

14 October 2022

Eyeopener

Markets needed a correction

Today, details of September's surprisingly high inflation, balance of payments for August US inflation above expectations, markets' perverse reaction

Zloty took advantage of the dollar's sudden weakening, domestic bonds noticeably stronger this time around

Today we will learn the detailed CPI data for September and the balance of payments for August. August's final inflation figures were no different from the preliminary ones, but revisions have been quite frequent over the past year, so it is possible that September's preliminary CPI reading of 17.2% y/y will see some small correction. However, the key will be the structure of the CPI, which will allow a better assessment of whether the strong surprise in the underlying component of inflation was due to broadening of the price impulse, or whether it was some sort of disruption in a narrow area / one-off. If the former, the chances of inflation descending to single-digit levels before the end of 2023 will be increasingly slim. Following the NBP's strong revision of the balance of payments data, the current account deficit for August may surprise more than usual. Our forecast is for an increase in the trade deficit to -EUR2.2bn, but a decrease in the current account deficit to -EUR1.5bn (3.4% of GDP on a rolling 12-month basis). In the US, retail sales for September and consumer sentiment (preliminary estimate from the University of Michigan) for October will be published - both market-important, as they hint at whether US consumers are already foregoing purchases due to high inflation.

September US CPI inflation reading came in at 8.2% y/y: higher than expected and marginally below the previous 8.3%. Core inflation jumped from 6.3% y/y to 6.6%. This reading was again negative for real earnings: average real hourly earnings went down by 3% y/y in September (previously -2.8% y/y) and weekly earnings were 3.8% lower in real terms than a year ago (August reading was at -3.4% y/y).

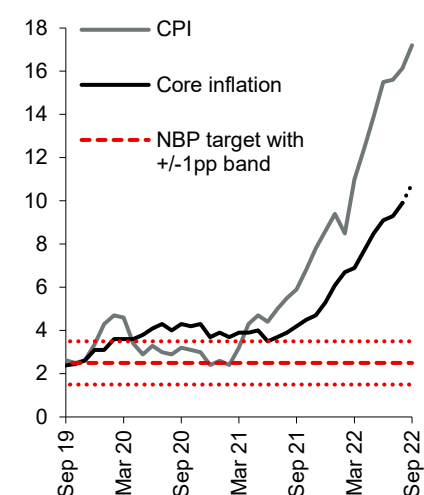
MPC member Ludwik Kotecki said in an interview with TVN24 that interest rates should be more or less at the level of inflation expected in a year and a half. Since, in his opinion, inflation in a year's time will be higher than the current level of interest rates, i.e. 6.75%, so there is still room for an upward adjustment of interest rates. He also stressed that the November inflation projection will be a very important piece of information. If forecasts show that inflation is persistent, then this will form the basis for discussions about possible further monetary tightening.

EURUSD at first fell sharply after the CPI publication, only to shoot up under 0.98 from around 0.966. The market's rebound in these circumstances is difficult to explain and, in our view, may not be sustainable. The reason may have been the news, denounced, that the UK government is to review its fiscal plan, which would eradicate the problem behind nervous shifts in UK bonds and the currency that projected into trading on other major markets.

EURPLN benefited from the global move away from the dollar and quickly slipped below 4.81, a level around which it had previously been awaiting the MPC decision and communication of further intentions, a week ago. USDPLN broke away from 5, and is trying to anchor itself almost PLN0.10 lower. Just as we do not assume that EURUSD can hold at new levels, we doubt that the zloty will be able to hold on to this unexpected gain. Given the large revision of the balance of payments data, today's reading could deviate significantly from expectations and thus generate a local signal for the zloty. Yesterday's session, however, showed that an external factor is needed for major EURPLN movements. **EURCZK** continued to make small moves despite sharp shifts in global markets, the zloty and the forint. **EURHUF** managed to move back down under 430 benefiting, as did the zloty, from the unwinding of the recent stress in the markets. However, this is still only a correction of Wednesday's move, while the forint's last wave of depreciation, which began on 4 October, started from around 417.

Debt market: after the entire POLGB yield curve had moved above 8% on Wednesday, it fell sharply on Thursday, also along its entire length. As a result of this shift, only its highest point, 5Y, was still touching 8% and the rest was back below it. Moreover, this correction took place against a backdrop of rising yields on the core markets.

CPI inflation in Poland, %/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4,8083	CZKPLN	0,1951
USDPLN	4,9118	HUFPLN*	1,1104
EURUSD	0,9784	RUBPLN	0,0774
CHFPLN	4,9200	NOKPLN	0,4658
GBPPLN	5,5607	DKKPLN	0,6461
USDCNY	7,1706	SEKPLN	0,4372

*for 100HUF

Last session in the FX market 13.10.2022

	min	max	open	close	fixing
EURPLN	4,8082	4,8560	4,8416	4,8137	4,8468
USDPLN	4,9126	5,0307	4,9907	4,9234	4,9905
EURUSD	0,9631	0,9798	0,9702	0,9777	-

Interest rate market 13.10.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7,94	-20
DS0727 (5Y)	7,99	-36
DS0432 (10Y)	7,82	-37

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,90	-7	4,92	20	2,54	2
2L	7,77	-11	4,78	18	2,99	6
3L	7,52	-13	4,51	13	3,04	3
4L	7,37	-12	4,33	10	3,10	4
5L	7,30	-15	4,21	8	3,14	2
8L	7,20	-16	3,99	4	3,21	-2
10L	7,19	-18	3,93	3	3,27	-4

WIBOR rates

Term	%	Change (bps)
O/N	6,64	3
T/N	6,72	5
SW	6,90	0
2W	6,91	-6
1M	7,04	1
3M	7,28	7
6M	7,43	7
1Y	7,50	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,47	-3
3x6	7,77	-10
6x9	7,83	-12
9x12	7,80	-14
3x9	7,91	-10
6x12	7,96	-13

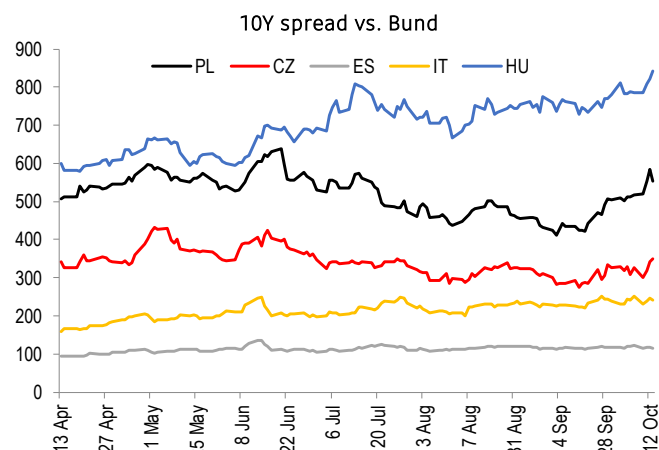
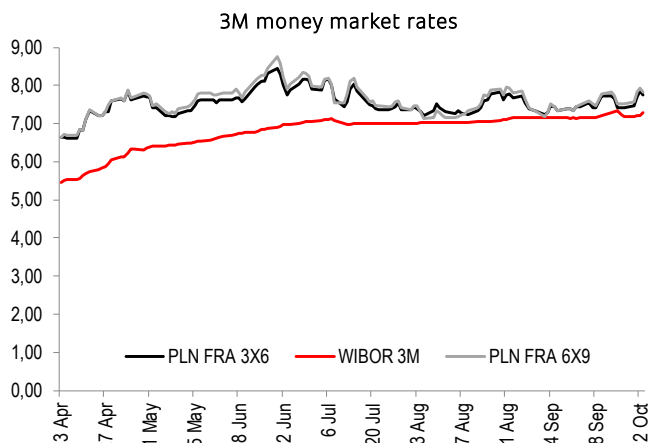
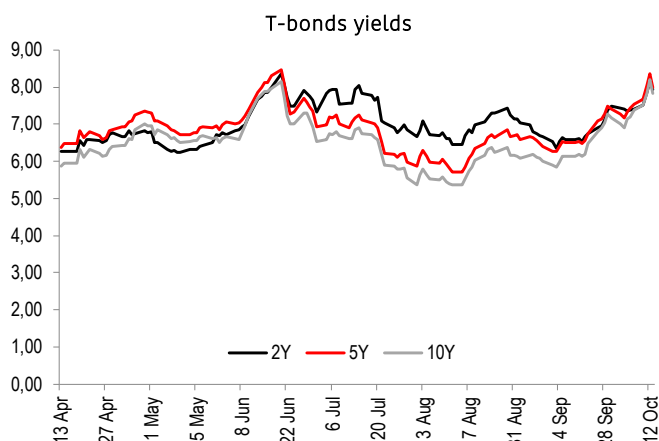
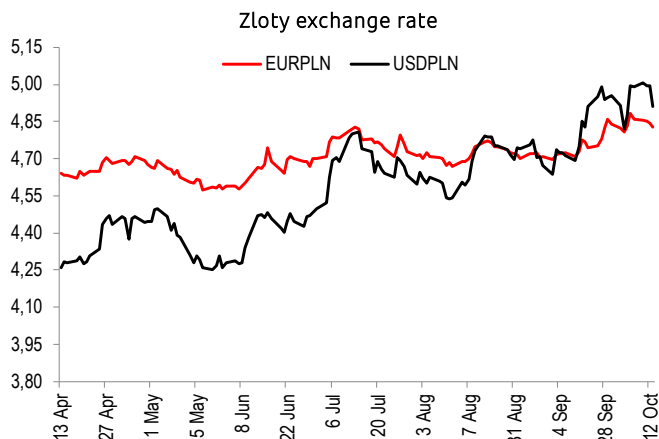
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	150	3	553	-32
France	20	0	60	0
Hungary	259	6	841	21
Spain	68	0	116	-2
Italy	78	0	242	-4
Portugal	53	0	110	-1
Ireland	25	0	54	1
Germany	22	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 (7 October)								
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	
SATURDAY (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	54.4	49.3	55.0	
TUESDAY (11 October)								
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	
WEDNESDAY (12 October)								
11:00	EZ	Industrial Production SA	Aug	% m/m	1.3	1.5	-2.3	
20:00	US	FOMC Meeting Minutes	Sep					
THURSDAY (13 October)								
08:00	DE	HICP	Sep	% m/m	2.2	2.2	2.2	
14:30	US	CPI	Sep	% m/m	0.2	0.4	0.1	
14:30	US	Initial Jobless Claims	week	k	204	228	219	
FRIDAY (14 October)								
10:00	PL	CPI	Sep	% y/y	17.2	17.2	-	17.2
14:00	PL	Current Account Balance	Aug	€mn	-1642	-1534	-	-1735
14:00	PL	Trade Balance	Aug	€mn	-1317	-2226	-	-1452
14:00	PL	Exports	Aug	€mn	26560	24775	-	26010
14:00	PL	Imports	Aug	€mn	27876	27001	-	27462
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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