

Eyeopener

Final inflation data today

Today final CPI data in Poland, US data releases
Industrial production in the euro zone below forecast
Kotecki: it is too early to stop interest rate hikes
EURUSD and EURPLN stable, bond yields higher

Today, we will see detailed data on August CPI inflation in Poland. In addition, data from the USA: retail sales, industrial production, number of new unemployed.

Yesterday's July **industrial production data for the euro area** showed a stronger than expected drop. Production fell by 2.4% y/y. The weakest performing sectors were capital goods manufacturing and durable consumer goods.

The EC has proposed **intervention measures in the electricity market**. The package of measures includes: 1) an obligation for countries to reduce consumption by 5% during peak hours and a recommendation to reduce total electricity demand by 10%, 2) setting a revenue ceiling for electricity producers using lower-cost technologies at €180/MWh (surpluses will be used to help reduce bills), 3) introducing a solidarity levy, or windfall tax, in the oil, gas, coal and refinery sectors. The tax would be levied when profits exceed by 20% the average value of the last 3 years.

MPC member Ludwik Kotecki said it is too early to stop the cycle of interest rate hikes. According to Kotecki, the recent hikes were too gentle. Kotecki is one of the most hawkish MPC members. In recent weeks, only two of them have spoken in favour of further hikes (Kotecki and Tyrowicz), and we believe that their views will not be shared by the majority in the MPC. We expect the MPC to raise rates in October by 25 basis points (if September inflation rises slightly, as we estimate at the moment), and then it will end the rate hike cycle. Maciej Rudnicki, put forward as a **candidate for the MPC** on February 28, resigned. The Sejm still has not filled two vacant seats on the Council. The Sejm Office has set a deadline of September 29 for nominations for the two vacancies on the MPC.

PFR head Pawel Borys expects the public finance deficit in 2022 to be around 2% of GDP. In the draft budget law for 2023, the government estimated the central budget deficit this year at PLN23bn (0.8% of GDP); the balance of the entire public finance sector was not explicitly stated by the government, but based on the projected value of public debt, it could be estimated at around 4.5% of GDP.

IUNG-PIB (Institute of Soil Science) reported that an **agricultural drought** is currently underway in 8 out of 16 regions, compared to 11 in the previous report. An increase of the extent of the drought was reported for potato and sugar beet crops, and a decrease for corn, legumes, fruit bushes and ground vegetables and hops, among others.

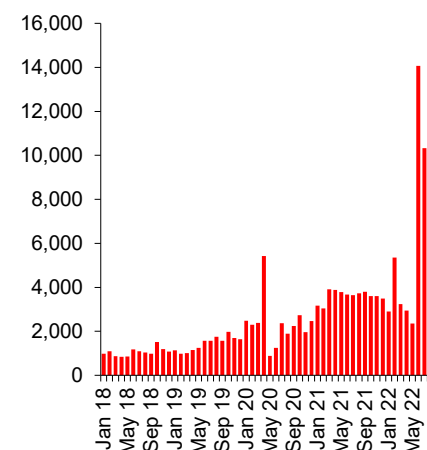
In August, the Finance Ministry sold PLN6bn worth of **retail bonds**, which is a marked slowdown in sales: about PLN14bn were sold in June, and PLN10bn in July, although this is a result clearly above earlier months (the January-May average was about PLN3.4bn). In our view, sales of savings bonds may slow down further in the coming months, calling into question the ministry's ambitious plan to cover a significant part of its borrowing needs in 2023 with these issues.

EURUSD fluctuated around parity. ECB chief economist Philip Lane said that ECB interest rates would still have to rise at future meetings, while François Villeroy said that the neutral 2% interest rate level could be reached later this year. The ECB members' statements, however, were unable to strengthen the single currency against the dollar.

EURPLN fluctuated around 4.72. During the day, the rate tried to cross 4.73, but by the end of the day it had slid a figure lower. **EURCZK** went down from around 24.53 to near 24.51. The Czech government approved a programme to compensate companies for high energy prices worth CZK30bn. **EURHUF** rose to 405 from around 397. The forint's weakening follows news of possible sanctions against Hungary by the EC for embezzlements in the use of European funds.

Debt market: Domestic yield curve moved up by an average of about 15bp, the IRS curve rose on a slightly larger scale. Domestic FRA contracts began to rise again as expectations of the Fed and ECB rate target increased sharply. The Polish 10Y yield reached 6%, while the German 10-year tried to attack June peaks, before retreating slightly.

Sales of retail bonds, PLNmn



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.7149	CZKPLN	0.1922
USDPLN	4.7332	HUFPLN*	1.1528
EURUSD	0.9961	RUBPLN	0.0790
CHFPLN	4.9112	NOKPLN	0.4676
GBPPLN	5.4471	DKKPLN	0.6339
USDCNY	6.9692	SEKPLN	0.4409

*for 100HUF

Last session in the FX market 14/09/2022

	min	max	open	close	fixing
EURPLN	4.7092	4.7325	4.7172	4.7175	4.7195
USDPLN	4.7072	4.7469	4.7192	4.7195	4.7233
EURUSD	0.9958	1.0023	0.9994	0.9992	-

Interest rate market 14/09/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0722 (2Y)	6.52	18
DS0727 (5Y)	6.40	14
DS0432 (10Y)	5.97	12

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.58	14	4.33	12	2.17	9
2L	7.18	19	4.18	11	2.43	5
3L	6.68	17	3.95	7	2.44	5
4L	6.38	17	3.77	6	2.44	3
5L	6.23	18	3.66	4	2.46	2
8L	6.01	17	3.49	2	2.49	0
10L	5.95	14	3.46	1	2.54	0

WIBOR rates

Term	%	Change (bps)
O/N	6.66	15
T/N	6.66	4
SW	6.87	0
2W	6.90	-1
1M	6.99	4
3M	7.15	0
6M	7.32	0
1Y	7.45	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.29	7
3x6	7.47	17
6x9	7.51	21
9x12	7.37	22
3x9	7.62	19
6x12	7.64	22

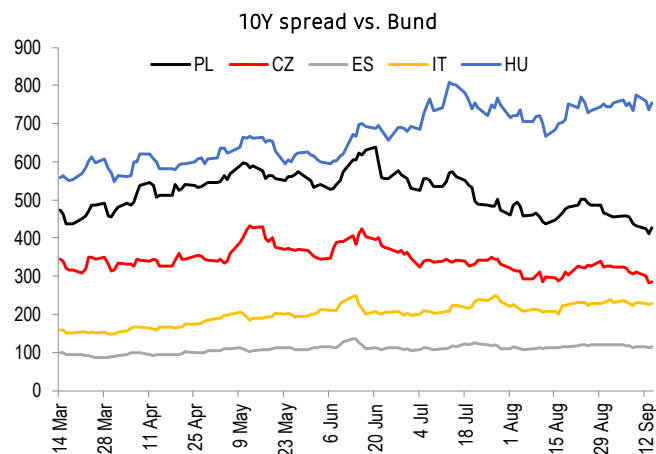
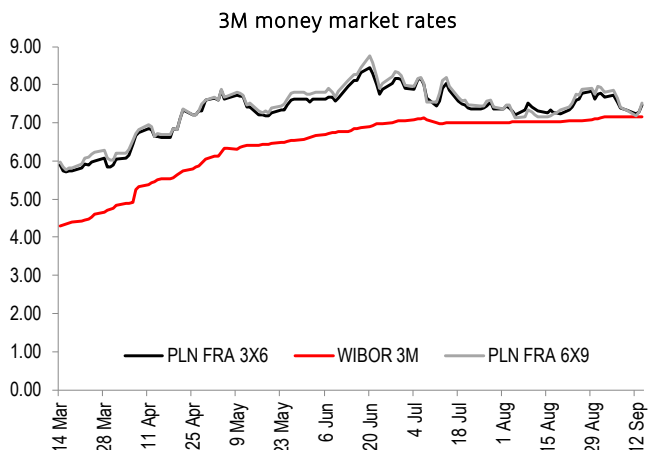
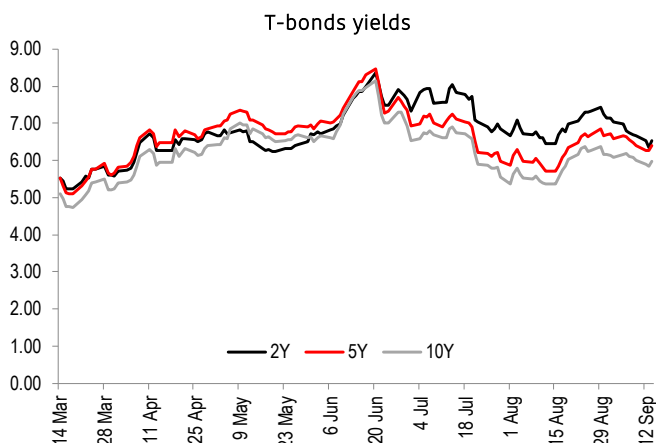
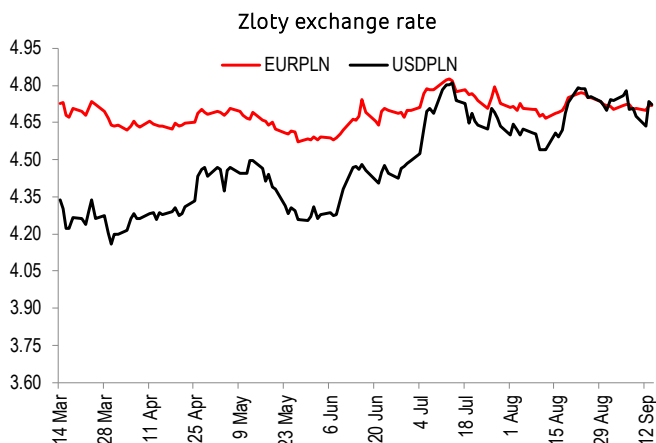
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	135	0	428	15
France	13	0	57	1
Hungary	179	0	755	19
Spain	53	0	115	2
Italy	65	0	228	2
Portugal	40	0	107	2
Ireland	14	0	63	3
Germany	13	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		
MONDAY (12 September)							
09:00	CZ	CPI	Aug	% y/y	17.7	17.2	17.5
TUESDAY (13 September)							
08:00	DE	HICP	Aug	% m/m	0.4	0.4	0.4
11:00	DE	ZEW Survey Current Situation	Sep	pts	-50.1	-60.5	-47.6
14:00	PL	Current Account Balance	Jul	€mn	-1490	-1861	-1735
14:00	PL	Trade Balance	Jul	€mn	-1320	-1330	-1452
14:00	PL	Exports	Jul	€mn	26708	25905	26010
14:00	PL	Imports	Jul	€mn	28080	27235	27462
14:30	US	CPI	Aug	% m/m	-0.1	0.1	0.0
WEDNESDAY (14 September)							
11:00	EZ	Industrial Production SA	Jul	% m/m	-0.7	-2.3	1.1
THURSDAY (15 September)							
	PL	Central Budget Cumul.	Aug	mn PLN	-	-	34660
10:00	PL	CPI	Aug	% y/y	16.1	16.1	-
14:30	US	Initial Jobless Claims		k	235.0	-	222.0
14:30	US	Retail Sales Advance	Aug	% m/m	0.0	-	0.0
15:15	US	Industrial Production	Aug	% m/m	0.2	-	0.56
FRIDAY (16 September)							
11:00	EZ	HICP	Aug	% y/y	9.1	-	8.6
14:00	PL	CPI Core	Aug	% y/y	9.8	9.9	-
16:00	US	Michigan index	Sep	pts	59.3	-	58.2

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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