

10 January 2022

Eyeopener

CPI inflation above forecasts again

CPI inflation up to 8.6%, government preparing new actions to bring it down
 US: wages rise more than expected, employment and unemployment below forecasts
 Core and Polish yields up, zloty stronger
 Today unemployment in the euro zone

The US labour market data showed a small increase of employment (199k vs 400k expected and 800k implied from the earlier ADP report), but a significant drop in unemployment and accelerating wages. The 10Y US yields after being stable on Thursday, on Friday jumped 5bp to 1.77%, while yields of Bunds to -0.04% from -0.12%. The ESI business cycle indicator in the euro zone noticeably fell in December as indicators for retail trade, services and consumer sentiment all moved back to the levels last seen in early 2021. At the same time manufacturing and construction indices printed fresh all-time highs (comparable data since 1985). The global FAO food index declined on a m/m basis for the first time since July 2021. German November new orders in industry and exports beat expectations (increased by 1.7% m/m and 3.7% m/m respectively), while industrial production missed estimates after it printed 2.4% m/m a month earlier in October. The US ISM services index noticeably fell while the Chinese PMI surprisingly increased. December FOMC minutes showed that participants have changed their attitude towards interest rate increases (they are needed earlier and the scale of hikes should be larger) as a result of the outlook for labour market and inflation. There were voices calling for hiking rates even before the economy gains full employment and favouring a quick run-off of the Fed's balance sheet just after the QE taper ends.

CPI inflation rose to 8.6% y/y in December, according to flash estimate, after 0.9% m/m rise in prices. The surprise vs our estimate came mainly from prices of food, which surged 2.1% m/m (we assumed 1.7%) and fuels, which inched up 0.2% m/m (we assumed -2.2% m/m) – clearly the fuel price reduction that took place since December 20th after the tax reduction has not entered the stat office's sample yet. According to our estimate, core inflation excluding fuel and energy jumped to 5.2% y/y, its highest since August 2001. In the next few months CPI inflation should decline due to the transitory impact of government's "anti-inflation" shield. At the Tuesday government meeting, **additional actions to decrease inflation** are to be discussed. PM Mateusz Morawiecki said that one of them will be a VAT rate cut on fuels from 23% to 8% from February for 6M, with the budget cost of PLN3bn. We estimate that it will deduct 0.7pp from CPI in February. Tomorrow the government is expected to announce if and when the zero VAT rate on food will be introduced (government estimate of the cost is PLN6-7bn per year. A half-year reduction of the rate was communicated earlier. The government also considers extending the current anti-inflation measures if the inflation trend does not weaken.

MPC's Grażyna Ancyparowicz expressed worries about the scale of the gas price hike for households. In her view the artificial lowering of inflation with VAT cuts will cause an explosion of prices later on. **December MPC meeting minutes** informed about the risk of inflation staying above the target in the monetary policy-relevant horizon despite the delivered rate hikes. The risk was caused by further expansion of economic activity and strong labour market. According to the document no other motions were filed in December apart from the accepted 50bp rate hike.

The ESI business cycle indicator for Poland for December showed an improvement in industry and retail sales, stable situation in construction (best since the pandemic) and much smaller deterioration in the services and consumer confidence than in the euro zone. The general business cycle index increased to 107.7 pts from 107.1 pts and is the highest since March 2019. On top of that, the consumer inflation expectations index fell to 51.2 pts from 56.6 pts.

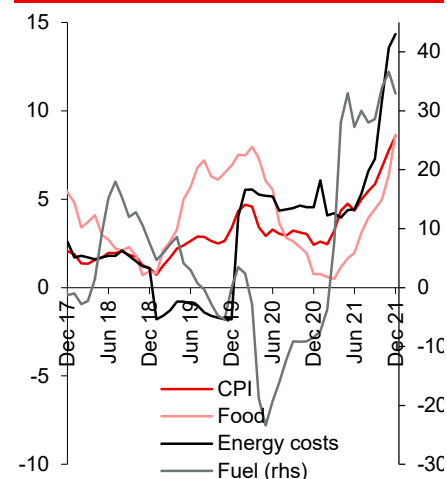
According to Labour Ministry, **the registered unemployment rate** reached 5.4% in December, in line with market expectations. The number of unemployed fell by over 3k in one month and it was its first drop in December since at least early 90s.

According to the finance minister, **state budget deficit** reached PLN35bn in December.

After the FOMC minutes on Wednesday confirmed its hawkish attitude and US labour market data surprised on Friday, **EURUSD** moved up to 1.135. Apparently market was more impressed by the euro zone data. We think that in 1Q22 the pair should be heading towards 1.10. **EURPLN** on Friday extended the downward move, below 4.55, against our expectations for a rebound after lower than market anticipated interest rate hike in January. **Other CEE currencies**: the forint and Czech koruna were slightly gaining and ruble attempted to return from 77 to 75 against the dollar, amid Brent oil price approaching \$82 p/b.

On the **Polish interest rate market** on Friday, amid limited presence of local market participants, 10Y bond yield moved up 10bp to 4.04% and 2Y by 7bp to 3.62%. The IRS curve slope became less negative amid 10Y rates moving up almost 20bp, 5Y by 10bp and 2Y by 7bp.

Polish CPI and non-core components, %/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5470	CZKPLN	0.1856
USDPLN	4.0117	HUFPLN*	1.2548
EURUSD	1.1331	RUBPLN	0.0534
CHFPLN	4.3517	NOKPLN	0.4520
GBPPLN	5.4303	DKKPLN	0.6105
USDCNY	6.3720	SEKPLN	0.4411

*for 100HUF

Last session in the FX market						07/01/2022
	min	max	open	close	fixing	
EURPLN	4.542	4.558	4.553	4.546	4.558	
USDPLN	4.002	4.033	4.029	4.003	4.028	
EURUSD	1.129	1.136	1.130	1.136	-	

Interest rate market 07/01/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	3.62	9
DS0726 (5Y)	4.12	12
DS0432 (10Y)	4.04	14

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.87	5	0.60	-1	-0.50	1
2L	4.13	7	1.06	1	-0.27	1
3L	4.14	9	1.34	2	-0.10	2
4L	4.10	11	1.49	4	0.00	1
5L	4.06	13	1.59	4	0.08	2
8L	3.94	16	1.76	5	0.26	2
10L	3.94	16	1.82	5	0.37	1

WIBOR rates

Term	%	Change (bps)
O/N	2.00	1
T/N	2.23	0
SW	2.28	0
2W	2.29	0
1M	2.34	2
3M	2.63	1
6M	2.98	4
1Y	3.27	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	3.14	13
3x6	4.03	4
6x9	4.33	8
9x12	4.30	10
3x9	4.31	1
6x12	4.58	8

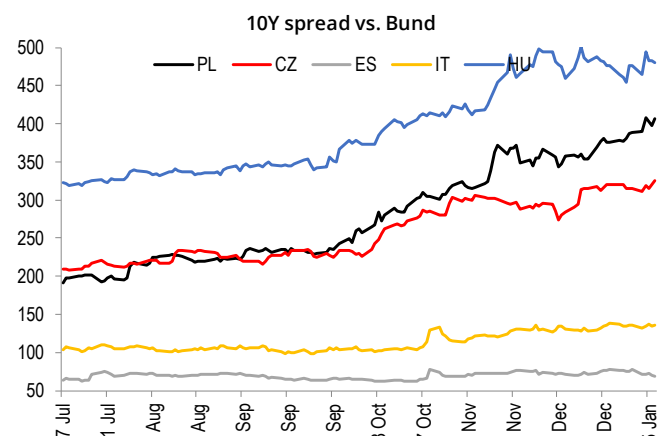
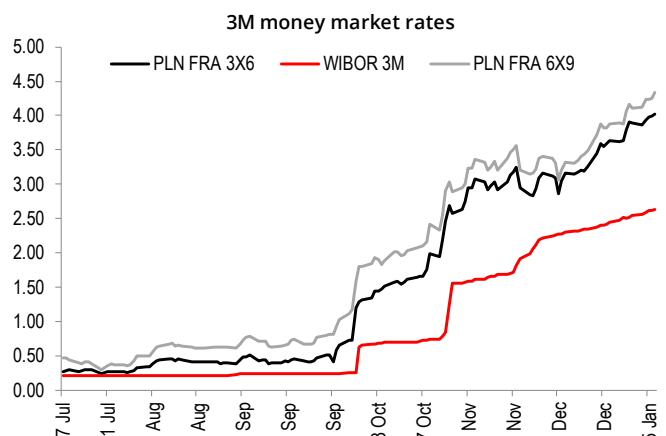
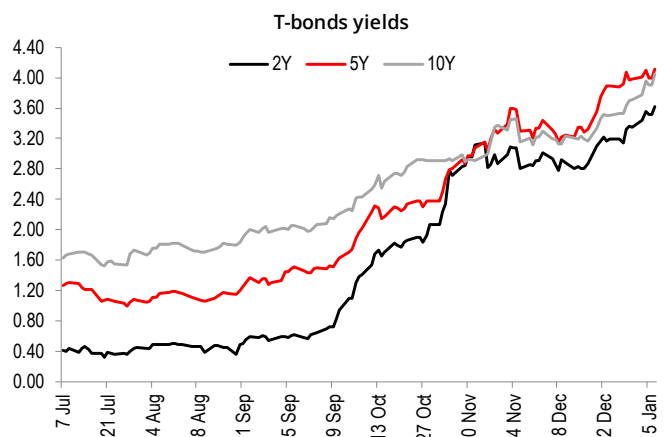
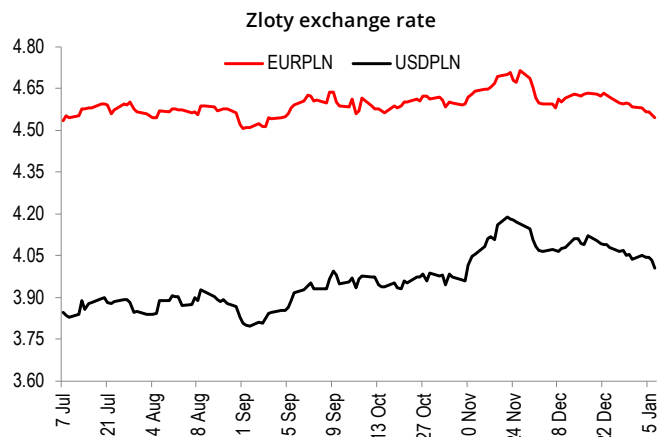
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	41	0	407	10
France	9	0	32	0
Hungary	48	0	480	-3
Spain	32	0	69	-1
Italy	50	0	135	1
Portugal	22	0	64	3
Ireland	11	0	40	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		
THURSDAY (6 January)							
02:45	CN	Caixin China PMI Services	Dec	pts	51.7	53.1	52.1
08:00	DE	Factory Orders	Nov	% m/m	2.3	3.7	-6.9
14:00	DE	HICP	Dec	% m/m	0.2	0.3	0.3
14:30	US	Initial Jobless Claims	Jan.22	k	195	207	200
16:00	US	Durable Goods Orders	Nov	% m/m	2.5	2.6	2.5
16:00	US	ISM services	Dec	pts	67.0	62.0	69.1
16:00	US	Factory Orders	Nov	% m/m	1.5	1.6	1.2
FRIDAY (7 January)							
08:00	DE	Exports SA	Nov	% m/m	-0.2	1.7	4.2
08:00	DE	Industrial Production SA	Nov	% m/m	1.0	-0.2	2.8
09:00	CZ	GDP SA	3Q	% y/y	3.1	3.3	3.1
09:00	CZ	Industrial Production	Nov	% y/y	-0.6	1.6	-4.9
09:00	HU	Industrial Production SA	Nov	% y/y	-1.7	2.6	-3.4
10:00	PL	CPI	Dec	% y/y	8.3	8.3	8.6
11:00	EZ	Flash HICP	Dec	% y/y	4.8	5.0	4.9
11:00	EZ	Retail Sales	Nov	% m/m	-0.5	1.0	0.3
11:00	EZ	ESI	Dec	pct.	116.1	115.3	117.6
14:30	US	Change in Nonfarm Payrolls	Dec	k	424	199	249
14:30	US	Unemployment Rate	Dec	%	4.1	3.9	4.2
MONDAY (10 January)							
11:00	EZ	Unemployment Rate	Nov	%	-	-	7.3
WEDNESDAY (12 January)							
09:00	CZ	CPI	Dec	% y/y	0.0	-	6.0
11:00	EZ	Industrial Production SA	Nov	% m/m	-	-	1.1
14:30	US	CPI	Dec	% m/m	0.4	-	0.8
THURSDAY (13 January)							
14:00	PL	Current Account Balance	Nov	€mn	-1995.0	-	-1791.0
14:00	PL	Trade Balance	Nov	€mn	-589.0	-	-822.0
14:00	PL	Exports	Nov	€mn	26843.5	-	24982.0
14:00	PL	Imports	Nov	€mn	27607.0	-	25804.0
FRIDAY (14 January)							
09:00	HU	CPI	Dec	% y/y	-	-	7.4
14:30	US	Retail Sales Advance	Dec	% m/m	0.0	-	0.3
15:15	US	Industrial Production	Dec	% m/m	0.3	-	0.52
16:00	US	Michigan index	Jan	pts	70.3	-	70.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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