

# Eyeopener

## Inflation day for the US, Germany, Czechia

Stock indexes still on the rise, S&P500 already 2.1% up month-to-date  
 EURUSD stable at 1.1590, 10Y UST and Bund yield lower by 4bp  
 EURPLN stable slightly below 4.60 for another day  
 Flattening of the domestic IRS and bond yield curve  
 Today October inflation in the USA, Germany and Czechia

Stock markets went up for another day in a row, while core market yields declined prior to today's data on US inflation in October. Brent oil price went slightly up and remained above US\$84. Gold prices went up for the fourth day in a row (US\$1830 per barrel). The ZEW index showing current business conditions dropped to 12.5 pts from 21.6, while the market had thought it will go down to 18.3. The ZEW index reflecting business expectations, both for Germany and for the euro zone, climbed strongly (due to lower inflation expectations, optimism on the equity markets and in sectors not affected by supply chain disruptions). The optimism was not broadly seen in all sectors, suggesting that it can prove short-lived. The US NFIB index fell to 98.2pts while the market expected a rise to 99.5pts (previous reading 99.1pts). The weakening was due to worse general outlook for the upcoming 6 months (due to supply chain disruptions). SME were pointing that inflation, cost of labour and quality of labour may prove most considerable obstacles in the upcoming time. Today we will get to see many inflation readings. We already know that German HICP inflation climbed to 4.6% in October (in line with the flash release) and in China consumer prices rose by 1.5% y/y (slightly stronger than expected) as compared to 0.7% in the previous reading. Market sentiment was undermined by higher-than-expected Chinese PPI, which climbed to 13.5% y/y from 10.7% (highest in more than 20 years).

**ECB's Klaas Knot** said that the bank should refrain from strong monetary policy commitments (we assume he had the forward guidance in mind) and at the same time not disregard the inflation risks. He added, that it is not clear yet whether ECB will increase the old APP program at the end of the pandemic PEPP program and a lot will depend on the inflation outlook. In his opinion, the conditions needed for a 2022 interest rates lift-off will rather not be met. **James Bullard from Fed** said that the inflation seems to be more broad based than it is often portrayed. The labour market is rather running hot (the unemployment rate might fall to below 4% in 1Q22) and at the same time Fed might be forced to act earlier than it is currently expected if the inflation remains at the elevated level.

**MPC member Rafal Sura** said that in order to lower the CPI inflation to below the 3.5% (upper bound of tolerable inflation target deviations) before the end of 2023 the interest rates increases which barely bring the interest rate level to its pre-pandemic level of 1.50% might not be enough. Another MPC member **Lukasz Hardt** said that it is highly plausible that the interest rates hiking cycle would be continued also at the December meeting. He added however that one should be careful with too abrupt hikes (which suggests he is rather in favour of a hiking cycle stretched in time for longer). He added that interest rate increases are unlikely to influence the current inflation other than via the FX channel (potential PLN strengthening).

**EURUSD** one day before the publication the October inflation data in the US (which is today) was not overly volatile – it opened and closed the day at 1.1590. Today it opens lower near 1.1560.

**EURPLN** was stable for the most part of the day within the narrow 4.59-4.60 range. It was another day that it has not even tried to approach the 50-day moving average which is not far below (4.5830) which one might interpret as a slightly PLN bearish sign - the EURPLN exchange rate seems likely to return above 4.60 in the coming days.

As regards **other CEE currencies**, EURHUF decreased from 361 to 360 after higher than expected inflation print for October (6.5% y/y, vs expected 6.2%, previously 5.5%). Therefore EURHUF returned to the level from the start of the month. EURCZK did not change (25.23). Market expectations for today's Czech inflation for October are at 5.5% y/y but after yesterday's surprise in Hungary an upside surprise seems quite possible. Central bank of Romania hiked main interest rate from 1.50% to 1.75%, less than market expected (2.00%). As a result EURRON approached 4.95. The bank started tightening its policy in October and has raised rates by 50bp so far.

On the **interest rate market** the IRS and bond curves flattened even more (yields at the short end went up 2-4bp while those at the long end down 2-4bp). Therefore, 2x10 spread on the IRS curve is already negative (-2bp) and 5x10 at even -5bp. FRA market is currently pricing-in the NBP rate hike at the December's meeting by 70-75bp.

10Y US real rate, %



Source: Bloomberg, Santander

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### FX market

Today's opening			
EURPLN	4.5927	CZKPLN	0.1804
USDPLN	3.9673	HUFPLN*	1.2721
EURUSD	1.1576	RUBPLN	0.0561
CHFPLN	4.3406	NOKPLN	0.4664
GBPPLN	5.3827	DKKPLN	0.6212
USDCNY	6.3933	SEKPLN	0.4641

\*for 100HUF

### Last session in the FX market 09.11.2021

	min	max	open	close	fixing
EURPLN	4.583	4.598	4.587	4.593	4.594
USDPLN	3.950	3.971	3.954	3.964	3.962
EURUSD	1.157	1.161	1.160	1.159	-

### Interest rate market 09.11.2021

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.85	2
DS0726 (5Y)	2.88	-4
DS0432 (10Y)	2.89	-10

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	2.63	5	0.28	-1	-0.50	0
2L	2.91	4	0.62	-3	-0.36	0
3L	3.00	3	0.89	-2	-0.26	0
4L	2.99	2	1.04	-3	-0.20	-1
5L	2.96	2	1.15	-5	-0.15	-2
8L	2.88	0	1.37	-5	-0.01	-4
10L	2.90	-1	1.45	-5	0.10	-5

#### WIBOR rates

Term	%	Change (bps)
O/N	0.95	-8
T/N	1.08	-2
SW	1.25	0
2W	1.26	0
1M	1.33	0
3M	1.57	2
6M	1.87	4
1Y	2.25	1

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

Term	%	Change (bps)
1x4	2.18	43
3x6	2.74	11
6x9	3.00	6
9x12	3.10	4
3x9	2.96	8
6x12	3.19	9

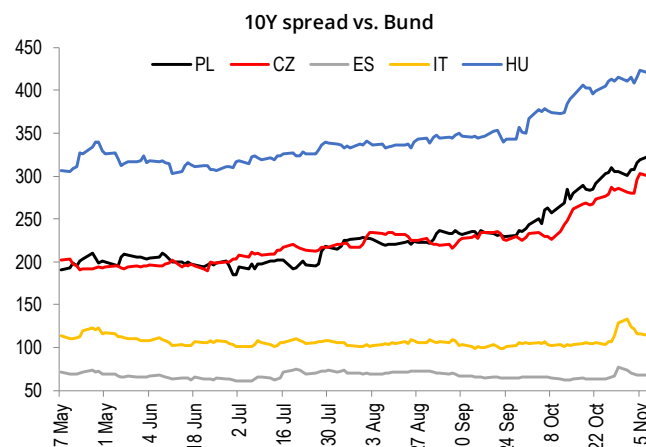
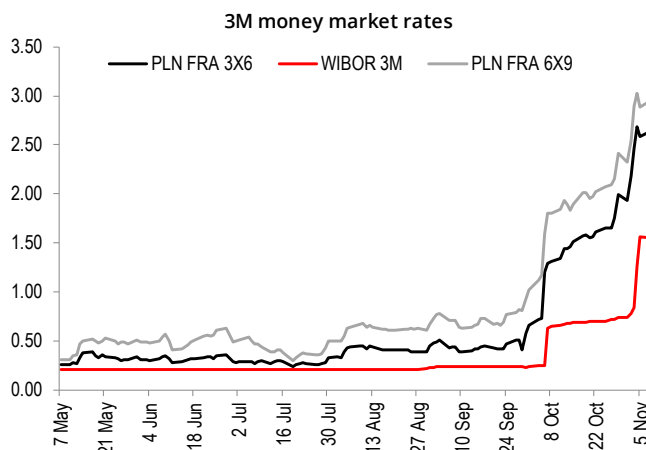
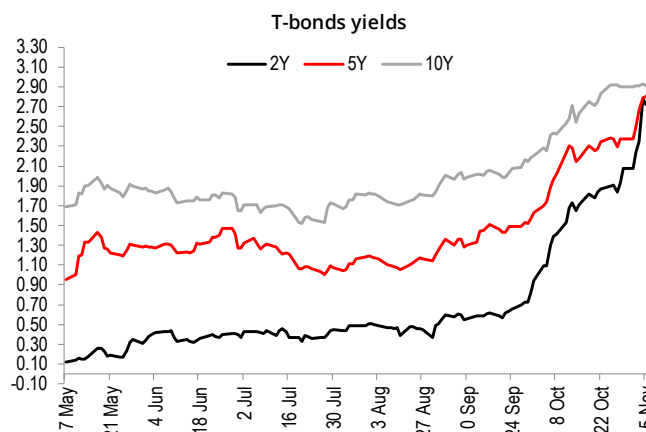
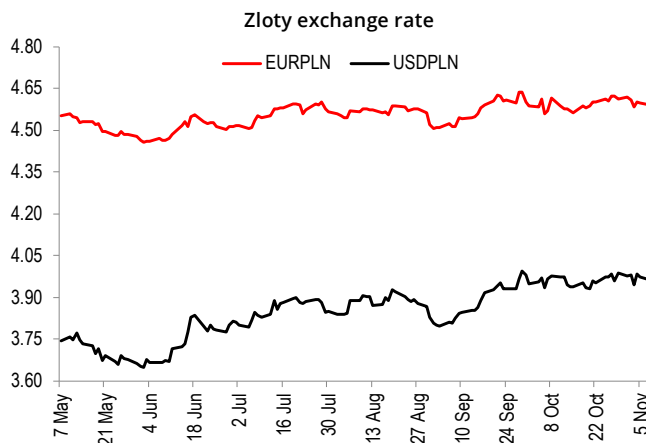
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	53	0	318	-5
France	9	-1	34	1
Hungary	60	0	426	7
Spain	32	0	68	0
Italy	45	0	114	0
Portugal	21	0	60	2
Ireland	11	0	43	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		
<b>FRIDAY (5 November)</b>							
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
<b>MONDAY (8 November)</b>							
09:00	CZ	Industrial Production	Sep	% y/y	-1.7	-4.0	1.4
<b>TUESDAY (9 November)</b>							
08:00	DE	Exports SA	Sep	% m/m	0.0	-0.7	-0.8
09:00	HU	CPI	Oct	% y/y	6.2	6.5	5.5
11:00	DE	ZEW Survey Current Situation	Nov	pts	18.3	12.3	21.6
<b>WEDNESDAY (10 November)</b>							
08:00	DE	HICP	Oct	% m/m	0.5	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
<b>FRIDAY (12 November)</b>							
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>3Q</b>	<b>% y/y</b>	<b>4.8</b>	<b>-</b>	<b>11.2</b>
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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