

30 September 2022

Eyeopener

CPI inflation likely to rise further

Today flash CPI inflation, euro zone HICP, PCE inflation in the USA
 CNB kept rates unchanged
 Zloty and forint still losing, Polish yield curve up

Today a key publication from Poland: preliminary inflation for September. CPI is expected to rise to 16.6% y/y. The MPC has been hinting at a possible pause in rate hikes over the past month. Governor Głapiński and several other members have indicated that they expect inflation to peak during the summer vacations (August's reading was 16.1% y/y), so an increase in September may come as a surprise. If our CPI forecast materialises, we would expect a 25bp rate hike at next Wednesday's meeting. Other Poland's data due today are: quarterly data on the balance of payments (2Q) and a flash estimate of the main agricultural and horticultural crops. We will also get to see preliminary inflation for the euro - yesterday, the inflation rate from Germany surprised strongly upward, while the Spanish CPI fell sharply. In the afternoon, there will also be PCE inflation from the US for August, along with data on income and spending of consumers there. EU energy ministers will today try to agree on an EU package of measures to curb rising electricity and gas prices.

All sectoral ESI indicators for the euro zone fell in September. Assessments of current and expected demand worsened. Industry is rebuilding inventories (their index is the highest in nearly 2 years), which could mean that there will be a reduction in production in the coming months. Euro zone consumer sentiment is the worst in the survey's history dating back to 1985, especially the outlook for one's own financial situation. As for the ESI indices for Poland, there were also declines in all sectors. The main index reached its lowest since January 2021 and the synthetic employment index its lowest since November 2020. In industry, more respondents were reporting excessive stocks of finished goods than shortages. The index reflecting this excess is already even higher than the average in recent pre-pandemic years. ESI indicators describing companies' price expectations show no sign of receding inflationary pressure, but rather on the contrary.

Deputy Minister of Family and Social Policy Stanisław Szwed said that **the indexation factor for pensions** in 2023 will be 13.8% which will generate a cost of approx. PLN40bn. He also expressed the ministry's readiness to disburse the 14th pension in late August or early September if the government so decides. In general, indexation mechanisms are one of the factors hindering the fight against inflation.

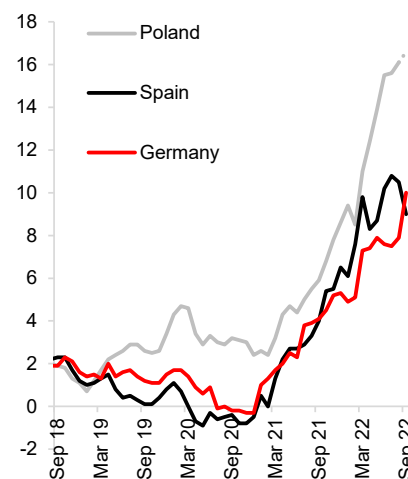
EURUSD moved from around 0.97 to around 0.98. Support for the rate was provided by German CPI inflation readings for September, which significantly beat the market consensus reaching 10%. This resulted in a strong increase in expectations for a 75bp ECB rate hike in October. Markets currently assume that ECB rates will reach 3.25% by the middle of next year.

EURPLN rose from around 4.81 to around 4.86. The rise in expectations for rate hikes in the euro zone has hurt the zloty. The zloty may weaken further in the coming days. The official annexation of the Russian-occupied part of Ukraine, scheduled for today, potentially raises the war to a higher escalation level, as the annexed lands will fall under the Russian nuclear umbrella.

Other CEE currencies: EURCZK fell from around 24.62 to around 24.50. The CNB decided to leave rates unchanged, but did not definitively close the way to further rate hikes, making them conditional on possible further strong wage growth and the fiscal deficit. The CNB governor also stressed that there are no limits when it comes to the scale of currency interventions to defend the value of the koruna. EURHUF rose above 420 from around 413. New historic peaks of forint weakness are the result of markets' fears of further increases in European gas prices due to the near-simultaneous failures of the NS1 and NS2 pipelines.

Debt market: Domestic curve rose by an average of about 23bp. Rate hike expectations in the FRA market also went up. Markets are concerned that gas shortages in the European gas market during the heating season will bump up the inflation path, forcing more NBP rate hikes. Today's CPI reading may further reinforce these expectations.

CPI inflation, %y/y



Source: Bloomberg, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.8526 | CZKPLN | 0.1974 |
| USDPLN | 4.9490 | HUFPLN* | 1.1422 |
| EURUSD | 0.9807 | RUBPLN | 0.0866 |
| CHFPLN | 5.0661 | NOKPLN | 0.4619 |
| GBPPLN | 5.4985 | DKKPLN | 0.6524 |
| USDCNY | 7.0926 | SEKPLN | 0.4420 |

*for 100HUF

Last session in the FX market 29/09/2022

| | min | max | open | close | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4.8109 | 4.8718 | 4.8113 | 4.8514 | 4.8637 |
| USDPLN | 4.9604 | 5.0499 | 4.9662 | 4.9641 | 5.0328 |
| EURUSD | 0.9634 | 0.9789 | 0.9684 | 0.9771 | - |

Interest rate market 29/09/2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| PS1024 (2Y) | 7.37 | 24 |
| DS0727 (5Y) | 7.48 | 19 |
| DS0432 (10Y) | 7.28 | 24 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 7.67 | 6 | 4.54 | 5 | 2.44 | -4 |
| 2L | 7.54 | 11 | 4.49 | 6 | 2.86 | -8 |
| 3L | 7.29 | 15 | 4.27 | 4 | 2.96 | -4 |
| 4L | 7.14 | 18 | 4.15 | 7 | 2.98 | -6 |
| 5L | 7.12 | 22 | 4.06 | 7 | 3.05 | 0 |
| 8L | 7.05 | 25 | 3.88 | 7 | 3.08 | 2 |
| 10L | 7.04 | 25 | 3.83 | 7 | 3.13 | 4 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 6.87 | 29 |
| T/N | 6.85 | 4 |
| SW | 7.01 | 5 |
| 2W | 7.04 | 2 |
| 1M | 7.09 | 2 |
| 3M | 7.18 | 1 |
| 6M | 7.32 | 0 |
| 1Y | 7.47 | 1 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 7.30 | 3 |
| 3x6 | 7.56 | 14 |
| 6x9 | 7.64 | 17 |
| 9x12 | 7.57 | 16 |
| 3x9 | 7.67 | 14 |
| 6x12 | 7.73 | 11 |

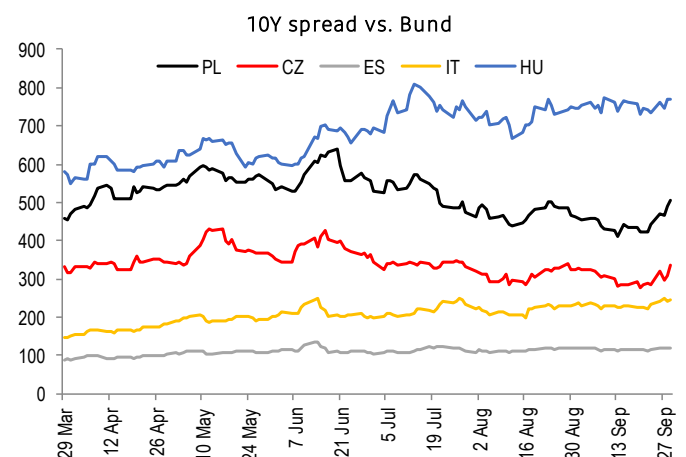
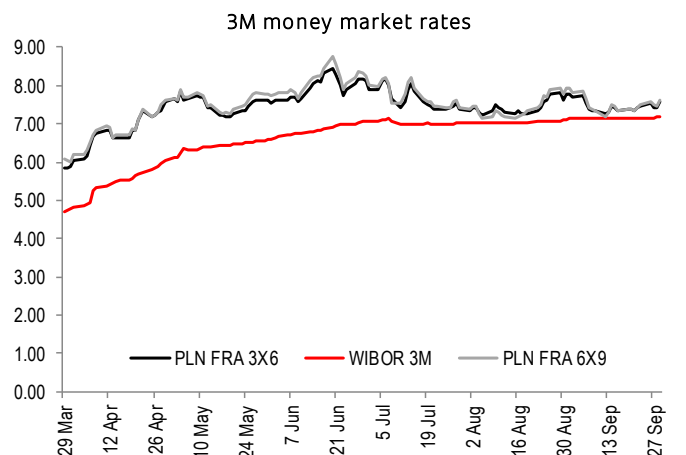
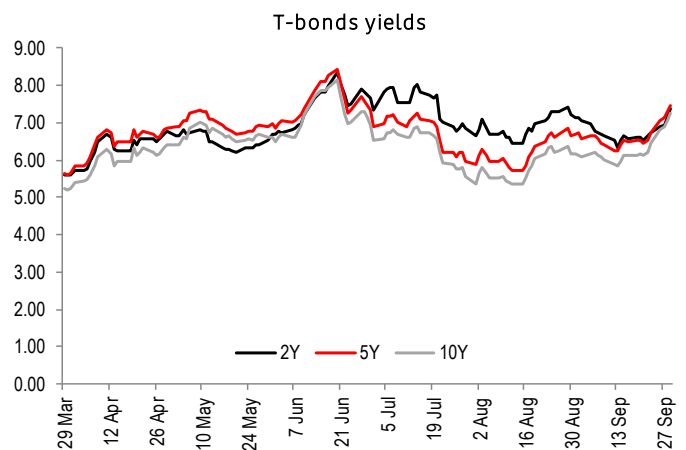
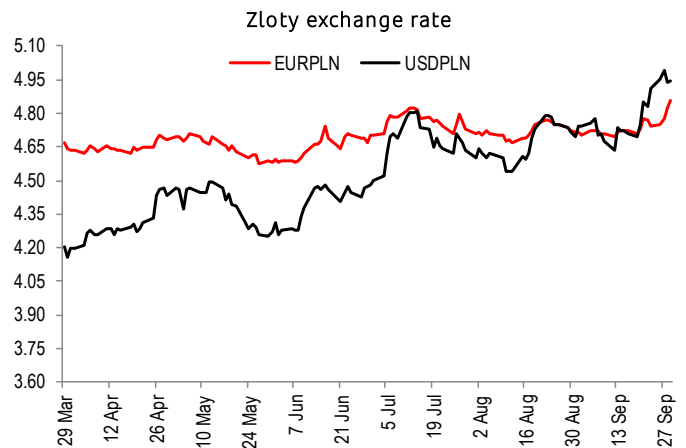
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 140 | 0 | 507 | 17 |
| France | 20 | 0 | 61 | -1 |
| Hungary | 228 | 1 | 771 | 0 |
| Spain | 65 | 2 | 118 | 0 |
| Italy | 85 | 5 | 244 | 1 |
| Portugal | 53 | 2 | 108 | -2 |
| Ireland | 22 | -1 | 58 | -1 |
| Germany | 17 | 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 (23 September) | | | | | | | |
| 09:30 | DE | Germany Manufacturing PMI | Sep | pts | 48.25 | 48.3 | 49.1 |
| 09:30 | DE | Markit Germany Services PMI | Sep | pts | 47.2 | 45.4 | 47.7 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Sep | pts | 48.75 | 48.5 | 49.6 |
| 10:00 | EZ | Eurozone Services PMI | Sep | pts | 49.05 | 48.9 | 49.8 |
| 10:00 | PL | Unemployment Rate | Aug | % | 4.9 | 4.8 | 4.9 |
| MONDAY (26 September) | | | | | | | |
| 10:00 | DE | IFO Business Climate | Sep | pts | 87.0 | 84.3 | 88.6 |
| TUESDAY (27 September) | | | | | | | |
| 14:00 | HU | Central Bank Rate Decision | Sep.22 | % | 12.75 | 13.00 | 11.75 |
| 14:30 | US | Durable Goods Orders | Aug | % m/m | -0.3 | -0.2 | -0.1 |
| 16:00 | US | Consumer Conference Board | Sep | pts | 104.5 | 108.0 | 103.6 |
| 16:00 | US | New Home Sales | Aug | % m/m | -2.2 | 28.8 | -8.6 |
| WEDNESDAY (28 September) | | | | | | | |
| 16:00 | US | Pending Home Sales | Aug | % m/m | -1.5 | -2.0 | -0.6 |
| THURSDAY (29 September) | | | | | | | |
| 11:00 | EZ | ESI | Sep | pct. | 95.0 | 93.7 | 97.3 |
| 14:00 | DE | HICP | Sep | % m/m | 1.5 | 2.2 | 0.4 |
| 14:30 | US | GDP Annualized | 2Q | % Q/Q | -0.6 | -0.6 | -1.6 |
| 14:30 | US | Initial Jobless Claims | Sep.22 | k | 215 | 193 | 209 |
| 14:30 | CZ | Central Bank Rate Decision | Sep.22 | | 7.00 | 7.00 | 7.00 |
| FRIDAY (30 September) | | | | | | | |
| 09:00 | CZ | GDP SA | 2Q | % y/y | 3.7 | - | 3.7 |
| 10:00 | PL | CPI | Sep | % y/y | 16.4 | 16.6 | 16.1 |
| 11:00 | EZ | Flash HICP | Sep | % y/y | 9.7 | - | 9.1 |
| 11:00 | EZ | Unemployment Rate | Aug | % | 6.6 | - | 6.6 |
| 14:30 | US | Personal Spending | Aug | % m/m | 0.2 | - | 0.1 |
| 14:30 | US | Personal Income | Aug | % m/m | 0.3 | - | 0.2 |
| 14:30 | US | PCE Deflator SA | Aug | % m/m | 0.1 | - | -0.1 |
| 16:00 | US | Michigan index | Sep | pts | 59.5 | - | 59.5 |

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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