

16 September 2022

Eyeopener

Energy freeze will lower inflation peak

Today core inflation in Poland, HICP in euro zone, Michigan in US
CPI inflation in August confirmed at 16.1% y/y
PM: fixed electricity price up to 2MWh usage, compensation for energy-intensive firms
Bond yields higher, expectations for future rate hikes rising again

Today, we will get to see August core inflation in Poland. We expect an increase to 9.9% y/y (a new record). Also, HICP inflation in the EU and the US Michigan consumer confidence are due for release.

The final **August CPI data** confirmed the flash estimate at 16.1% y/y and 0.8% m/m. The increase in the inflation rate compared to July was driven by accelerating food and energy prices (17.5% and 40.3% y/y, respectively), but also by widespread price increases in other categories. We have just raised our CPI forecast for September, to 16.4% y/y, after accounting for inertia in particular price categories. Such a reading will probably convince the MPC to hike interest rates again at the next meeting by 25bp. We wrote more about these numbers in our [Comment](#).

PM Morawiecki confirmed J. Kaczyński's earlier hint that **the government plans to introduce a fixed energy price for household** consumption up to 2000 kWh per year. Higher limits will be set for families with at least three children, farmers and people with disabilities (2600 kWh). Households reducing their energy consumption by at least 10% in 2023 against 2022 will be granted an additional 10% discount in their 2024 electricity bill. The government also wants to introduce a tax on windfall profits in the energy sector and disburse **PLN5-6bn support for energy-intensive companies** which experience at least a 100% increase in energy costs. Minister for Development and Technology Waldemar Buda said that this support may cover metal and glass mills, producers of ceramic, paper and fertilisers. A reduction in electricity consumption in public administration was also announced. According to our estimates, freezing the price of electricity will cap the increase in energy prices for households by around 75% (i.e. if energy tariffs go up by 100%, this measure will subtract 3.5 pct.points from CPI). On the other hand, this may mean that URE (energy regulator) will approve larger increases in electricity tariffs than without this solution. As a result, we are **lowering our CPI peak forecast for February from almost 19% to around 17%**. In addition, the increasing scale of protection of household budgets means there is less of a demand extinguishing effect of rising living costs, which will make it more difficult to curb inflation in the medium term.

MPC's Joanna Tyrowicz said in an interview with DGP daily that there is doubt about whether Poland can get out of inflation without positive real interest rates. While agreeing in general, we point out that while real rates adjusted for current inflation are actually getting lower, if we adjust for expected inflation, they are rising and may approach zero in 4Q22 (see chart).

In August, the **number of foreigners registered with Social Security (ZUS)** rose by 10.2k, or 1.0% m/m (in July it was +1.3% m/m) and 24.2% y/y (previously 24.1% y/y). The total is now 1035k, of which 71.5% are Ukrainian citizens. The largest increases in the number of registered foreigners occurred in August in administrative and support services (the category includes cleaning), information and communication services, transportation and storage.

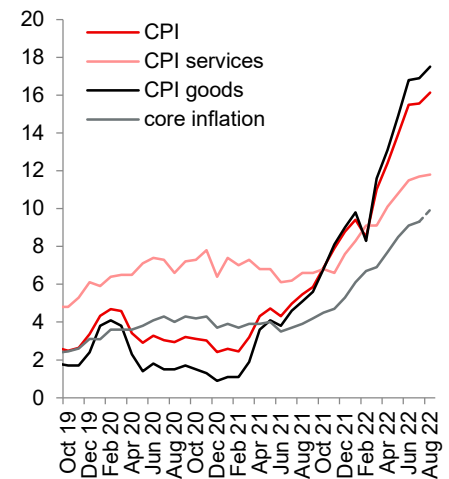
EURUSD kept hovering near the parity. Solid retail sales data from the US were unable to support the dollar more clearly, due to the significant downward revision of the July reading.

EURPLN fluctuated near 4.72 for another day. The lack of surprises on the side of the final domestic inflation reading and the dollar's relatively stable quotations on global markets did not favor the crystallization of a clear trend in the zloty's exchange rate against the euro.

Other CEE currencies: EURCZK fluctuated around the level of 24.58. EURHUF rose to 408 from about 405. For several days now, the forint has started to lose value again, strongly influenced by the information about the probable blocking of about 70% of the EU funds to which Hungary is entitled from the 2021-2027 budget perspective. Recommendations on this matter are to be presented to the EC as early as this weekend.

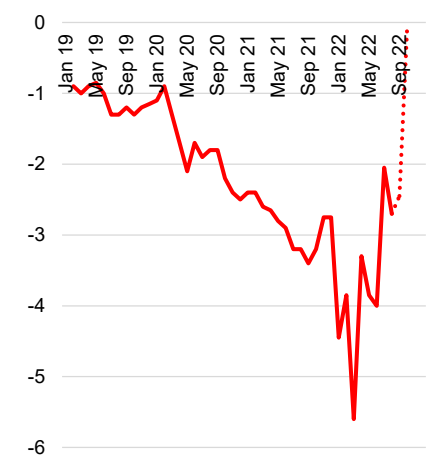
Debt market: Domestic yield curve rose by an average of about 13bp across the board. Expectations of rate hikes on the longest terms in the FRA market also grew, including as much as 21bp on the 24-month. Some part of debt weakening, especially at the longer end of the curve, was also due to the MF swap auction, at which bonds for PLN4.5bn were sold and PLN3.8bn were repurchased. We see growing signals suggesting that after several weeks of declines in domestic yields, at least temporary rebound is becoming clearer, although the impetus is coming primarily from the core markets. Germany's curve has slowed its gains in the wake of mixed voices coming from the ECB regarding the scale of further rate hikes in the Eurozone. Christine Lagarde, Luis De Guindos advocate "determined action" in the fight against inflation, while Bank of Italy representative Mario Centeno advocates the "slowest possible" pace of rate hikes in the Eurozone. The U.S. 10-year note is already just a step away from setting new annual highs.

CPI inflation, % y/y



Source: GUS, NBP, Santander

Real interest rate deflated by median one-year ahead expected inflation according to Bloomberg survey, %



Source: NBP, Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.7217	CZKPLN	0.1923
USDPLN	4.7282	HUFPLN*	1.1462
EURUSD	0.9983	RUBPLN	0.0790
CHFPLN	4.9057	NOKPLN	0.4638
GBPPLN	5.4057	DKKPLN	0.6345
USDCNY	7.0112	SEKPLN	0.4391

*for 100HUF

Last session in the FX market 15/09/2022

	min	max	open	close	fixing
EURPLN	4.7102	4.7337	4.7131	4.7273	4.7164
USDPLN	4.7136	4.7469	4.7272	4.7322	4.7202
EURUSD	0.9954	1.0017	0.9967	0.9990	-

Interest rate market 15/09/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.64	12
DS0727 (5Y)	6.53	13
DS0432 (10Y)	6.15	18

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.55	-4	4.39	6	2.24	7
2L	7.22	4	4.27	9	2.53	10
3L	6.76	8	4.03	8	2.51	7
4L	6.46	8	3.85	8	2.50	6
5L	6.31	7	3.72	7	2.50	5
8L	6.09	8	3.55	5	2.51	2
10L	6.04	9	3.51	5	2.55	1

WIBOR rates

Term	%	Change (bps)
O/N	6.75	9
T/N	6.66	0
SW	6.86	-1
2W	6.90	0
1M	6.99	0
3M	7.15	0
6M	7.32	0
1Y	7.45	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.29	0
3x6	7.44	-3
6x9	7.46	-5
9x12	7.31	-6
3x9	7.57	-5
6x12	7.61	-2

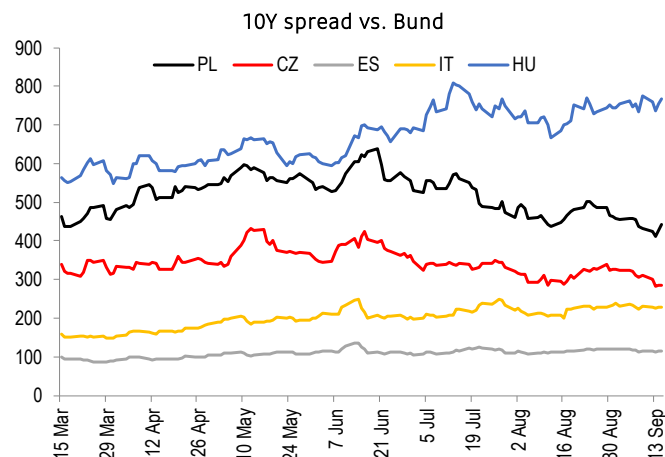
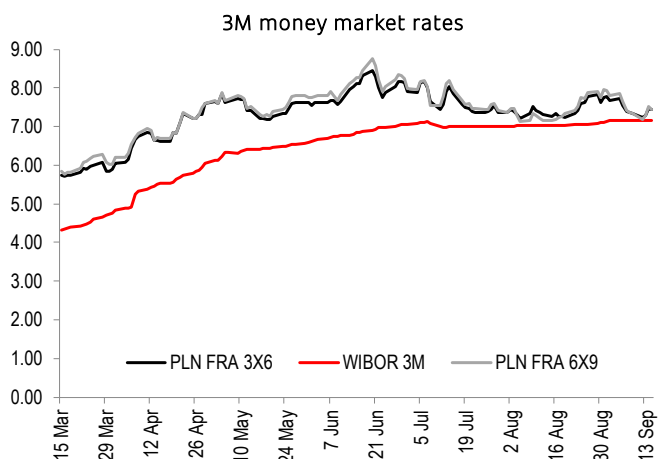
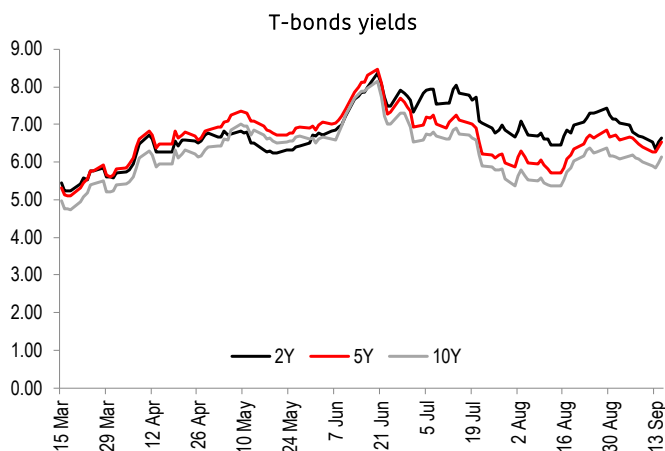
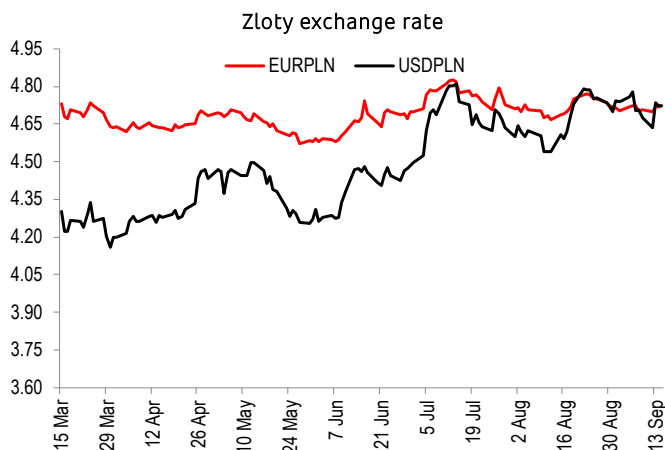
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	135	0	442	14
France	13	0	55	-2
Hungary	179	0	767	12
Spain	53	0	116	0
Italy	65	0	229	1
Portugal	40	0	106	0
Ireland	14	0	62	-1
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)							
10:00	PL	CPI	Aug	% y/y	16.1	16.1	15.6
14:30	US	Initial Jobless Claims		k	235.0	213	218
14:30	US	Retail Sales Advance	Aug	% m/m	0.0	0.3	0.0
15:15	US	Industrial Production	Aug	% m/m	0.2	-0.2	0.5
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	9.3
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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