

13 October 2022

## Eyeopener

### Polish yields keeps surging

Today, inflation in the USA  
 FOMC minutes confirmed determination in bringing inflation down  
 S&P far from mulling revisions in Polish rating outlook  
 Zloty stable, local bond yields keep surging

**Today** comes the release with the highest market moving potential this week: September US CPI inflation. So far the US economy is generating signals that reassure the Fed that all the effort should still go into bringing inflation lower. The German inflation figure already presented this morning did not deviate from the preliminary reading, i.e. it confirmed a huge monthly jump of more than 2%.

The **FOMC minutes**, published last night, indicated a strong determination to fight inflation and revealed that, according to Fed members, the costs of doing too little in this direction outweighed the possible costs of doing too much. Restrictive monetary policy is to be maintained for as long as necessary to bring inflation back to target, although several FOMC participants stressed the need to carefully calibrate further policy tightening to avoid unduly negative consequences for the economy.

The **S&P rating agency** sees no grounds to change Poland's rating or even outlook from stable to negative. According to the analyst covering Poland, institutional erosion, a continuation of the dispute with the EC, a clear slowdown of the economy, recovery funds coming at best in late 2023 and even a large fiscal loosening in 2023 are all priced into the current assessment (just like us, the agency sees 2023 fiscal deficit closer to 6% GDP than 4.5% assumed by the government). The agency would consider revising the rating downwards if there was no visible effort towards fiscal consolidation after next year's elections and inflation and rates were still standing high at that time.

**MPC's Henryk Wnorowski** assessed that the 9.8% inflation forecast contained in the 2023 budget looked too optimistic, although he would have considered it realistic before the latest CPI data.

**Przemysław Litwiniuk** again suggested that the NBP Board should take up the fight against inflation with other available tools (e.g. quantitative tightening), since those within the remit of the MPC (interest rates) have lower efficiency in the current environment. In our view, the chances of this type of action being taken are very low. We think more probable (yet also unlikely) is that the NBP could rather resume bond purchases in an environment of continuing market turmoil and in the case of government having problems in obtaining financing. The MPC member is also concerned that inflation will exceed 20% in early 2023 and may not return to a range around the target earlier than in two years.

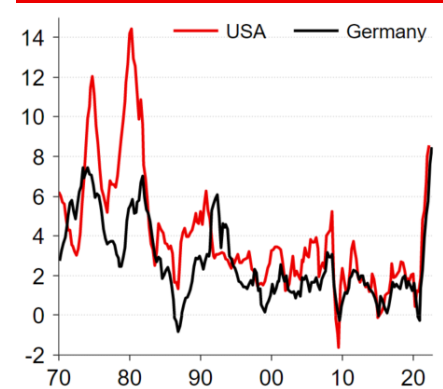
**EURUSD** remained slightly below the 0.97 level until the publication of the FOMC minutes from the last meeting. After the minutes, despite their hawkish message, the dollar did not strengthen significantly and today the rate is in the same place. However, in our view, an attack on the 0.95 level seems very likely in the coming weeks.

**EURPLN** fluctuated around the level of 4.85. The exchange rate needs a strong signal from international markets to resume its attack on the level of 4.90. Currently, it is held back from doing so by growing expectations of rate hikes in the domestic FRA market, although the strength of their impact on the exchange rate is dampened by the dovish stance of the MPC. Therefore, in an environment of rising rates on the main markets and hawkish stance of the Fed and ECB, the outlook for the zloty for the coming days and weeks will remain rather negative.

**Other CEE currencies:** the EURCZK rose from around 24.54 to around 24.56. the EURHUF rose above 432 from around 428. Both rates continue to be influenced by Tuesday's high inflation readings from the Czech Republic and Hungary, which put downward pressure on the koruna and forint through the real interest rate channel.

**Debt market:** the domestic yield curve rose by around 32bp on average yesterday, and the asset swap spreads also widened. After high inflation readings from the Czech Republic and Hungary, which also stimulated domestic inflation expectations and thus for a rate hike, another factor supporting the strong rises was the news of a leak from the Polish section of the Druzhba oil pipeline, which threatened oil supplies to Germany. With the recent failures of the NS1 and NS2 gas pipelines in mind, markets feared that energy problems in Europe could only increase in the coming months. As a result, Polish 10Y yields have set a new one-year peak, and domestic 2-year and 5-year yields are also on track for a similar feat. The last time 10Y yields broke through 8% (in June), this was followed by a sharp turnaround and within a few weeks they had fallen to almost 5%. In our view this time is different - in the middle of the year foreign investors were heavily underweight in Polish bonds, whereas this time that is unlikely to be the case; besides, the belief that the monetary tightening cycle is now coming to an end is diminishing rather than growing. This suggests that the rise in yields this time may be going further.

CPI history since 1970, %/y



Source: Refinitiv Datastream, Santander

#### Economic Analysis Department:

a.l. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 691 393 119  
**Jarostaw Kosaty** +48 887 842 480  
**Marcin Luziński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

### FX market

#### Today's opening

EURPLN	4.8435	CZKPLN	0.1968
USDPLN	4.9928	HUFPLN*	1.1355
EURUSD	0.9696	RUBPLN	0.0783
CHFPLN	5.0008	NOKPLN	0.4627
GBPPLN	5.5248	DKKPLN	0.6508
USDCNY	7.1889	SEKPLN	0.4398

\*for 100HUF

#### Last session in the FX market 12.10.2022

	min	max	open	close	fixing
EURPLN	4.8382	4.8630	4.8419	4.8448	4.8536
USDPLN	4.9751	5.0115	4.9828	4.9995	5.0014
EURUSD	0.9666	0.9732	0.9713	0.9690	-

### Interest rate market 12.10.2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8.14	30
DS0727 (5Y)	8.35	32
DS0432 (10Y)	8.19	35

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.97	10	4.72	1	2.52	-1
2L	7.89	16	4.61	-1	2.93	-8
3L	7.65	16	4.38	-4	3.01	-3
4L	7.49	17	4.23	-6	3.06	-5
5L	7.44	21	4.13	-5	3.12	-7
8L	7.36	20	3.96	-5	3.24	-1
10L	7.36	22	3.90	-4	3.31	-6

#### WIBOR rates

Term	%	Change (bps)
O/N	6.61	-7
T/N	6.67	1
SW	6.90	0
2W	6.97	2
1M	7.03	-2
3M	7.21	1
6M	7.36	1
1Y	7.47	1

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

Term	%	Change (bps)
1x4	7.49	13
3x6	7.86	15
6x9	7.95	13
9x12	7.94	15
3x9	8.01	16
6x12	8.09	11

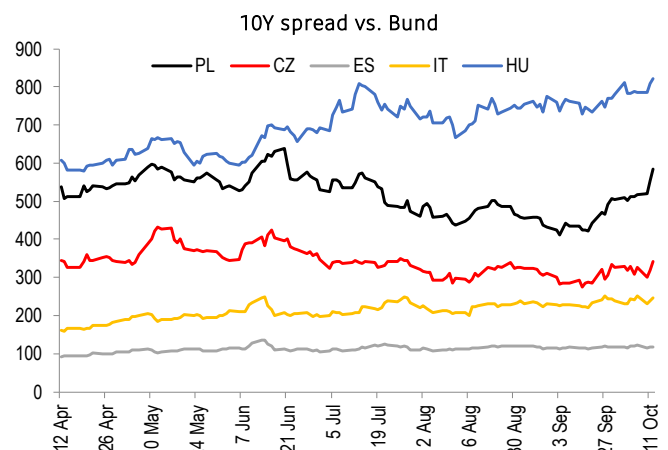
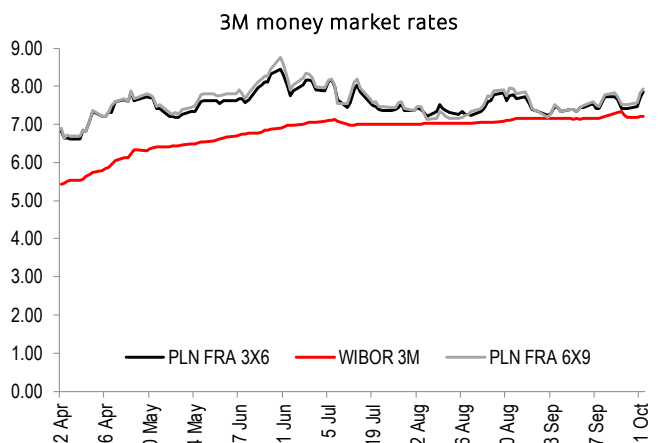
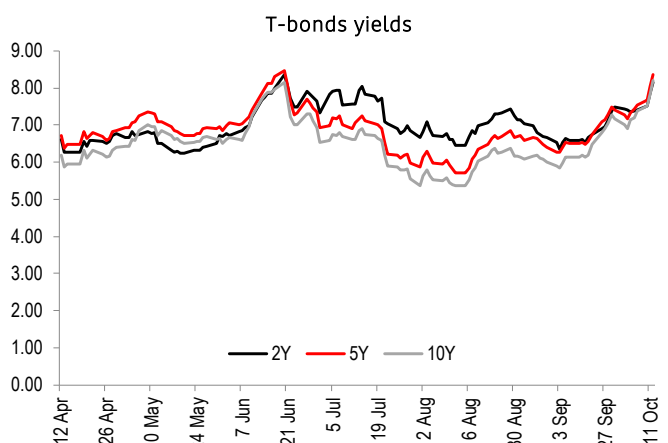
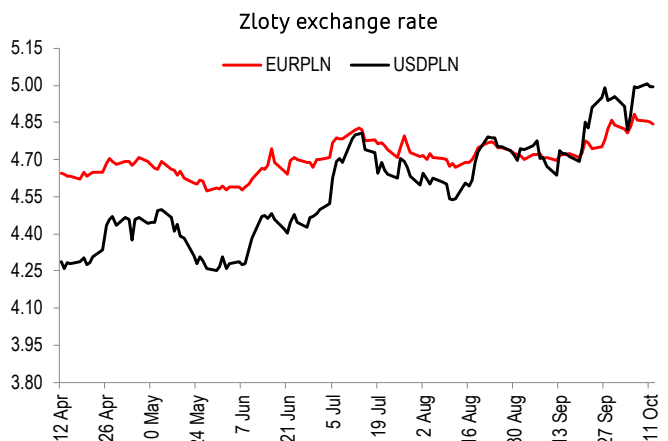
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	147	5	585	32
France	20	0	60	1
Hungary	253	5	821	11
Spain	68	3	118	2
Italy	78	-2	245	6
Portugal	53	3	110	2
Ireland	25	0	53	1
Germany	23	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	18.0	17.2	
09:00	HU	CPI	Sep	% y/y	19.9	20.1	15.6	
<b>WEDNESDAY (12 October)</b>								
11:00	EZ	Industrial Production SA	Aug	% m/m	1.3	1.5	-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	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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.