	1.20	6	-0.13	4
8L	2.89	5	1.42	5	0.04	4
10L	2.91	5	1.51	5	0.14	4

WIBOR rates

Term	%	Change (bps)
O/N	1.03	7
T/N	1.10	-7
SW	1.25	0
2W	1.26	0
1M	1.33	1
3M	1.55	-1
6M	1.83	-4
1Y	2.24	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.75	1
3x6	2.64	5
6x9	2.95	5
9x12	3.06	2
3x9	2.88	5
6x12	3.11	6

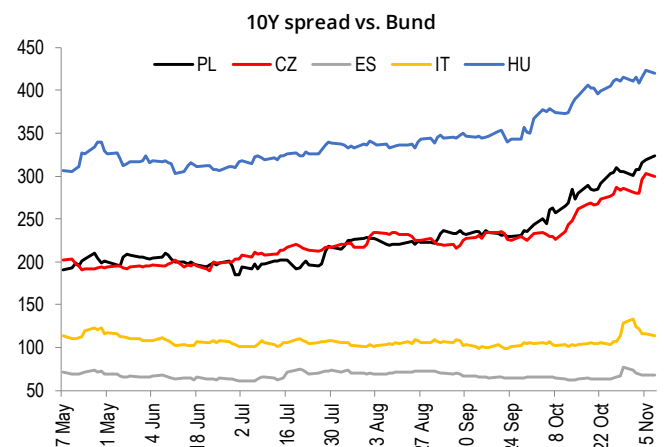
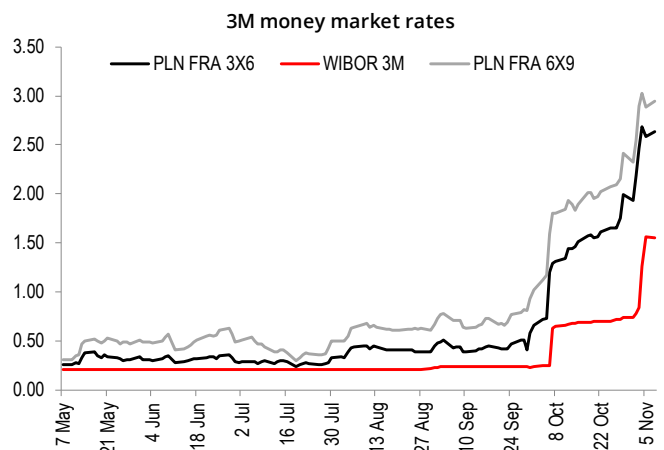
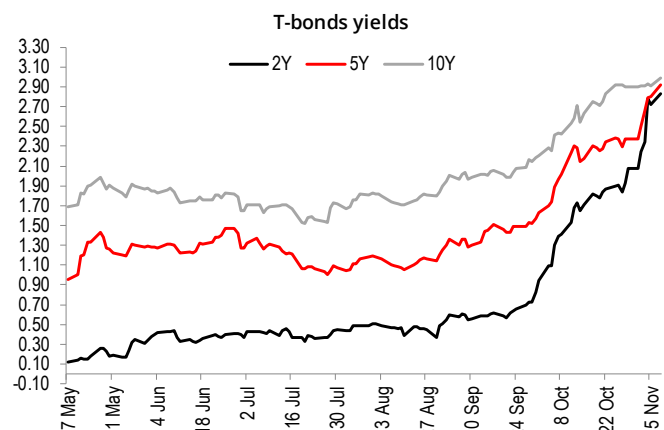
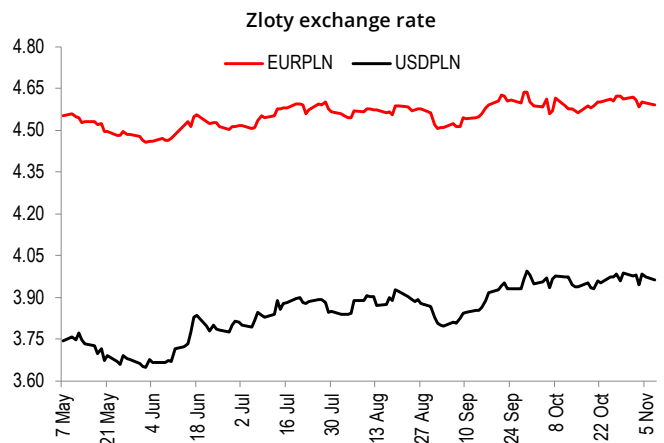
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	324	5
France	10	0	34	0
Hungary	60	0	420	-4
Spain	32	-1	68	0
Italy	46	0	114	-2
Portugal	21	-1	58	0
Ireland	11	0	42	1
Germany	7	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 (5 November)							
08:00	DE	Industrial Production SA	Sep	% m/m	1.0	-1.1	-3.5
09:00	HU	Industrial Production SA	Sep	% y/y	-0.2	-1.7	0.6
11:00	EZ	Retail Sales	Sep	% m/m	0.2	-0.3	0.3
13:30	US	Change in Nonfarm Payrolls	Oct	k	450.0	531.0	312.0
13:30	US	Unemployment Rate	Oct	%	4.7	4.6	4.8
MONDAY (8 November)							
09:00	CZ	Industrial Production	Sep	% y/y	-1.7	-4.0	1.4
TUESDAY (9 November)							
08:00	DE	Exports SA	Sep	% m/m	0.0	-0.7	-0.8
09:00	HU	CPI	Oct	% y/y	6.2	-	5.5
11:00	DE	ZEW Survey Current Situation	Nov	pts	-	-	21.6
WEDNESDAY (10 November)							
08:00	DE	HICP	Oct	% m/m	0.5	-	0.5
09:00	CZ	CPI	Oct	% y/y	5.4	-	4.9
13:30	US	Initial Jobless Claims		k		-	269.0
14:30	US	CPI	Oct	% m/m	0.55	-	0.4
FRIDAY (12 November)							
10:00	PL	GDP	3Q	% y/y	4.8	-	11.2
11:00	EZ	Industrial Production SA	Sep	% m/m	-	-	-1.6
16:00	US	Michigan index	Nov	pts	72.5	-	71.7

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

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