

17 January 2022

Eyeopener

CPI inflation at a local peak

Polish inflation reached 8.6% y/y in December
 Dollar gains are back – EURUSD dropped to around 1.141, EURPLN stable
 Cor market yields went even higher despite weak US data
 Today core inflation in Poland

New records of daily Covid-19 cases were set around the world on Friday as the Omicron variant has spread, a case was also detected in Beijing. Moreover, the macro data from the US have disappointed: December's retail sales were worse than expected (by 2pp, with online sales looking particularly weak: -8.7% m/m) and flash Michigan index of consumer confidence also disappointed (current and expected assessment deteriorated – the latter deviated more from the consensus). Despite the circumstances, the S&P500 index did not extend the Thursday's drop to the level at which it has started the week. European indices fell c.1%. Bund yields in the core markets rose: 10Y UST by c.7bp, 10Y Bund by 4bp to -0.04%, Thursday morning's level. The EURUSD retreated to almost 1.14. GDP growth in China, released this morning, reached 8.1% in 2021 after better-than-expected fourth quarter: 4% y/y and 1.6% q/q. December saw unexpected acceleration of industrial production growth in China (from 3.8% to 4.3% y/y) but also a clear slowdown in retail sales (from 3.9% to 1.7% y/y). The Chinese central bank cut MLF rate and its repo operations rate for the first time since April 2020 (by -10bp).

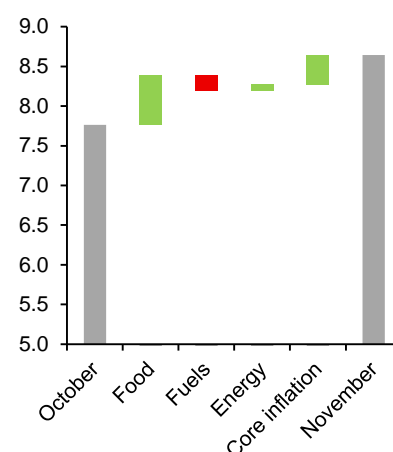
Final CPI inflation was confirmed at 8.6% y/y in December. Out of the 0.8pp rise of inflation vs. November's 7.8% y/y, some 0.6pp may be attributed to food, 0.4pp to stronger core inflation - according to our estimate, the core inflation excluding prices of food and energy jumped in December to 5.3% y/y from 4.7% in November. It would be unfair to say that the inflation rise is only the product of exogenous factors, as the price increases were widespread. In the early months of 2022 the effects of the government's "anti-inflation shield" will kick in, which may push CPI down to around 6% in February-July, according to our estimates (in January it will be still elevated, near 8.4%). Then (unless the "shield" is extended) inflation will bounce up sharply above 8% again and may remain elevated until 3Q23. From the central bank's point of view, the data is another argument that interest rate hikes should be continued, in our view. We expect another +50bp rate hike in February. More in [Economic Comment](#).

EURUSD did not manage to break Thursday's levels of 1.1470 and started to decline closing near 1.1410 where it opens today. **EURPLN** increased a bit on Thursday first time in many days, on Friday it did not manage to return to the downward trend which was in place since the start of the year. Instead, it was hovering near the levels of Thursday close near 4.54. Also the dollar is no longer on the back foot which translates into less tailwind for EM currencies. In our opinion the scope for increases in EURUSD and declines in EURPLN is decreasing however it is difficult to point an exact time of trend reversal. We are not excluding the scenario where EURPLN could first visit 4.52 and only then rebound higher. As for the **other CEE currencies**, dollar rebound kept EURCZK near 24.50 (despite CNB's Deputy Governor Marek Mora comments that in 1Q22 the rates increases might total another 100bp). Forint lost 0.5% vs euro despite the fact that core CPI jumped to 6.4% y/y in December from 5.3% y/y a month before. Due to the move EURHUF noticeably broke from the downward trend which was in place since early January. USDRUB closed the week at 76.5 (same as Thursday) - the ongoing discussions between Russia and the US and NATO make investors risk averse while the risk of Russia invading Ukraine is perceived to be high.

On the interest rate market the 10Y bond yield remained slightly above 4%, and 5Y at 3.88%, while 2Y declined by about 15bp to 3.14% amid stable 2Y IRS and decline of other IRS rates by about 4bp. The bond market is currently mulling two main ideas: 1/ positive effect of slight downward surprises in recent inflation readings in different parts of the world, supported by rising numbers of Covid-19 infections, which could fuel demand for assets perceived as safe; 2/ it seems that the Fed is becoming convinced that a stronger and faster monetary policy tightening in the USA is necessary. Under such circumstances, weak US data from Friday could translate into lower pressure on higher US yields, creating some space for calmer domestic market. We think that strong Polish macro data on Friday could revive expectations for rate hikes by the MPC and resume the upward yield trend.

Today the NBP is to release core inflation. According to our estimate, the core inflation excluding prices of food and energy jumped in December to 5.3% y/y from 4.7% in November. Our forecast is in line with the market consensus. This will be the highest level since mid-2001, way above peaks reached during high inflation periods: of 2011 (3.1% y/y), just before the GFC (2.9% y/y) and post EU accession (2.4% y/y).

CPI inflation change, contribution of main components, % y/y



Source: GUS, Santander

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FX market

| Today's opening | | | |
|-----------------|--------|---------|--------|
| EURPLN | 4.5348 | CZKPLN | 0.1846 |
| USDPLN | 3.9710 | HUFPLN* | 1.2606 |
| EURUSD | 1.1418 | RUBPLN | 0.0524 |
| CHFPLN | 4.3440 | NOKPLN | 0.4524 |
| GBPPLN | 5.4271 | DKKPLN | 0.6091 |
| USDCNY | 6.3445 | SEKPLN | 0.4396 |

*for 100HUF

| Last session in the FX market | | | | | 14/01/2022 |
|-------------------------------|-------|-------|-------|-------|------------|
| | min | max | open | close | fixing |
| EURPLN | 4.531 | 4.543 | 4.538 | 4.533 | 4.537 |
| USDPLN | 3.949 | 3.976 | 3.953 | 3.973 | 3.960 |
| EURUSD | 1.141 | 1.148 | 1.148 | 1.141 | - |

Interest rate market 14/01/2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| DS1023 (2Y) | 3.14 | -17 |
| DS0726 (5Y) | 3.89 | 1 |
| DS0432 (10Y) | 4.06 | 6 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 3.69 | 0 | 0.67 | 3 | -0.47 | 1 |
| 2L | 3.91 | 2 | 1.15 | 7 | -0.24 | 2 |
| 3L | 3.91 | 4 | 1.42 | 8 | -0.08 | 3 |
| 4L | 3.88 | 5 | 1.55 | 9 | 0.03 | 5 |
| 5L | 3.86 | 5 | 1.63 | 10 | 0.10 | 4 |
| 8L | 3.78 | 6 | 1.78 | 10 | 0.28 | 5 |
| 10L | 3.78 | 5 | 1.83 | 10 | 0.39 | 6 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.94 | -5 |
| T/N | 2.18 | 1 |
| SW | 2.29 | 0 |
| 2W | 2.30 | 0 |
| 1M | 2.38 | 1 |
| 3M | 2.77 | 2 |
| 6M | 3.15 | 2 |
| 1Y | 3.43 | 1 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 3.15 | 3 |
| 3x6 | 3.78 | -2 |
| 6x9 | 4.02 | 0 |
| 9x12 | 4.02 | 0 |
| 3x9 | 4.12 | 0 |
| 6x12 | 4.27 | 9 |

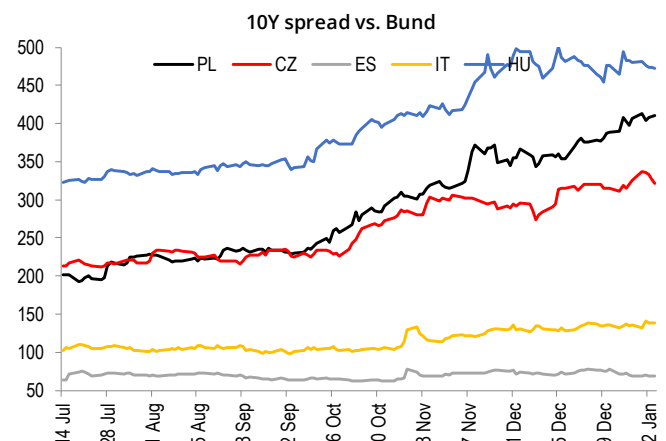
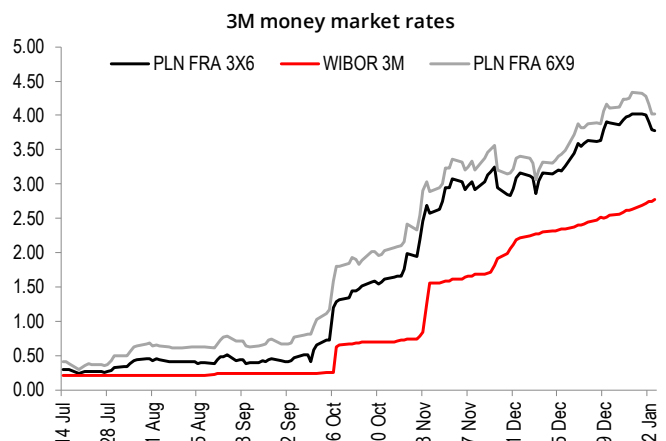
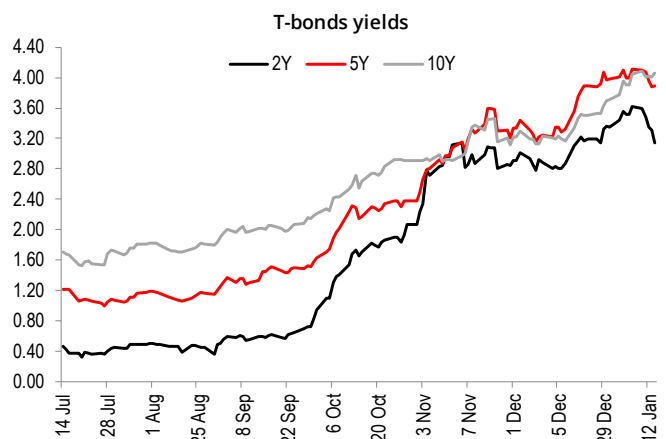
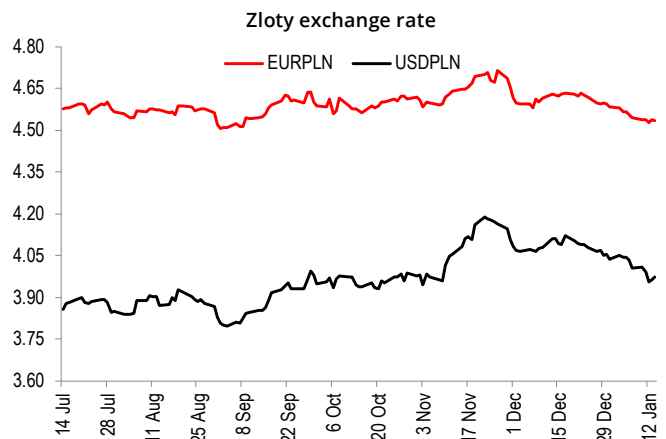
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 41 | 0 | 411 | 2 |
| France | 9 | 0 | 38 | 5 |
| Hungary | 48 | 0 | 473 | -1 |
| Spain | 32 | 0 | 68 | -1 |
| Italy | 48 | 0 | 138 | 0 |
| Portugal | 22 | 0 | 61 | -2 |
| Ireland | 10 | 0 | 38 | 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 (14 January) | | | | | | | | |
| 09:00 | HU | CPI | Dec | % y/y | 7.2 | | 7.2 | 7.4 |
| 10:00 | PL | CPI | Dec | % y/y | 8.6 | 8.5 | 8.6 | 7.8 |
| 14:30 | US | Retail Sales Advance | Dec | % m/m | -0.1 | | -1.9 | 0.2 |
| 15:15 | US | Industrial Production | Dec | % m/m | 0.2 | | -0.1 | 0.7 |
| 16:00 | US | Michigan index | Jan | pts | 70.0 | | 68.8 | 70.6 |
| MONDAY (17 January) | | | | | | | | |
| 14:00 | PL | CPI Core | Dec | % y/y | 5.2 | 5.3 | - | 4.7 |
| TUESDAY (18 January) | | | | | | | | |
| 11:00 | DE | ZEW Survey Current Situation | Jan | pts | -7.5 | | - | -7.4 |
| WEDNESDAY (19 January) | | | | | | | | |
| 08:00 | DE | HICP | Dec | % m/m | 0.3 | | - | 0.3 |
| 14:30 | US | Housing Starts | Dec | % m/m | -1.7 | | - | 11.8 |
| THURSDAY (20 January) | | | | | | | | |
| 11:00 | EZ | HICP | Dec | % y/y | 5.0 | | - | 4.9 |
| 14:30 | US | Initial Jobless Claims | | k | 220 | | - | 230 |
| 14:30 | US | Index Philly Fed | Jan | | 20.0 | | - | 15.4 |
| 16:00 | US | Existing Home Sales | Dec | % m/m | -0.5 | | - | 1.9 |
| FRIDAY (21 January) | | | | | | | | |
| 10:00 | PL | Employment in corporate sector | Dec | % y/y | 0.7 | 0.7 | - | 0.7 |
| 10:00 | PL | Sold Industrial Output | Dec | % y/y | 14.0 | 14.9 | - | 15.2 |
| 10:00 | PL | Construction Output | Dec | % y/y | 9.8 | 9.8 | - | 12.7 |
| 10:00 | PL | PPI | Dec | % y/y | 13.5 | 13.0 | - | 13.2 |
| 10:00 | PL | Average Gross Wages | Dec | % y/y | 9.1 | 9.1 | - | 9.8 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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