

Eyeopener

Polish manufacturing in strong expansion

Industrial output surged in November, PPI inflation above 13%
 Markets pessimistic, but zloty only temporarily weaker
 Polish bonds and IRS rates sharply up, core debt markets stable
 Today construction output and retail sales data

European and US equity market indices fell by 1-2% on Monday. Negative sentiment was likely a function of further energy costs increase in Europe and the Omicron Covid-19 variant spread. The Joe Biden's fiscal package has not been approved yet - it has stuck in the Senate where there is not enough support for it. The symbolic 1Y interest rate cut (cost of credit for customers with the best rating) delivered by the Chinese central bank (by 5bp to 3.80%) did not help to alleviate the pessimism. Also there were news about possible further social restrictions in some countries, including the UK and Germany.

In November Polish **industrial output** soared by 15.2% y/y, up from 7.8% y/y, leaving market consensus at 8.8% and our 7.2% forecast far behind. Manufacturing output surged by 13% y/y while we thought it could stay around 6%. Seasonally adjusted total output growth also at 15.2% y/y shows that the surprise was not just a sort of calendar effect. Such strong performance of industry may prevent a slowdown in 4Q GDP in q/q terms which we thought was possible after the surprisingly strong 3Q. In November, Polish **PPI inflation** rose to 13.2% y/y, slightly above market consensus of 12.9% and close to our 13.3% call. The October reading was revised higher to 12% from 11.8%. Our core PPI measure increased from 8.7% y/y to 9.8%. We believe PPI inflation is already somewhere near its peak. Please see more in the [Economic comment](#).

The LFS unemployment rate fell to 3.0% in 3Q21 – below the pre-pandemic level (in 3Q19 it stood at 3.1%), while the number of unemployed, at 528k, was the lowest on record. The labour participation rate rose to 52.8% (highest level for the 3Q since 1997, an increase of 1.8pp in y/y terms).

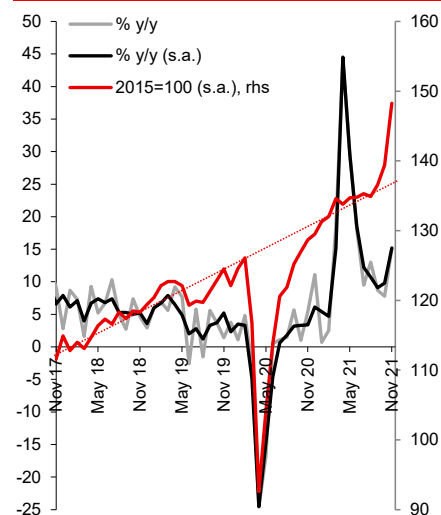
PM Mateusz Morawiecki said that it is “very likely” **the government will cut the VAT rate on basic food products to zero** since February for at least half a year. According to our estimates, throughout the period of zero VAT on food, the headline CPI would be lower by c.1.5pp. As a result, the risk of breaching the 10.0% by CPI inflation would diminish, but on the flip side the inflation's decline in 2023 would be delayed. In case the VAT would be lowered already in February, the CPI would likely drop below 7% in March, then it would rebound towards 8.0%, peaking around August 2022. In case of later VAT reduction, the CPI path could be smoother with a peak of 8.0% at the start of 2022. The February deadline might be difficult to implement for the procedural reasons. The EU finance ministers agreed in December a common stance in this area, but the zero VAT rate on selected products could be implemented only after a change in the EU directive is approved, which is likely to happen in 1H22 but probably not as early as in January.

MPC member Eryk Łon thinks that the three interest rate hikes implemented so far should already lead to inflation slowdown. He has not ruled out, however, supporting one more, smaller hike. In his opinion, the serious deterioration of the pandemic situation in Poland would be a strong argument against further hikes. **Lukasz Hardt** repeated his opinion, that in January there would likely be another 50bp hike and it is likely this would not be the last one in the cycle, to limit the risk of price-wage spiral.

EURUSD approached 1.13 yesterday, but ended the day slightly lower. **EURPLN** despite strong local data soared to 4.64 during the day, but closed near 4.63 and today in the morning it is near 4.62. **Other CEE currencies:** EURCZK moved just slightly up to 25.25, while forint was losing vs EUR as fast as it was gaining on Friday - at the end of the day closed at 368.0. The weaker dollar allowed for USDRUB to be roughly flat on Monday, despite oil prices down by 4% (Brent fell to \$70 per barrel).

Interest rate market in Poland has weakened clearly, reacting with a lag to Friday's news deteriorating inflation outlook for 2022. The bond yield curve moved up by 23bp at the short end, 20bp in the belly and 10bp in the long end. It took place amid stable core markets. IRS curve moved even stronger: by 25-30bp. 2Y and 5Y went above 3.50% and exceeded 10Y rate. FRA9x12 increased 35bp in one day, anticipating a risk of NBP rate move above 3.50%.

Industrial output in Poland



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6221	CZKPLN	0.1830
USDPLN	4.0967	HUFPLN*	1.2439
EURUSD	1.1279	RUBPLN	0.0555
CHFPLN	4.4462	NOKPLN	0.4539
GBPPLN	5.4146	DKKPLN	0.6215
USDCNY	6.3718	SEKPLN	0.4477

*for 100HUF

Last session in the FX market						20/12/2021
	min	max	open	close	fixing	
EURPLN	4.624	4.644	4.631	4.628	4.638	
USDPLN	4.093	4.124	4.114	4.097	4.118	
EURUSD	1.125	1.130	1.125	1.130	-	

Interest rate market 20/12/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.10	24
DS0726 (5Y)	3.56	24
DS0432 (10Y)	3.33	16

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.37	20	0.49	-1	-0.53	1
2L	3.58	28	0.86	0	-0.38	-1
3L	3.57	27	1.10	1	-0.26	0
4L	3.56	29	1.20	0	-0.18	1
5L	3.52	28	1.26	0	-0.13	1
8L	3.41	25	1.42	1	0.02	2
10L	3.39	24	1.49	3	0.12	3

WIBOR rates

Term	%	Change (bps)
O/N	1.44	0
T/N	1.55	-2
SW	1.79	1
2W	1.80	0
1M	1.94	1
3M	2.37	2
6M	2.62	1
1Y	2.85	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	2.93	12
3x6	3.44	18
6x9	3.73	23
9x12	3.74	35
3x9	3.70	18
6x12	3.90	35

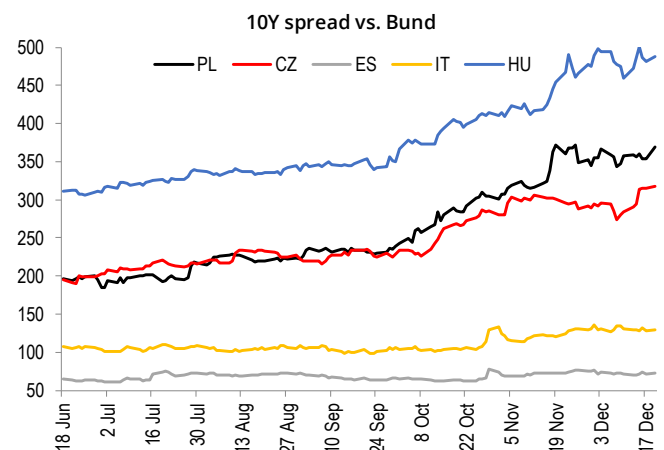
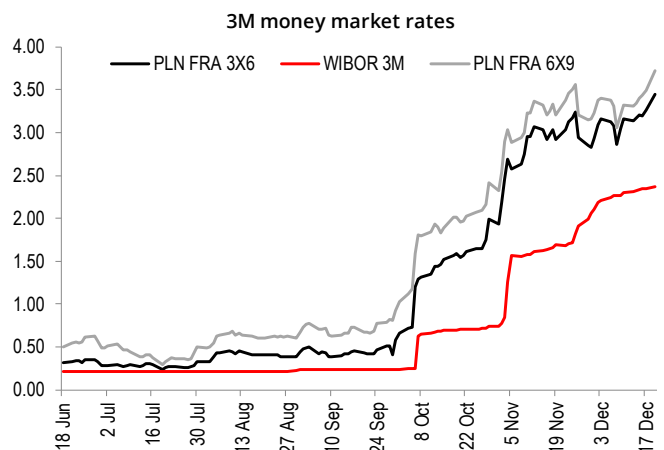
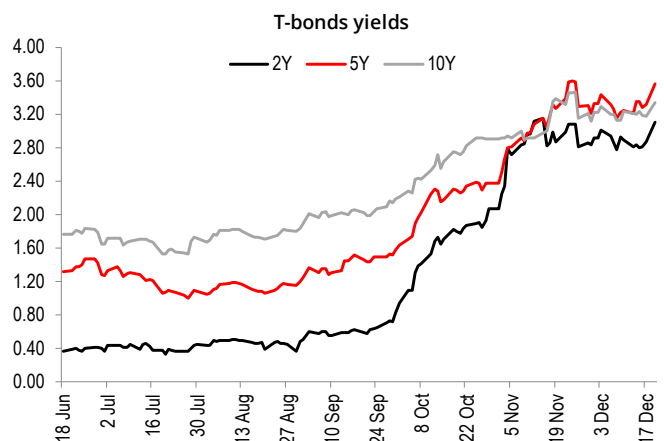
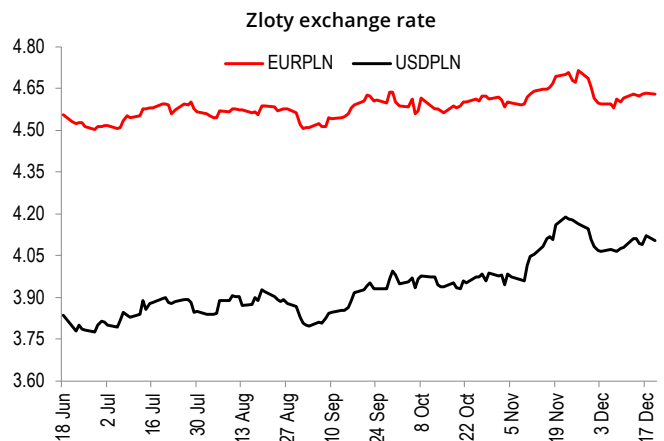
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	370	15
France	9	0	35	0
Hungary	51	0	488	6
Spain	35	0	73	1
Italy	51	1	130	1
Portugal	23	0	64	0
Ireland	11	0	42	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 (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	15.2	7.8
10:00	PL	PPI	Nov	% y/y	12.9	13.3	13.2	12.0
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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