

Eyeopener

Electricity and gas prices will boost inflation

Electricity and gas tariffs approved, well above our expectations
 Wage growth returned to almost 10% y/y, strong employment rise
 L.Kotecki, J.Tyrowicz, P.Litwiniuk are Senate's candidates to the MPC
 Strong decline of EURUSD, EURPLN still undecided
 Lower yields on the core debt markets
 Today Polish industrial production and PPI data

Main stock market indices in US and Europe on Friday erased all gains recorded after the FOMC meeting. On the core debt markets demand returned (10Y UST yield fell below 1.40%, Bund yield to -0.38%). EURUSD dropped to 1.124, i.e. by c.0.8% - the dollar was supported by market pessimism while euro suffered from weak lfo and no upward surprise from the final November's inflation (4.9% y/y).

The Polish energy market regulator (URE) decided about **new tariffs for gas and electricity**: average electricity bill for households will go up +24% in January, average gas cost by +54%. The changes are much higher than we had anticipated, which significantly lifts our inflation forecasts for 2022. We currently estimate that CPI, after rising to 8.1% y/y in December, will jump further in January, despite the government's "anti-inflation" shield. The January CPI will go up to at least 8.4% y/y (or higher if the actual impact of the "shield" is smaller, as we assumed the best-case scenario of -1.5pp). In 2Q22, when the biggest impact of the "shield" fades, inflation may jump well above 9% and it may start descending slowly later in 2H22. On average, inflation rate may be above 8%.

Corporate wages rose in November by 9.8% y/y vs. 9.0% market expectations and our 8.8% forecast, up from 8.4% y/y in October. Stats office signalled that the acceleration was partly caused by seasonal components (bonus payments in mining and utilities) coming a month earlier than usually. But in our view this does not fully explain the positive surprise and we see the reading as an expression of high wage pressure in the environment of low unemployment, labour shortages and quickly growing costs of living. **Employment rose by 0.7% y/y** vs expected 0.5%. The monthly rise at 12.6k is really strong, similar to what had been seen in November in years of strong economic growth. This improvement came despite record high number of quarantined people and may be linked to increased reactivation of those who escaped into labour inactivity early in the pandemic as well as more intensive inflow of migrant workers (judging by their social security registrations). The wage and employment data show strong household income growth which should support consumption.

Ludwik Kotecki, Joanna Tyrowicz and Przemysław Litwiniuk will be the Senate's candidates for MPC members. Two of them will be appointed by January 25, when the term of E.Gatnar and J.Kropiwnicki expires, and the third appointment will take place by November (replacing R.Sura).

MPC member Kamil Zubelewicz did not rule out inflation above 10% and said the current interest rate level is way to low and the policy of negative real interest rates should be abandoned, although he did not expect such radical move to happen.

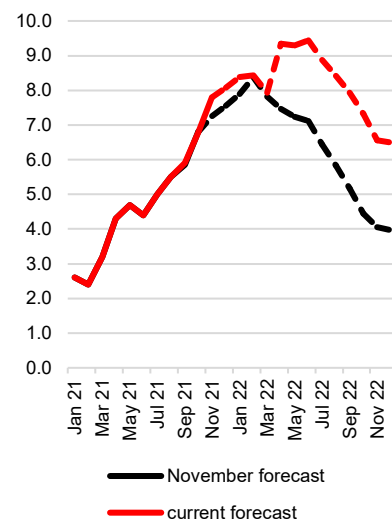
EURUSD for half a day stayed close to 1.132, after which it dropped quickly to 1.125. The dollar index regained all the loss seen after the FOMC decision and the euro turned the weakest month-to-date.

EURPLN was quite resilient to the volatility on core markets and stayed the whole week in 4.62-4.64 range (on Friday it started and finished the session near 4.643). We expect reduced liquidity this week and less market attention paid to the exchange rate. We reckon, the exchange rate might rise towards 4.65 before the year-end.

Other CEE FX: EURCZK fell by almost 0.5% to 25.2 and is already close to the lowest levels seen since 2012. The forint's gain was similar in size to the koruna's. EURHUF was even below 367, however in this case the FX rate is not trying to set a multi-year low, but is only struggling to get out of an upward trend started in September. USDRUB rose for the whole day and reached the pre-Fed meeting peak (74.1) with oil losing more than 2.5% in one day.

The interest rate market in Poland at first was not sure how to respond to the shocking rise of inflation outlook (after all, a large shift of energy prices to the upside may be seen as risk factor for economic growth). Eventually 10Y bond yield returned after the news up from 3.10% to 3.17% seen early in the session. The short end went up by some 5bp (and so did the whole IRS curve). We expect, lower volatility amid lower liquidity and relatively stable yields in the coming days and towards the end of the year. Today's November PPI reading may show another strong rise. Also today, the first element of the anti-inflation shield is coming into force (fuel excise cut).

Polish CPI forecast, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.6297	CZKPLN	0.1816
USDPLN	4.1140	HUFPLN*	1.2489
EURUSD	1.1250	RUBPLN	0.0553
CHFPLN	4.4562	NOKPLN	0.4549
GBPPLN	5.4533	DKKPLN	0.6207
USDCNY	6.3787	SEKPLN	0.4521

*for 100HUF

Last session in the FX market 17/12/2021

	min	max	open	close	fixing
EURPLN	4.622	4.640	4.629	4.633	4.633
USDPLN	4.077	4.114	4.080	4.108	4.088
EURUSD	1.127	1.135	1.135	1.128	-

Interest rate market 17/12/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.87	6
DS0726 (5Y)	3.32	3
DS0432 (10Y)	3.17	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.16	7	0.50	2	-0.54	-2
2L	3.30	5	0.87	3	-0.37	-1
3L	3.29	5	1.09	1	-0.26	-2
4L	3.27	6	1.20	3	-0.19	-2
5L	3.24	6	1.26	-1	-0.14	-2
8L	3.16	5	1.41	-1	0.00	-2
10L	3.15	6	1.46	-3	0.10	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.44	2
T/N	1.57	-1
SW	1.78	0
2W	1.80	0
1M	1.93	0
3M	2.35	0
6M	2.61	0
1Y	2.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	2.82	3
3x6	3.27	8
6x9	3.50	7
9x12	3.39	6
3x9	3.52	11
6x12	3.55	-2

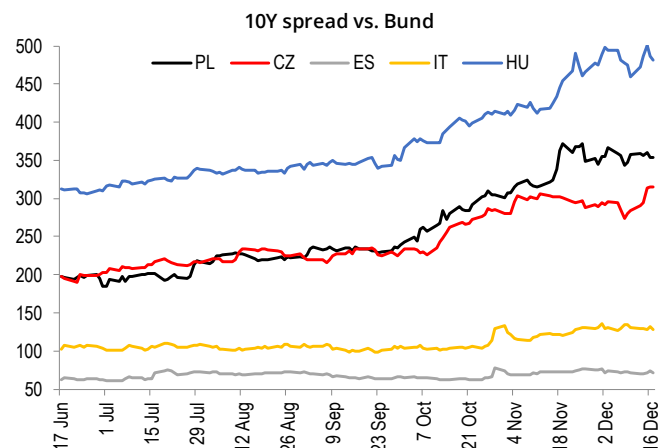
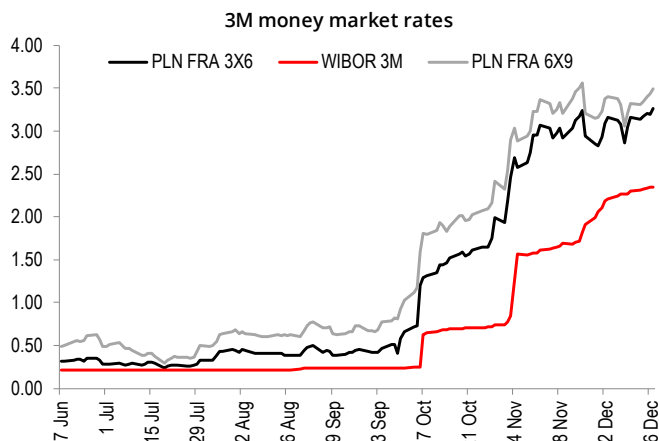
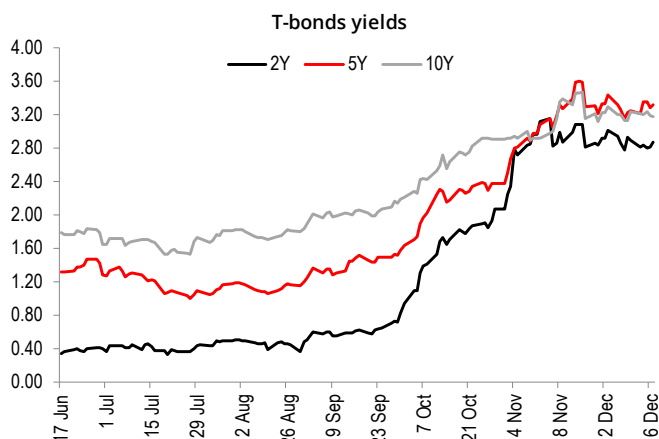
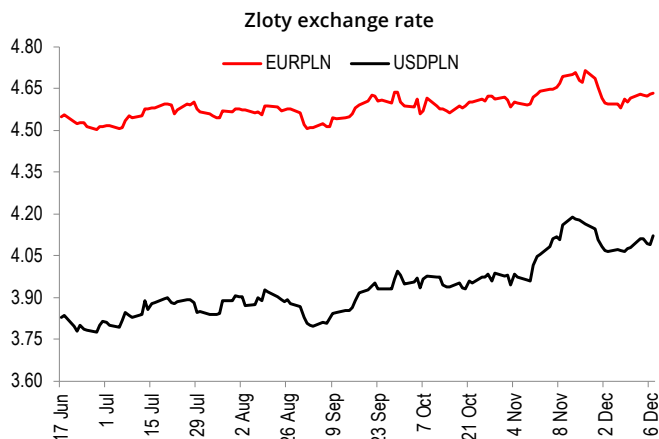
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	-5	354	1
France	9	0	35	-1
Hungary	51	0	482	-4
Spain	35	0	72	-2
Italy	50	0	129	-3
Portugal	23	0	64	-3
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 (17 December)								
10:00	DE	IFO Business Climate	Dec	pts	95.3		94.7	96.5
10:00	PL	Employment in corporate sector	Nov	% y/y	0.5	0.7	0.7	0.5
10:00	PL	Average Gross Wages	Nov	% y/y	8.9	4.9	9.8	8.4
11:00	EZ	HICP	Nov	% y/y	4.9		4.9	4.1
MONDAY (20 December)								
10:00	PL	Sold Industrial Output	Nov	% y/y	8.8	7.2	-	7.8
10:00	PL	PPI	Nov	% y/y	12.9	13.3	-	11.8
TUESDAY (21 December)								
10:00	PL	Construction Output	Nov	% y/y	6.0	5.4	-	4.2
10:00	PL	Retail Sales Real	Nov	% y/y	8.2	9.1	-	6.9
WEDNESDAY (22 December)								
14:00	PL	Money Supply M3	Nov	% y/y			-	8.6
14:30	US	GDP Annualized	3Q	% Q/Q	2.1		-	2.1
14:30	CZ	Central Bank Rate Decision	Dec/21		3.5		-	2.75
16:00	US	Consumer Conference Board	Dec	pts	110.6		-	109.5
16:00	US	Existing Home Sales	Nov	% m/m	2.8		-	0.8
THURSDAY (23 December)								
10:00	PL	Unemployment Rate	Nov	%	5.4	5.4	-	5.5
14:30	US	Durable Goods Orders	Nov	% m/m	2.0		-	-0.4
14:30	US	Initial Jobless Claims	Dec/21	k			-	206.0
14:30	US	Personal Spending	Nov	% m/m	0.5		-	1.3
14:30	US	Personal Income	Nov	% m/m	0.5		-	0.5
14:30	US	PCE Deflator SA	Nov	% m/m	0.6		-	0.6
16:00	US	Michigan index	Dec	pts	70.4		-	70.4
16:00	US	New Home Sales	Nov	% m/m	3.2		-	0.4
MONDAY (27 December)								
	DE	Retail Sales	Nov	% m/m			-	-0.3
16:00	US	Pending Home Sales	Nov	% m/m			-	7.5

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

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