

3 October 2022

# Eyeopener

## Inflation keeps climbing

Today PMI data, another drop expected  
CPI inflation soared to 17.2% y/y in September  
Zloty slightly stronger after CPI, short end of yield curve higher

**Today** the final PMI data will be released, among others for Germany, Eurozone, US, Poland. We expect the index for Poland to see a further decline from 40.9 points in August.

Friday's **data from the US** (consumer income and spending, PCE inflation) was mixed. Although the readings for last month were roughly in line with expectations or even a tad better but at the same time the earlier ones were subject to downward revisions. The index of consumer optimism (Michigan), on the other hand, declined. **Eurozone HICP inflation** data, on the other hand, surprised on the upside and showed 10.0% y/y in September versus 9.1% y/y in August. Core inflation rose to 4.8% from 4.3%. Faster-than-expected price growth in the euro area will put pressure on the ECB to raise interest rates further.

**EU energy ministers supported the European Commission's proposals** on the energy market, including a mandatory 5% reduction in electricity consumption during peak hours in the heating season and windfall taxes on energy producers.

**CPI inflation** in Poland jumped to 17.2% y/y in September, markedly exceeding expectations (our forecast was 16.6%, Bloomberg consensus at 16.4%, Parkiet local analysts' consensus at 16.5%). While food and energy prices rose a bit more than we had expected, the surprise was mostly generated by core inflation, which jumped to 10.8% y/y from 9.9% y/y, according to our estimates. This reading clearly moves the expected CPI path upwards and shows that inflation's inertia is much bigger than anticipated. It should be a strong argument for the MPC to reconsider its earlier communicated plan to stop tightening cycle soon. We expect the MPC to hike interest rates by 50bp at this week's meeting, and to leave the door open for further policy adjustments.

The NBP showed **balance of payments data for 2Q**. The current account was improved by EUR1.7bn (to -EUR4.7bn) compared to the sum of monthly NBP estimates covering the same period. The balance of services was revised upward by EUR1.6bn. The combined primary and secondary income balance was raised by EUR0.6bn and the goods trade balance was worse than the monthly estimates indicated by EUR0.5bn. Significant revisions were made to the volumes of exports and imports in 2Q, but also in previous quarters - quarterly import values were reduced by about EUR2.3bn each and exports by just under EUR3bn in both 1Q and 2Q22. The revision of the 1Q data also consisted of an increase in the income balance (by a total of EUR1.9bn) and a deterioration in the goods trade balance (by EUR0.5bn).

On Friday, we also learned **estimates for major land crops**. Total grain harvests increased by 4% y/y, ground vegetables by 0.5% y/y, tree fruits by 5.5% y/y, and bushes by 5.0% y/y. However, the potato harvest decreased (-15%). This means that this year's drought did not have a strong impact on lowering yields. The increase over the previous year also means there is lower risk of rising vegetable and fruit price inflation in the coming quarters.

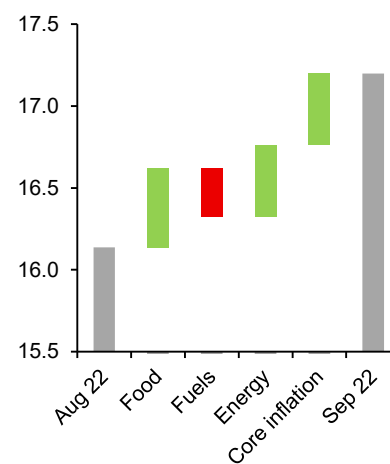
**Gabriela Mastowska**, whose candidacy for the MPC will be considered again this week (she previously resigned), told TVN24 that for all the concern about inflation, one must remain concerned about maintaining economic growth. In our view, if nominated, Mastowska will join the group of MPC members who support monetary policy in line with the views of the NBP governor.

**EURUSD** oscillated around 0.98. Eurozone core HICP inflation and US core PCE inflation surprised on the upside. Lael Brainard from the Fed stressed, the need to maintain restrictive monetary policy for a longer period of time to bring about a slowdown in economic growth in order to lower inflation. According to Isabel Schnabel of the ECB, on the other hand, the economic slowdown is not necessarily an argument against further interest rate hikes.

**EURPLN** rose from around 4.85 to around 4.86. Even before the domestic inflation reading, the exchange rate was attacking the 4.90 level, but the very high result spurred expectations of a rate hike, resulting in the exchange rate giving back most of the day's gains. The ending week was also conducive to this, with some investors deciding to realize some of their gains before the weekend, after a several-zloty rise over the past week. **EURCZK** rose to 24.59 from around 24.54. **EURHUF** was back to attacking the 422 level from around 419. The region's currencies were losing under the influence of increased geopolitical risks due to the annexation of four Ukrainian regions occupied by Russia.

**Debt market:** High inflation reading bumped up the shorter end of the domestic yield curve. Slight declines were recorded on the longer end. The market fears that higher inflation and problems in the European gas market will force the MPC to raise rates further, slowing economic growth more sharply in the longer term. German curve fell slightly on Friday, the U.S. curve tried to fall, but hawkish comments from Fed members bumped it up again.

CPI inflation breakdown, % y/y



Source: Bloomberg, Santander

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**FX market**

**Today's opening**

EURPLN	4.8425	CZKPLN	0.1970
USDPLN	4.9312	HUFPLN*	1.1392
EURUSD	0.9820	RUBPLN	0.0850
CHFPLN	5.0130	NOKPLN	0.4544
GBPPLN	5.5224	DKKPLN	0.6524
USDCNY	7.1135	SEKPLN	0.4457

\*for 100HUF

**Last session in the FX market** 30/09/2022

	min	max	open	close	fixing
EURPLN	4.8297	4.8864	4.8522	4.8477	4.8698
USDPLN	4.9256	4.9909	4.9509	4.9538	4.9533
EURUSD	0.9733	0.9853	0.9798	0.9781	-

**Interest rate market** 30/09/2022

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.49	12
DS0727 (5Y)	7.41	-7
DS0432 (10Y)	7.16	-12

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.84	17	4.57	3	2.41	-3
2L	7.67	13	4.47	-3	2.82	-4
3L	7.35	6	4.29	2	2.89	-8
4L	7.16	2	4.18	4	2.93	-5
5L	7.07	-5	4.11	5	2.97	-8
8L	6.93	-13	3.93	4	3.03	-5
10L	6.91	-13	3.86	2	3.08	-5

**WIBOR rates**

Term	%	Change (bps)
O/N	6.85	-2
T/N	6.96	11
SW	7.07	6
2W	7.08	4
1M	7.11	2
3M	7.21	3
6M	7.41	9
1Y	7.48	1

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	7.48	19
3x6	7.72	16
6x9	7.78	14
9x12	7.71	14
3x9	7.87	19
6x12	7.93	20

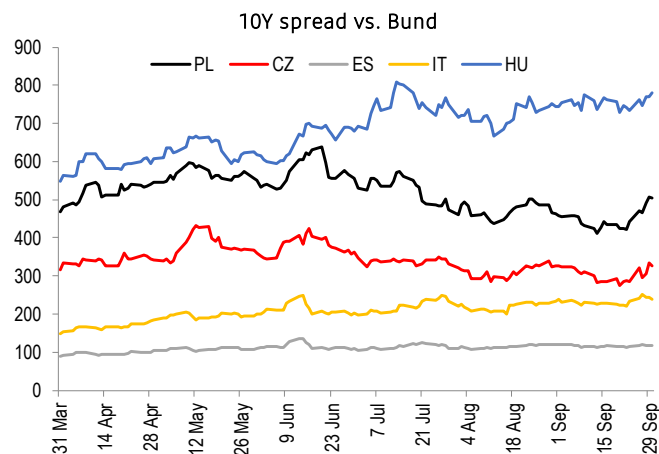
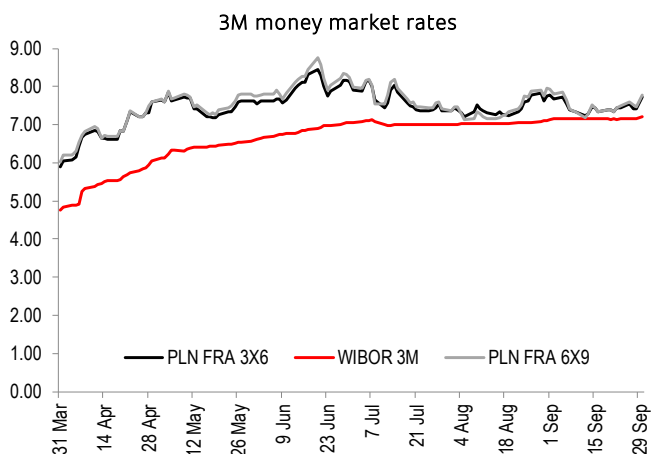
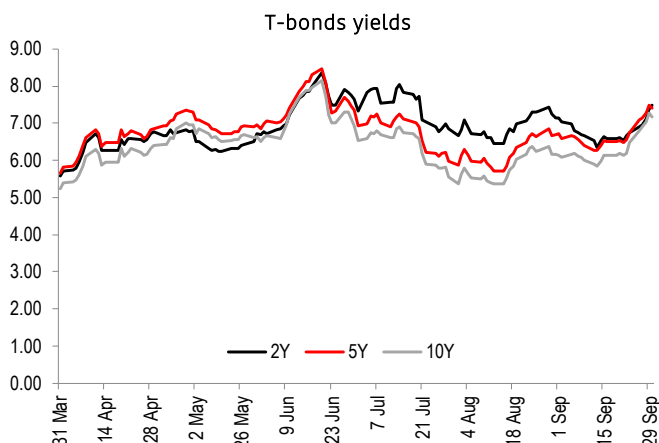
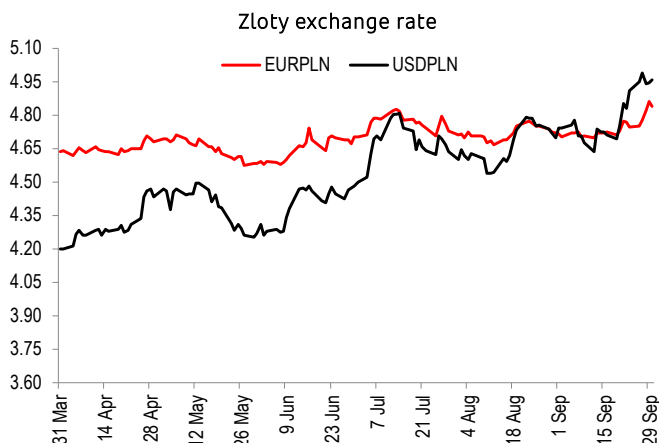
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	140	0	505	-2
France	18	-3	61	0
Hungary	243	15	781	10
Spain	65	0	118	0
Italy	83	-2	240	-5
Portugal	50	-3	107	-1
Ireland	22	0	59	0
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		
<b>FRIDAY (30 September)</b>							
09:00	CZ	GDP SA	2Q	% y/y	3.7	3.7	3.7
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Sep</b>	<b>% y/y</b>	<b>16.4</b>	<b>16.6</b>	<b>17.2</b>
11:00	EZ	Flash HICP	Sep	% y/y	9.7	10.0	9.1
11:00	EZ	Unemployment Rate	Aug	%	6.6	6.6	6.6
14:30	US	Personal Spending	Aug	% m/m	0.2	0.3	0.3
14:30	US	Personal Income	Aug	% m/m	0.3	0.4	-0.2
14:30	US	PCE Deflator SA	Aug	% m/m	0.1	0.3	-0.1
16:00	US	Michigan index	Sep	pts	59.5	58.6	59.5
<b>MONDAY (3 October)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Sep</b>	<b>pts</b>	<b>40.0</b>	<b>39.9</b>	<b>-</b>
09:55	DE	Germany Manufacturing PMI	Sep	pts	48.3	-	48.3
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	48.5	-	48.5
16:00	US	ISM manufacturing	Sep	pts	52.3	-	52.8
<b>TUESDAY (4 October)</b>							
16:00	US	Durable Goods Orders	Aug	% m/m	0.0	-	-0.2
16:00	US	Factory Orders	Aug	% m/m	0.3	-	-1.0
<b>WEDNESDAY (5 October)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>7.0</b>	<b>7.0</b>	<b>-</b>
08:00	DE	Exports SA	Aug	% m/m	0.0	-	-2.0
09:55	DE	Markit Germany Services PMI	Sep	pts	0.0	-	45.4
10:00	EZ	Eurozone Services PMI	Sep	pts	0.0	-	48.9
14:15	US	ADP report	Sep	k	200.0	-	132.0
16:00	US	ISM services	Sep	pts	56.0	-	56.9
<b>THURSDAY (6 October)</b>							
08:00	DE	Factory Orders	Aug	% m/m	-0.5	-	-1.1
09:00	HU	Industrial Production SA	Aug	% y/y	0.0	-	6.6
11:00	EZ	Retail Sales	Aug	% m/m	0.0	-	0.3
14:30	US	Initial Jobless Claims		k	215.0	-	193.0
<b>FRIDAY (7 October)</b>							
08:00	DE	Industrial Production SA	Aug	% m/m	-0.5	-	-0.3
08:00	DE	Retail Sales	Aug	% m/m	-1.0	-	1.9
09:00	CZ	Industrial Production	Aug	% y/y	6.7	-	-1.9
14:30	US	Change in Nonfarm Payrolls	Sep	k	250.0	-	315.0
14:30	US	Unemployment Rate	Sep	%	3.7	-	3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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