

11 October 2022

# Eyeopener

## September CPI in CEE

Today new IMF forecasts, inflation in Czechia and Hungary

MPC's Litwiniuk on other monetary tightening tools at NBP Board disposal; Kotecki – keeping real rates negative is “deeply inappropriate” in these circumstances

Limited trading yesterday due to US holiday, German bond yields significantly higher

**Today**, as part of the annual meeting of the IMF and the World Bank, the World Economic Outlook report will be presented with a new set of forecasts for the world, as well as the Global Financial Stability Report. There will also be interesting regional data releases: CPI inflation for September will be shown by the Czech Republic and Hungary - the former is forecast to stop roughly where Poland has already reached, and the latter to hit almost 20% in one jump from 15.6% y/y.

**MPC's Przemysław Litwiniuk** said that it is far too early to announce the end of monetary tightening, and the purpose of the pause in rate hikes in October is to get an idea of the scale of the impact of the tightening which had been delivered so far "in some shorter perspective" In his view, the monetary tightening phase should last until core inflation starts to fall, the labour market situation is no longer good and companies and households stop surprising with economic activity. He also said that tightening does not have to take the form of interest rate hikes, as the NBP Board has other tools at its disposal. Yesterday also saw another statement from **Ludwik Kotecki**, in which he deemed maintaining negative real interest rates "deeply inappropriate." In his view, if the MPC does not raise rates between the upcoming meeting and the March meeting, when the February CPI data (in his opinion in the order of 20% y/y) will be known, it will mean capitulation of the Council in the fight against inflation. In his opinion, the risk of a recession is low and even more so the risk of it generating unemployment on a scale that signifies a social problem.

**Fed's Charles Evans** said that US rates should reach 4.50% over the course of next year and stay there for some time. This is not a particularly market-relevant statement since he has a reputation for being moderately dovish and the median assessment of all FOMC members as to the level of rates at the end of 2023 is at 4.60% according to the Fed's dot plot. Furthermore, Evans will quit his office of a central banker in early 2023.

According to the impact assessment accompanying the **draft law on agricultural pensions**, changes linking the basic pension to the minimum pension paid in the regular system will cost PLN2.2bn in 2023. The annual cost of the reform is expected to gradually increase to over PLN4bn in 10 years.

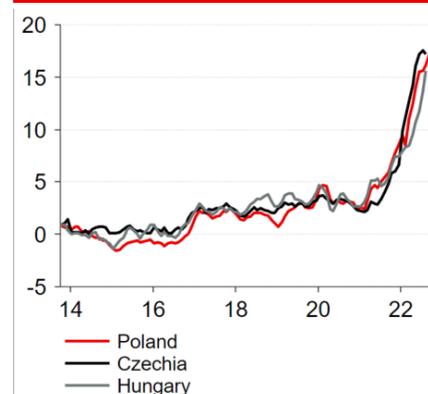
**EURUSD** fluctuated around 0.97 on Monday. The stabilisation of the exchange rate was supported by the absence of US investors celebrating Columbus Day. The dollar's appreciation may resume in the coming days, supported by hawkish statements by Fed members and Wednesday's publication of minutes from the latest FOMC meeting.

**EURPLN** tried to go up again from around 4.86 towards 4.90, but eventually retreated to 4.85 by the end of the day, supported by BGK activity in the market.

**Other CEE currencies:** the **EURCZK** rose to around 24.52 from around 24.45. CNB President Aleš Michl expressed concern about the government's plans to increase the budget deficit in 2023 from the initially planned CZK270bn to CZK330bn, due to the cost of energy relief. In his view, a more expansionary budget will make it more difficult to fight inflation. The **EURHUF** rose above 426 from around 422. Investors sold the forint in anticipation of today's publication of the Hungarian inflation index, which the market expects could be close to 20%.

**Debt market:** The domestic yield curve moved up by around 13bp on average, while expectations for rate hikes in the FRA market also grew. Asset swap spreads also widened further. Today's MF switching auction may further support this trend.

CPI inflation in CEE, %y/y



Source: Refinitiv Datastream, Santander

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**FX market**

**Today's opening**

EURPLN	4.8585	CZKPLN	0.1977
USDPLN	5.0120	HUFPLN*	1.1355
EURUSD	0.9689	RUBPLN	0.0787
CHFPLN	5.0044	NOKPLN	0.4673
GBPPLN	5.5190	DKKPLN	0.6527
USDCNY	7.1855	SEKPLN	0.4421

\*for 100HUF

**Last session in the FX market** 10.10.2022

	min	max	open	close	fixing
EURPLN	4.8427	4.8831	4.8611	4.8470	4.8677
USDPLN	4.9854	5.0412	4.9906	4.9968	5.0239
EURUSD	0.9680	0.9745	0.9738	0.9701	-

**Interest rate market** 10.10.2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.52	10
DS0727 (5Y)	7.68	15
DS0432 (10Y)	7.52	14

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.66	5	4.71	2	2.50	-2
2L	7.51	7	4.63	-1	2.97	2
3L	7.27	6	4.42	0	3.09	6
4L	7.12	7	4.27	-1	3.14	7
5L	7.06	5	4.16	0	3.20	9
8L	6.99	6	3.93	-1	3.28	12
10L	7.00	8	3.88	0	3.34	13

**WIBOR rates**

Term	%	Change (bps)
O/N	6.64	-4
T/N	6.73	-2
SW	6.90	0
2W	6.95	-3
1M	7.02	-6
3M	7.19	0
6M	7.35	1
1Y	7.44	-3

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

Term	%	Change (bps)
1x4	7.29	4
3x6	7.48	5
6x9	7.59	7
9x12	7.55	5
3x9	7.61	4
6x12	7.71	6

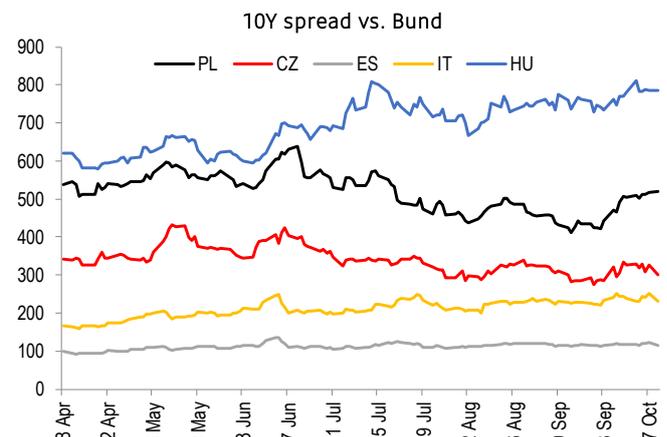
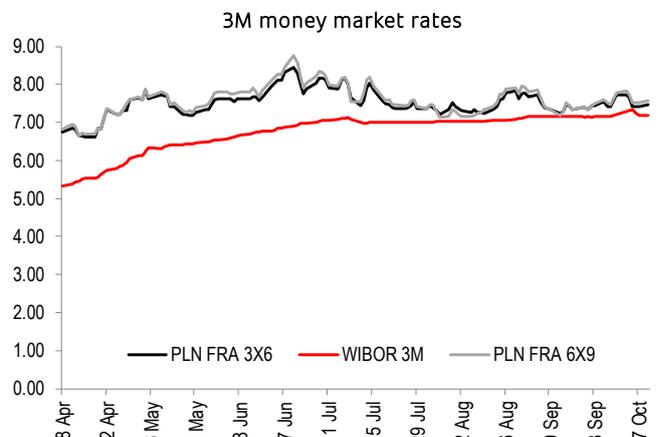
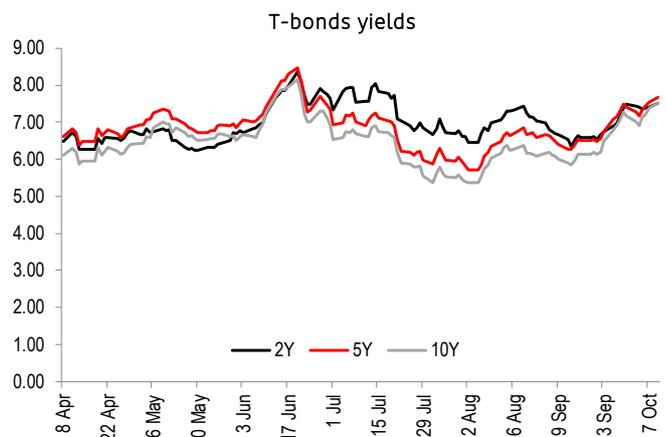
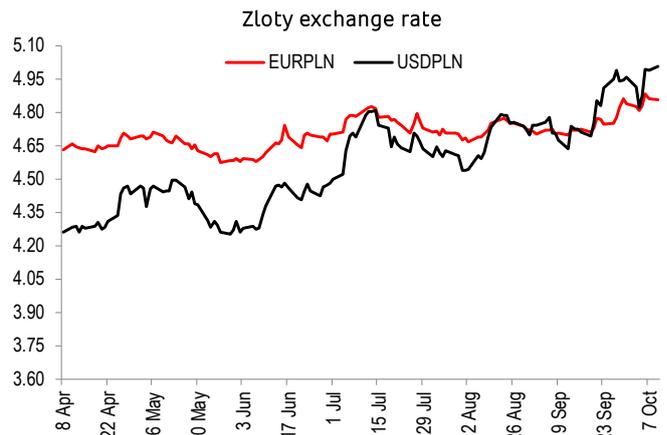
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	137	0	519	1
France	17	0	57	-3
Hungary	240	1	787	2
Spain	60	-5	116	-6
Italy	75	-10	231	-20
Portugal	45	-5	107	-5
Ireland	22	0	55	-1
Germany	20	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 (7 October)</b>								
08:00	DE	Industrial Production SA	Aug	% m/m	-0.5	-0.8	0.0	
08:00	DE	Retail Sales	Aug	% m/m	-1.2	-1.3	0.7	
09:00	CZ	Industrial Production	Aug	% y/y	5.4	10.3	-1.9	
14:30	US	Change in Nonfarm Payrolls	Sep	k	255	263	315	
14:30	US	Unemployment Rate	Sep	%	3.7	3.5	3.7	
<b>SATURDAY (8 October)</b>								
03:45	CN	Caixin China PMI Services	Sep	pts	54.4	49.3	55.0	
<b>TUESDAY (11 October)</b>								
09:00	CZ	CPI	Sep	% y/y	17.1	-	17.2	
09:00	HU	CPI	Sep	% y/y	19.9	-	15.6	
<b>WEDNESDAY (12 October)</b>								
11:00	EZ	Industrial Production SA	Aug	% m/m	1.3	-	-2.3	
20:00	US	FOMC Meeting Minutes	Sep					
<b>THURSDAY (13 October)</b>								
08:00	DE	HICP	Sep	% m/m	2.2	-	2.2	
14:30	US	CPI	Sep	% m/m	0.2	-	0.1	
14:30	US	Initial Jobless Claims	week	k	204	-	219	
<b>FRIDAY (14 October)</b>								
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Sep</b>	<b>% y/y</b>	<b>17.2</b>	<b>17.2</b>	<b>-</b>	<b>17.2</b>
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>Aug</b>	<b>€mn</b>	<b>-1642</b>	<b>-1534</b>	<b>-</b>	<b>-1735</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>Aug</b>	<b>€mn</b>	<b>-1317</b>	<b>-2226</b>	<b>-</b>	<b>-1452</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Aug</b>	<b>€mn</b>	<b>26560</b>	<b>24775</b>	<b>-</b>	<b>26010</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Aug</b>	<b>€mn</b>	<b>27876</b>	<b>27001</b>	<b>-</b>	<b>27462</b>
14:30	US	Retail Sales Advance	Sep	% m/m	0.2	-	0.3	
16:00	US	Michigan index	Oct	pts	58.8	-	58.6	

Source: Santander Bank Polska. Bloomberg. Parkiet

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

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