

Eyeopener

Core inflation climbed the highest in 20 years

Core inflation broke through 2020 peak levels

Strong data on US production and retail sales, 30bp rate hike in Hungary

EURUSD keeps declining, zloty still in defensive

Bond yields in core markets stable, in Poland fell significantly at the short end

Today HICP inflation in Europe

On Tuesday the markets were calmly enduring a further decline of EURUSD. Core market yields remained elevated. US and German stock markets went up by 0.6%. The stronger dollar triggered a depreciation of many EM currencies, including the zloty. The greenback was supported by strong readings from the US economy. US retail sales rose 1.7% m/m vs expectations at 1.4% m/m, amplifying expectations for earlier rate hikes in the USA. Also industrial output proved higher than expected (1.6% m/m instead of 0.9%) and the capacity utilisation increased to 76.4% from 75.2%. Fed's James Bullard mentioned a possibility to taper QE earlier than planned and to hike rates at the end of 1Q22.

In October the main measure of **Polish core inflation**, CPI ex food, fuel and energy, was 4.5% y/y, slightly below our estimate at 4.6% but up from September's 4.2%. This is the highest reading in 20 years and the first reading this year coming above the 2020 peak of 4.3%. We estimate that this measure will cross 5% in December this year and stay close to 6% at least until July next year, only to ease to around 4.5% by the end of 2022. The other three core inflation measures also moved significantly higher in October: CPI ex regulated prices jumped to 6.5% y/y from 5.5%, the highest reading since January 2001 which goes against the central bank's rhetoric of attributing the current very high inflation to EU's green policy and trash collection charges. CPI ex most volatile components and 15% trimmed mean are now also at 20-year highs (4.5% y/y and 5.1% y/y respectively). We assume that the data are among factors putting further pressure on the MPC to hike interest rates even more in December. Many MPC members stressed data dependency of their next decision.

MPC's Kamil Zubelewicz said that raising the main interest rate to 3% from the current 1.25% "would undoubtedly help to curb inflation expectations" and at the same time other parameters of monetary policy should be adjusted so that the policy normalisation takes place before February, when the Council members start being replaced. **Eugeniusz Gatnar** said that two more rate hikes by 50bp are needed to push inflation back inside the tolerance band around the inflation target in two years' time. **NBP governor Adam Glapiński** mentioned the lack of pressure for zloty weakening because of the potential market assessment that the central bank may hike interest rates insufficiently to curb inflation. He also repeated that even clear zloty appreciation would not lower the current inflation.

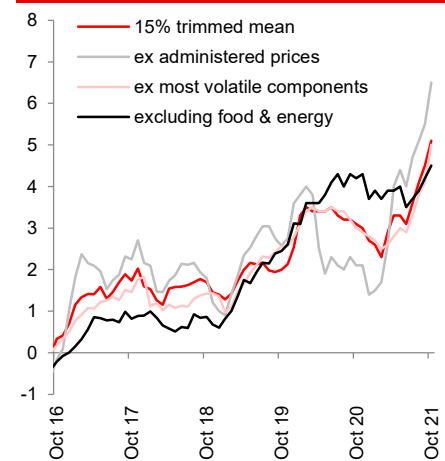
EURUSD declined further to 1.1325. Overnight the trend resumed and this morning the pair is close to 1.1300.

EURPLN reached 4.665 after starting from 4.645, but eventually make up for half of its losses. This is the first ever attempt to break the peak recorded during a dramatic PLN sell-off during the GFC. Currently the zloty is the second weakest EM currency YTD, following only the Turkish lira.

Other CEE currencies: the Czech koruna remained stable versus the euro at 25.22. The decision and communication of the National Bank of Hungary (MNB) fuelled volatility on the forint market, and the Hungarian currency has eventually gained over the day to 365.5 per euro. The MNB hiked rates by 30bp with the main rate up to 2.10%, in line with expectations, with total scale of tightening currently at 150bp. The MNB deputy president Barnabás Virág said that more hikes are necessary as the CPI's return to target at 3% is becoming more distant, inflation expectations are shooting up. The ruble lost 1% versus the dollar thus fully offsetting its 5% strengthening recorded in October (counting from October's low at USDRUB).

The Polish interest rate market saw a steepening of the bond curve based on a strong demand for shorter papers. 2Y bond yields declined by 22bp, 5Y by 10bp and the longer end went down only by 1p. The IRS curve took cue, but with lower range – only 9bp on the shorter end. FRA rates went down by 10bp.

Measures of Polish core CPI inflation, % y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.6517	CZKPLN	0.1804
USDPLN	4.1128	HUFPLN*	1.2744
EURUSD	1.1307	RUBPLN	0.0563
CHFPLN	4.4097	NOKPLN	0.4701
GBPPLN	5.5322	DKKPLN	0.6212
USDCNY	6.3854	SEKPLN	0.4621

*for 100HUF

Last session in the FX market						16/11/2021
	min	max	open	close	fixing	
EURPLN	4.639	4.667	4.644	4.650	4.665	
USDPLN	4.077	4.111	4.082	4.102	4.106	
EURUSD	1.133	1.138	1.138	1.133	-	

Interest rate market 16/11/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.82	-32
DS0726 (5Y)	3.04	-11
DS0432 (10Y)	3.00	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	2.76	-10	0.33	-1	-0.50	0
2L	3.02	-9	0.76	-1	-0.32	0
3L	3.11	-9	1.06	3	-0.21	-1
4L	3.10	-6	1.23	2	-0.13	-1
5L	3.07	-5	1.36	2	-0.07	-1
8L	2.95	-2	1.59	2	0.09	0
10L	2.93	-2	1.67	2	0.20	0

WIBOR rates

Term	%	Change (bps)
O/N	0.97	-1
T/N	1.09	-1
SW	1.25	0
2W	1.27	0
1M	1.40	1
3M	1.64	2
6M	1.97	3
1Y	2.37	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	2.32	-15
3x6	2.92	-12
6x9	3.20	-12
9x12	3.22	-13
3x9	3.15	-11
6x12	3.31	-19

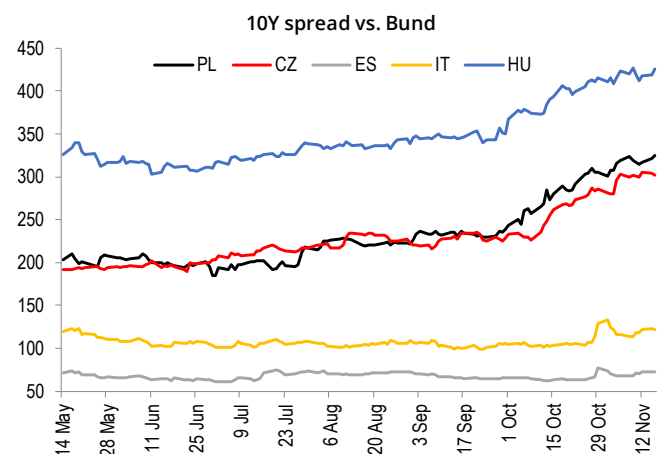
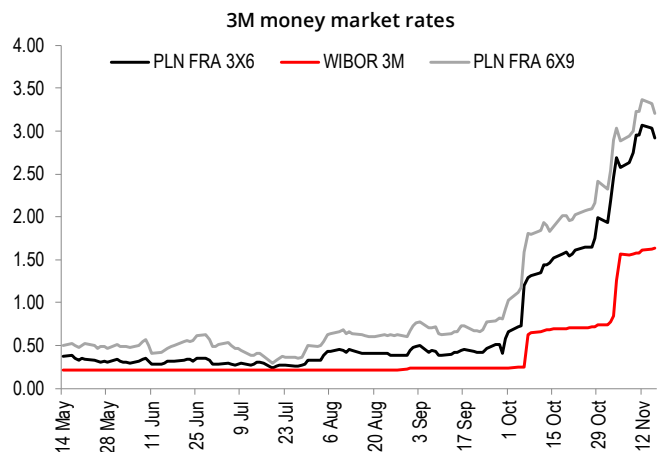
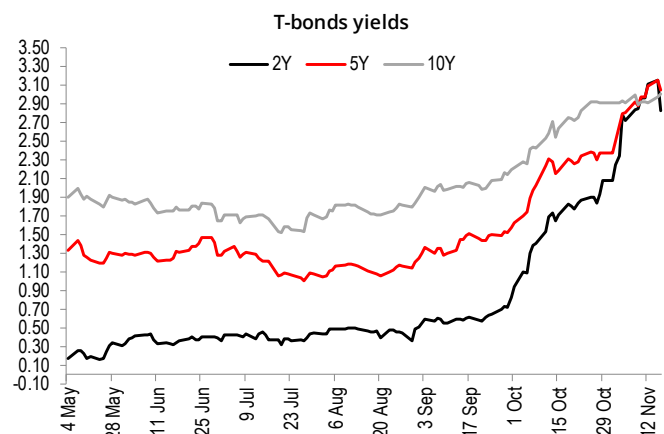
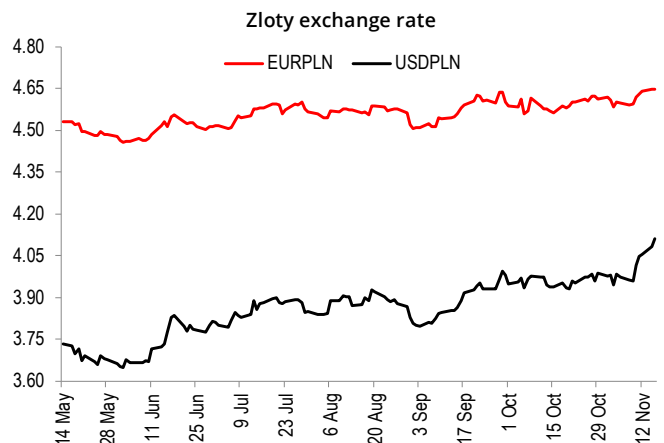
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	324	3
France	9	0	35	-2
Hungary	51	0	425	7
Spain	34	0	72	0
Italy	49	0	121	-2
Portugal	23	0	62	-1
Ireland	11	0	45	0
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 (12 November)								
10:00	PL	GDP	3Q	% y/y	4.8	3.8	5.1	11.2
11:00	EZ	Industrial Production SA	Sep	% m/m	-0.5		-0.2	-1.7
16:00	US	Michigan index	Nov	pts	72.5		66.8	71.7
MONDAY (15 November)								
10:00	PL	CPI	Oct	% y/y	6.8	6.8	6.8	5.9
14:00	PL	Current Account Balance	Sep	€mn	-	-1175	-1339	-1441
14:00	PL	Trade Balance	Sep	€mn	-	-321	-111	-1279
14:00	PL	Exports	Sep	€mn	-	25104	24537	21680
14:00	PL	Imports	Sep	€mn	-	25425	24648	22959
TUESDAY (16 November)								
09:00	HU	GDP	3Q	% y/y	7.4		6.1	17.8
11:00	EZ	GDP SA	3Q	% y/y	3.7		3.7	14.3
14:00	HU	Central Bank Rate Decision	Nov/21	%	2.1		2.1	1.8
14:00	PL	CPI Core	Oct	% y/y	-	4.6	4.5	4.2
14:30	US	Retail Sales Advance	Oct	% m/m	1.4		1.7	0.8
15:15	US	Industrial Production	Oct	% m/m	0.7		1.6	-1.3
WEDNESDAY (17 November)								
11:00	EZ	HICP	Oct	% y/y	-		-	4.1
14:30	US	Housing Starts	Oct	% m/m	1.61		-	-1.6
THURSDAY (18 November)								
14:30	US	Initial Jobless Claims		k	260.0		-	269.0
14:30	US	Index Philly Fed	Nov		20.95		-	23.8
FRIDAY (19 November)								
10:00	PL	Employment in corporate sector	Oct	% y/y	-	0.5	-	0.6
10:00	PL	Average Gross Wages	Oct	% y/y	-	8.7	-	8.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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