

Eyeopener

EU funds for Poland on hold?

Today Polish core CPI for September
 Poland may see its EU money frozen until it fixes the judiciary system
 Larger than expected C/A deficit in August
 MNB hikes rates to rescue the forint

Today we will see Polish core inflation data for September. We expect it to rise sharply to a double-digit level, indicating a propagation of the so-called 'second round effects'.

According to the [Financial Times](#) and [Rzeczpospolita](#) daily, the European Commission may suspend virtually all payments of EU funds to Poland from the new budget. The issue at stake is not only the Recovery Fund, but also the "standard" cohesion funds, i.e. €75 billion from the new seven-year EU budget (2021-28). This is due to the government's failure to fulfil one of the basic conditions for the disbursement of these funds related to the charter of fundamental rights (the right to an effective remedy and access to an impartial court). Poland can theoretically start implementing projects under approved programmes, but the EC will not reimburse payments until the required conditions are met (in previous budgets no such mechanism existed). As a result, by the time the independence of the judiciary is restored, the EC will have already paid only the last remaining funds from the previous 2014-20 budget. This situation means a high risk for the implementation of public investments in 2023.

Final September CPI inflation data confirmed the preliminary estimate of 17.2% y/y and 1.6% m/m. Increases in food, energy and core categories contributed to the higher reading, while fuel prices fell by 2.1% m/m. Goods prices increased by 18.7% y/y (17.5% y/y in August) and services prices by 12.5% y/y (11.8% y/y in August). According to our estimates, core inflation rose to 10.7-10.8% y/y. We expect CPI inflation to rise further in the coming months. A breakthrough of 18% is possible in October, a peak in February could be close to 20%, and possibly higher - depending on how GUS decides to introduce the effect of a freeze on electricity prices up to a certain consumption limit in its inflation estimates. From 2Q23 onwards, inflation may start to slowly fall, but it is unlikely to reach single-digit levels before 4Q23, and possibly not even before the end of next year. More in [Economic Comment](#).

C/A balance was shown in August at -€4.0bn vs. market median and our forecast both around -€1.6bn. Trade balance in goods and primary income balance were both -€3.0bn, while services balance showed a surplus of €2.2bn (two last prints of services exports signal a negative change in trend). Goods trade turnover surprised us and the market to the upside: export growth was +24.8% y/y (up from 19% y/y in July) and import growth was +28.2% y/y (20.6% y/y previously). The NBP report mentions fuel for Ukraine, cars and car parts as the categories driving export growth in August. On the imports side coal, fuels and car parts were highlighted. 12M rolling sum of current account deficit is at 3.9% of GDP after August, up from 3.6%. We thought it would stay around this level in the remaining part of the year, but the large negative surprise for August increases upside risk to this forecast.

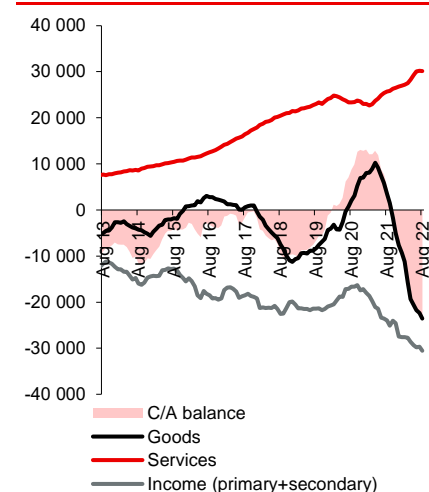
EURUSD fell closer to 0.97 from around 0.98. Slightly weaker-than-expected US retail sales tried to push the exchange rate near 0.98, but support for the dollar came from a better-than-expected University of Michigan index.

EURPLN fluctuated in a wide band around the level of 4.81. Weaker-than-expected current account deficit data pushed the exchange rate to 4.84, but with weaker US retail sales data it temporarily dived as low as 4.79. By the end of the bottom, however, the exchange rate returned close to the opening levels. Today, the zloty may react negatively to news of a blockade of EU funds.

Other CEE currencies: EURHUF fell from around 427 to around 418. Following the NBH's decision to raise the lombard rate to 25% and introduce a new 18% unlimited volume O/N deposit, the forint strengthened all the way to 415. The central bank's decision was prompted by a desire to stabilize the forint's quotations while minimizing the negative effects of the increases on the real sphere. For this reason, the key interest rate remained unchanged at 13%. The central bank hopes that the new monetary policy instrument will enable a more flexible response to financial market turbulence. Potentially, when the pressure to weaken the forint diminishes the interest rate on the O/N deposit could fall close to the prime rate. Ultimately, the NBH announces that over time the O/N deposit rate is expected to become the primary instrument of monetary policy. The EURCZK fluctuated around the 24.58 level.

Debt market: The domestic yield curve rose at the short end and fell at the longer end. In the main markets, yields resumed their rise.

12M rolling sum of C/A balance and its components, €mn



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: 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	4.8266	CZKPLN	0.1948
USDPLN	4.9590	HUFPLN*	1.1104
EURUSD	0.9736	RUBPLN	0.0796
CHFPLN	4.9436	NOKPLN	0.4599
GBPPLN	5.5157	DKKPLN	0.6451
USDCNY	7.2000	SEKPLN	0.4359

*for 100HUF

Last session in the FX market 14/10/2022

	min	max	open	close	fixing
EURPLN	4.7888	4.8371	4.8019	4.8106	4.833
USDPLN	4.8918	4.9745	4.9090	4.9391	4.9569
EURUSD	0.9706	0.9799	0.9780	0.9737	-

Interest rate market 14/10/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8.09	15
DS0727 (5Y)	7.99	0
DS0432 (10Y)	7.74	-8

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.99	9	5.00	9	2.59	5
2L	7.87	10	4.85	7	3.00	1
3L	7.60	8	4.58	7	3.06	2
4L	7.41	4	4.39	6	3.11	1
5L	7.32	2	4.26	5	3.16	2
8L	7.19	-1	4.07	7	3.25	4
10L	7.16	-2	4.00	6	3.31	5

WIBOR rates

Term	%	Change (bps)
O/N	6.68	4
T/N	6.77	5
SW	6.90	0
2W	6.89	-2
1M	6.99	-5
3M	7.31	3
6M	7.45	2
1Y	7.54	4

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.60	14
3x6	7.92	16
6x9	7.92	9
9x12	7.91	11
3x9	8.07	16
6x12	8.06	9

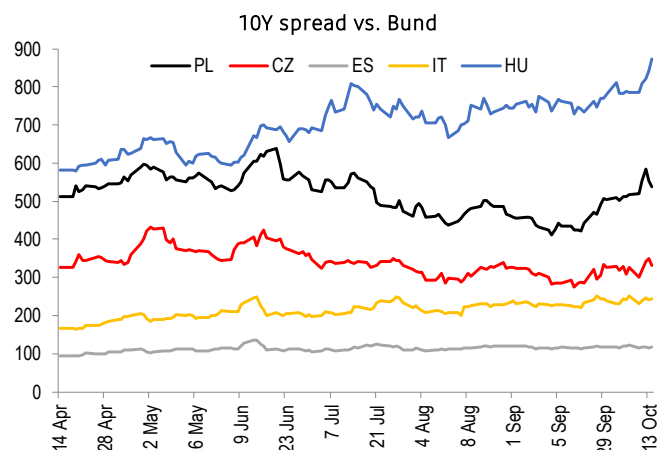
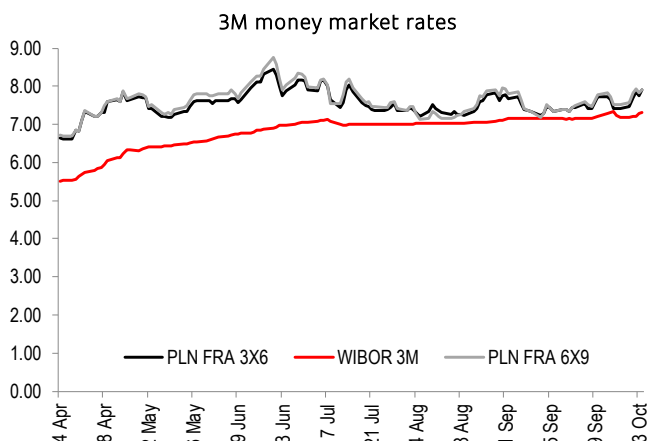
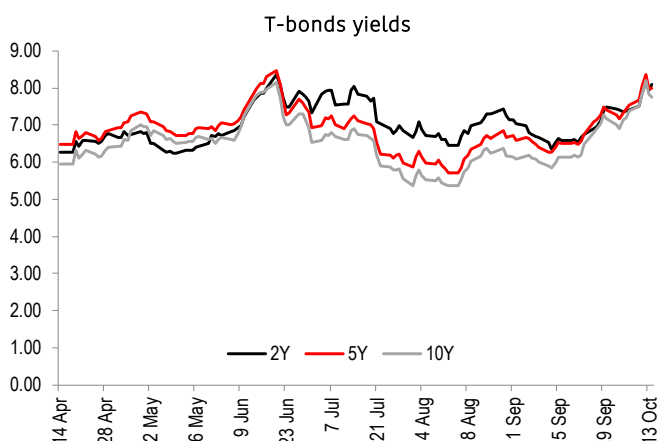
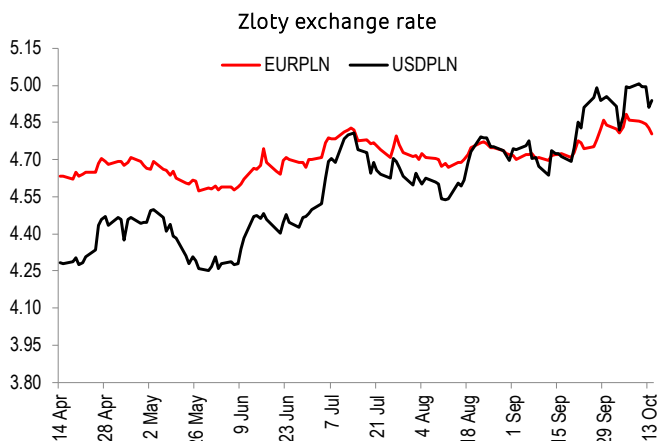
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	150	0	538	-15
France	20	0	60	0
Hungary	258	0	872	31
Spain	68	0	118	2
Italy	78	0	245	3
Portugal	53	0	109	-1
Ireland	25	0	54	0
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		
FRIDAY (14 October)							
10:00	PL	Inflacja	IX	% r/r	17.2	17.2	17.2
14:00	PL	Saldo obrotów bieżących	VIII	mIn €	-1642	-1534	-3967
14:00	PL	Bilans handlowy	VIII	mIn €	-1317	-2226	-2927
14:00	PL	Eksport	VIII	mIn €	26560	24775	25358
14:00	PL	Import	VIII	mIn €	27876	27001	28285
14:30	US	Sprzedaż detaliczna	IX	% m/m	0.2	0.0	0.3
16:00	US	Indeks Michigan	X	pkt	58.8	59.8	58.6
MONDAY (17 October)							
14:00	PL	CPI Core	Sep	% y/y	10.7	10.8	9.9
TUESDAY (18 October)							
11:00	DE	ZEW Survey Current Situation	Oct	pts	-69.0		-60.5
15:15	US	Industrial Production	Sep	% m/m	0.1		-0.2
WEDNESDAY (19 October)							
11:00	EZ	HICP	Sep	% y/y	10.0		9.1
14:30	US	Housing Starts	Sep	% m/m	-6.4		12.2
THURSDAY (20 October)							
10:00	PL	Employment in corporate sector	Sep	% y/y	2.4	2.4	2.4
10:00	PL	Average Gross Wages	Sep	% y/y	13.4	13.4	12.7
10:00	PL	Sold Industrial Output	Sep	% y/y	8.8	9.2	10.9
10:00	PL	PPI	Sep	% y/y	25.5	25.6	25.5
14:30	US	Initial Jobless Claims		k	235.0		228.0
16:00	US	Existing Home Sales	Sep	% m/m	-2.1		-0.4
FRIDAY (21 October)							
10:00	PL	Construction Output	Sep	% y/y	6.5	9.2	6.1
10:00	PL	Retail Sales Real	Sep	% y/y	4.5	3.5	4.2

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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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.