

Eyeopener

Core inflation sets another record

Today the release of German ZEW index, US industrial output
MPC's Dąbrowski: no room for more rate hikes, Tyrowicz: +100bp needed in November
Polish yields higher after core inflation data, PLN did not weaken

Today there are no local data releases, but numbers from Germany and the USA may be in focus.

The **Moody's rating agency** commented on "Financial Times" and "Rzeczpospolita" reports that Poland might lose access to EU cohesion funds. The agency said that a further significant deterioration of the rule of law situation and an exacerbation of the conflict with the EU would be negative for Poland's rating (Moody's may review Poland's rating on 28 October, its current assessment of Poland's credit standing is the highest among all three major agencies). Meanwhile, the **Fitch rating agency** said that delays in the disbursement of cohesion funds from the 2021-27 outlook could undermine investor confidence and also affect the currency, which in turn could translate into higher inflationary pressures. The government dismissed the reports and said that no official letter had been received from the EC recommending blocking the funds for Poland.

MPC member Ireneusz Dąbrowski, in an interview with the Parkiet newspaper, assessed that the interest rate rises to date have been sufficient. In his opinion, further rate hikes would only trigger a downturn and would not significantly change the inflation outlook. To his knowledge, inflation in Poland should be back around the inflation target in 2024. In our view, it will take longer to return to that point. **Joanna Tyrowicz**, in an interview with ISBnews, acknowledged that a 100bp hike in November would be needed to restore the efficiency of monetary policy. In her view, the current policy is still loose, as the interest rate remains significantly below inflation expectations.

The main measure of core inflation in Poland, **CPI excluding food, energy and fuels**, rose in September from 9.9% y/y to 10.7%, beating the freshly set all-time high from August. Three other measures calculated by the NBP have also reached the highest levels ever (data since 2001). CPI excluding administered prices grew in September by 17.8% y/y, up from 16.7%, while CPI inflation excluding most volatile components rose to 13.6% y/y. The 15% trimmed mean measure of core inflation rose to 12.9% y/y. All measures rose by more than 1% in m/m terms and their rise was stronger than in the previous two months. We expect core inflation to keep rising in the remaining months of 2022, the main measure might approach 12% y/y in December. In 2023 core inflation should start to decline on the back of the possible recession together with the impact of the delivered monetary tightening.

Sales of retail bonds in September totalled PLN2.65bn, the Finance Ministry reported. This is much less than in August, when PLN6.06bn was sold. The level recorded in September was in the range of the average sales recorded in April and May, i.e. before the introduction of bonds with interest rates clearly above the NBP reference rate, which ensured record sales of around PLN14.07bn in June. Since then, however, the relationship between the coupons of these bonds and the interest possible from bank deposits has changed markedly. This puts a question mark over the MF's ambitious plans regarding the large sale of savings bonds in 2023, unless they again become attractive against bank deposits. According to the draft budget referred to the Sejm, gross issuance of savings bonds next year is expected to be around PLN75.3bn, compared to the PLN58.7bn planned for this year.

The **balance of foreign currency funds** at the end of September fell to €7.996bn compared to €8.65bn at the end of August, the Finance Ministry reported. Since a total of only about €99.1mn (€48.3mn for principal repayment and €50.8mn for interest) was spent on servicing foreign currency receivables, it can be inferred that the remaining €554.9mn may have been exchanged on the domestic FX market as part of keeping the zloty from unduly weakening against the euro.

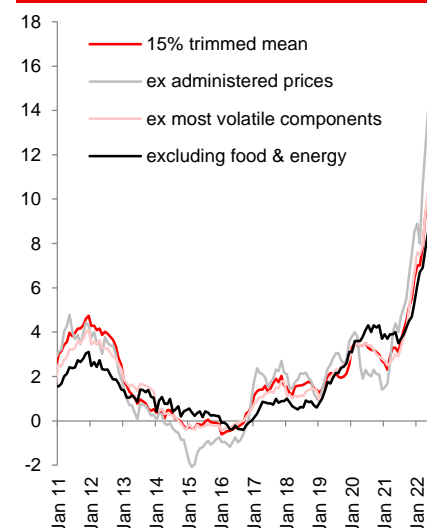
EURUSD rose above 0.98 from around 0.97. The exchange rate was helped by a calming of the situation concerning UK finances after newly appointed Treasury Secretary Jeremy Hunt backed off plans for tax cuts that had stressed markets in recent weeks.

EURPLN, on news of the possible withholding of EU funds for Poland during Monday's Asian session, rose above 4.85 but by the end of the day was back below 4.81 and this morning even below 4.80. The zloty was helped by improving sentiment towards the UK market.

Other CEE currencies: **EURHUF** fell to 411 from 415. The continued appreciation of the forint is a result of last week's rate hike by the MNB. **EURCZK** fell to 24.56 from around 24.58. The koruna initially lost ground after a strong PPI inflation reading, but the weaker dollar proved supportive.

Debt market: Domestic yield curve across the board rose by an average of about 26 bps following the publication of the sharply higher-than-previous domestic core inflation. FRA contacts also rose.

Core inflation measures



Source: Central Statistical Office, Santander

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FX market

Today's opening

EURPLN	4.7926	CZKPLN	0.1948
USDPLN	4.8637	HUFPLN*	1.1104
EURUSD	0.9854	RUBPLN	0.0786
CHFPLN	4.8911	NOKPLN	0.4636
GBPPLN	5.5316	DKKPLN	0.6443
USDCNY	7.1919	SEKPLN	0.4374

*for 100HUF

Last session in the FX market 17.10.2022

	min	max	open	close	fixing
EURPLN	4.7952	4.8364	4.8323	4.8042	4.8229
USDPLN	4.8809	4.9670	4.9623	4.8851	4.9522
EURUSD	0.9719	0.9848	0.9735	0.9841	-

Interest rate market 17.10.2022

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	6.69	1
T/N	6.75	-2
SW	6.90	0
2W	6.94	5
1M	7.04	5
3M	7.33	2
6M	7.47	2
1Y	7.56	2

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

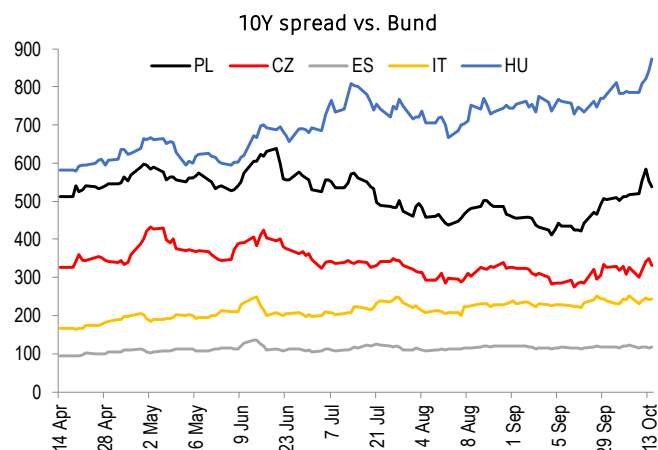
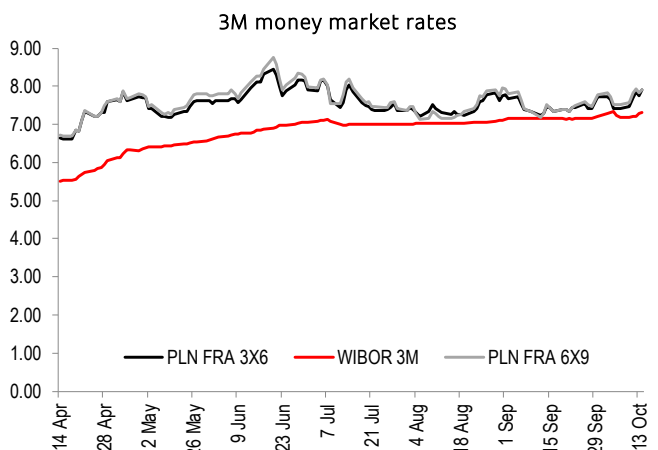
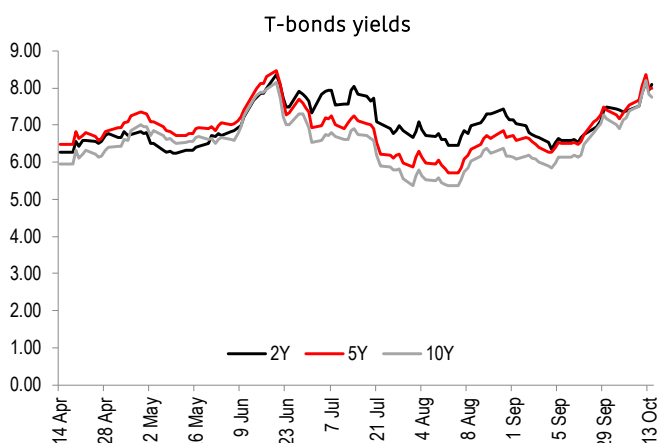
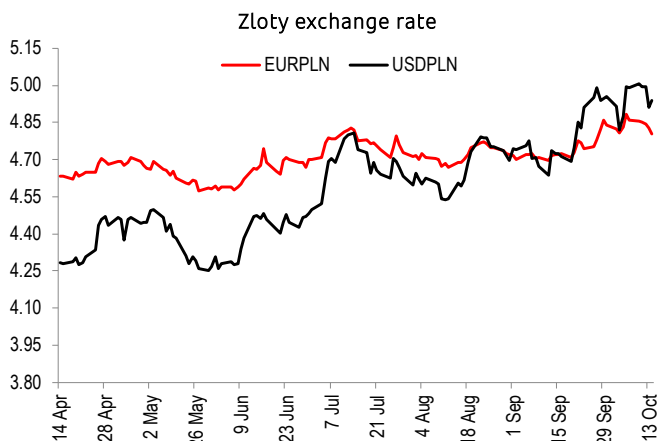
Measures of fiscal risk

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	10.7
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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