

17 December 2021

## Eyeopener

### Core inflation keeps going up

Equities higher after FOMC (Wednesday) and ECB (Thursday)

EURUSD and EURPLN higher

Decline of 10Y US and Polish government bond yields

Today wages and employment in Poland, German Ifo index

On Thursday stock markets ended the day in black after both FOMC and ECB did not give too much reason to worry about equity valuations. Yield of 10Y UST fluctuated near 1.45% and Bund after a short visit near -0.32% (+3bp) at the end of the day returned near the opening level. The Brent oil price remained unchanged (\$74.5/barrel). US new home starts rose as much as 11.8% m/m (expected 3.1%). Meanwhile, industrial production in November slightly disappointed: 0.5% m/m vs expected 0.6% and previous 1.6%. Regional Fed business climate indicators (Philadelphia, Kansas City) also disappointed.

On Thursday several **central banks** decided about interest rates: the Swiss National Bank (unchanged, main rate at -0.75%), Bank of England (unexpected hike +15bp, to 0.25%) and ECB (unchanged, 0.0%). ECB will end its PEPP in March, in line with the earlier announcement (with an option to restart it if needed), and temporarily – for six months – it will increase the standard APP programme. HICP forecasts were lifted for the euro zone: from 1.7% to 3.2% in 2022, from 1.5% to 1.8% in 2023. GDP forecast for 2022 was lowered from 4.6% to 4.2% and for 2023 lifted from 2.1% to 2.9%. The bank repeated that interest rate hikes in 2022 are not likely. Governor Lagarde added that there is likely upward risk for inflation forecast and that wage growth requires monitoring. Today in the morning the Bank of Japan kept negative interest rate and the target 0% for 10Y bond yield. It also announced tapering of the asset purchase programme since April and extended the credit support scheme for SME.

All Polish **core inflation** measures increased in November, the most important one – CPI ex prices of food energy reached 4.7% y/y, in line with market consensus and the highest since 2001. Three other core measures were even higher: CPI ex administered prices at 7.5% y/y (all time high), CPI ex most volatile prices 5.9% y/y, 15% trimmed mean 5.5% y/y. This is yet another argument that the price pressure is broad based, which should convince the MPC to continue monetary tightening. We expect core inflation ex food and energy to rise further towards 6% in 1H2022 (it will not be lowered by the government's "anti-inflation" shield).

**MPC's Cezary Kochalski** said that there are many reasons to seriously consider further tightening. This is why he expects one or more rate hikes, but the decisions will be less frequent and by c.50bp each. He explained that in the current situation the MPC target is to bring CPI down to the upper bound of the tolerance band, i.e. 3.5% y/y. In his view the launch of the government's anti-inflation shield (which will i.a. increase CPI in the period that is most affected by current MPC decisions) is not a reason to additionally hike rates. Kochalski added that reference to FX interventions in the MPC communication does not mean that NBP is preparing to act now, just a reminder that sudden unjustified market swings may be corrected by the central bank.

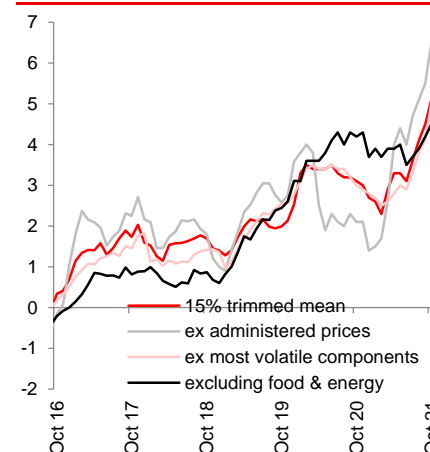
**EURUSD** after on Wednesday fell to 1.1230 during FOMC meeting (temporarily), on Thursday during the ECB meeting increased noticeably to 1.1350 (range of 1.1%), today in the morning it hovers near 1.1330.

**EURPLN** increased towards 4.64 from 4.62 erasing previous 2-day gains, today trades slightly above 4.63. At the end of the year we expect EURPLN at 4.65.

Other **regional currencies**: EURHUF was stable near important level of 370.0. MNB increased the 1-week deposit rate for another time, this time 30bp to 3.60%. Since June when the hikes started, the rate has been increased by a total of 285bp. EURCZK slightly rebounded to 25.33 (+0.3%) the move was rather a function of the ECB meeting than the Czech data. November producer prices PPI increased by 13.5% y/y beating expectations at 13.2% y/y, the previous reading was at 11.6% y/y.

On the Polish **fixed income** market the bond yield curve at the long end declined (10Y to 3.17%, -5bp) with short end more stable. The IRS curve has changed in a qualitatively similar fashion however the moves were less pronounced (10Y to 3.12%, -2bp). Core market yields declined.

Poland, core CPI measures, % y/y



Source: NBP, Santander

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**FX market**

**Today's opening**

EURPLN	4.6264	CZKPLN	0.1816
USDPLN	4.0829	HUFPLN*	1.2567
EURUSD	1.1332	RUBPLN	0.0554
CHFPLN	4.4404	NOKPLN	0.4549
GBPPLN	5.4533	DKKPLN	0.6207
USDCNY	6.3698	SEKPLN	0.4521

\*for 100HUF

**Last session in the FX market 16/12/2021**

	min	max	open	close	fixing
EURPLN	4.619	4.641	4.619	4.629	4.632
USDPLN	4.076	4.103	4.093	4.093	4.094
EURUSD	1.128	1.136	1.129	1.131	-

**Interest rate market 16/12/2021**

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.81	0
DS0726 (5Y)	3.28	-6
DS0432 (10Y)	3.19	-5

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.10	-1	0.48	2	-0.52	-1
2L	3.26	0	0.83	-2	-0.36	-2
3L	3.25	0	1.08	-5	-0.24	-1
4L	3.21	-2	1.17	-7	-0.17	-1
5L	3.19	-2	1.27	-5	-0.12	0
8L	3.10	-3	1.42	-4	0.02	0
10L	3.10	-3	1.48	-4	0.12	1

**WIBOR rates**

Term	%	Change (bps)
O/N	1.42	0
T/N	1.58	3
SW	1.78	0
2W	1.80	0
1M	1.93	0
3M	2.35	2
6M	2.61	1
1Y	2.82	1

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

Term	%	Change (bps)
1x4	2.79	0
3x6	3.19	-2
6x9	3.43	3
9x12	3.33	0
3x9	3.41	-2
6x12	3.57	5

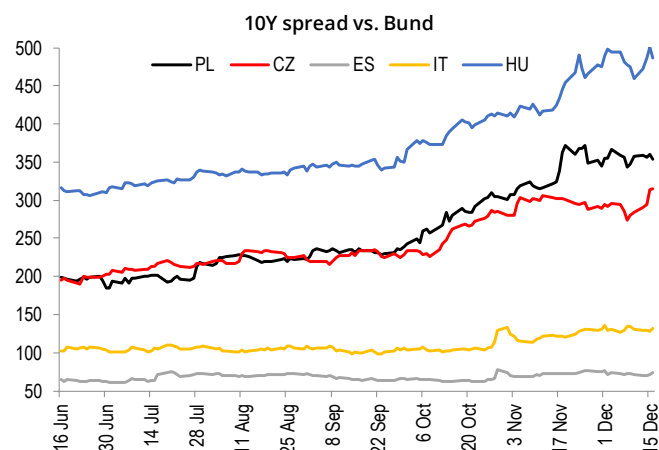
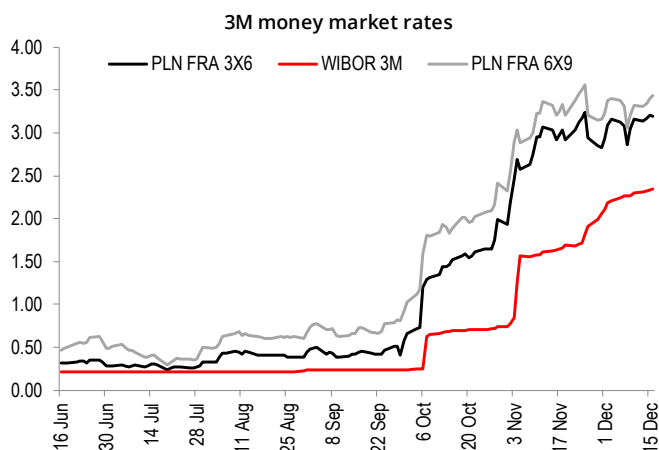
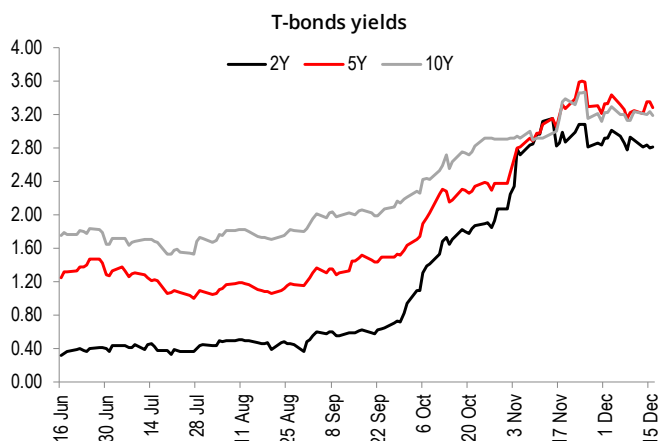
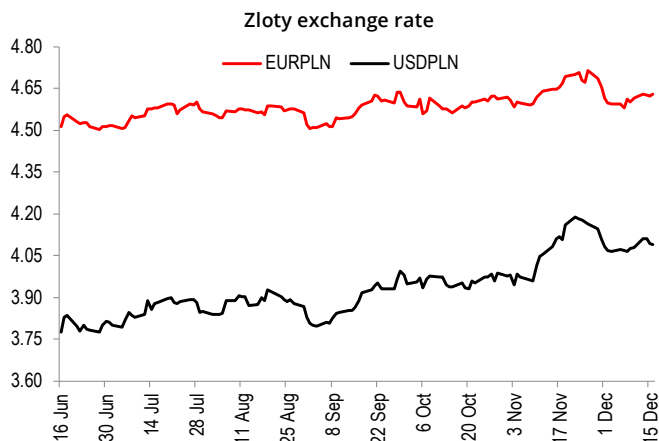
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	353	-7
France	9	0	36	1
Hungary	51	0	487	-15
Spain	35	0	74	3
Italy	50	1	132	4
Portugal	23	0	67	4
Ireland	11	0	43	2
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 (10 December)</b>							
08:00	DE	HICP	Nov	% m/m	0.3	0.3	0.3
09:00	CZ	CPI	Nov	% y/y	6.0	6.0	5.8
14:30	US	CPI	Nov	% m/m	0.7	0.8	0.9
16:00	US	Michigan index	Dec	pts	68.0	70.4	67.4
<b>TUESDAY (14 December)</b>							
11:00	EZ	Industrial Production SA	Oct	% m/m	1.2	1.1	-0.2
14:00	HU	Central Bank Rate Decision		%	2.5	2.4	2.1
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>Oct</b>	<b>€mn</b>	<b>-1204.0</b>	<b>-1274.0</b>	<b>-1791.0</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>Oct</b>	<b>€mn</b>	<b>112.0</b>	<b>-471.0</b>	<b>-822.0</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Oct</b>	<b>€mn</b>	<b>25526.0</b>	<b>25632.0</b>	<b>24982.0</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Oct</b>	<b>€mn</b>	<b>25351.0</b>	<b>26103.0</b>	<b>25804.0</b>
<b>WEDNESDAY (15 December)</b>							
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Nov</b>	<b>% y/y</b>	<b>7.7</b>	<b>7.7</b>	<b>7.8</b>
14:30	US	Retail Sales Advance	Nov	% m/m	0.8	0.3	1.7
20:00	US	FOMC decision			0.25	0.25	0.25
<b>THURSDAY (16 December)</b>							
09:30	DE	Germany Manufacturing PMI	Dec	pts	56.9	57.9	57.4
09:30	DE	Markit Germany Services PMI	Dec	pts	51.0	48.4	52.7
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	57.8	58.0	58.4
10:00	EZ	Eurozone Services PMI	Dec	pts	54.3	53.3	55.9
13:45	EZ	ECB Main Refinancing Rate		%	0.0	0.0	0.0
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Nov</b>	<b>% y/y</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>
14:30	US	Initial Jobless Claims		k	200	206	184
14:30	US	Housing Starts	Nov	% m/m	3.1	11.8	-3.1
14:30	US	Index Philly Fed	Dec		29.1	15.4	39.0
15:15	US	Industrial Production	Nov	% m/m	0.6	0.5	1.6
<b>FRIDAY (17 December)</b>							
10:00	DE	IFO Business Climate	Dec	pts	95.0	-	96.5
<b>10:00</b>	<b>PL</b>	<b>Employment in corporate sector</b>	<b>Nov</b>	<b>% y/y</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
<b>10:00</b>	<b>PL</b>	<b>Average Gross Wages</b>	<b>Nov</b>	<b>% y/y</b>	<b>9.0</b>	<b>8.8</b>	<b>8.4</b>
11:00	EZ	HICP	Nov	% y/y	4.9	-	4.9

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

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