

19 October 2022

Eyeopener

Sentiment improved in Germany

Today final print of HICP inflation for EU countries, including Poland, consumer confidence MPC's Kochalski: not much room for rate hikes

Worse investors; assessment of current shape of German economy, improved outlook Polish 2Y and 10Y yield rose fast, the zloty somewhat stronger

Today we will get to see the final reading of September HICP inflation in the euro area as well as in individual EU countries, including Poland, and data from the US real estate market (housing starts). This morning we will also find out what happened to Polish consumer sentiment in October.

The **German ZEW Index** measuring sentiment among analysts and individual investors did not turn out to be as weak in October as the market consensus had estimated. The aggregate sentiment index rose from -61.9 points in September to -59.2 points in October, while the market had expected a further decline to -69 points. The improvement in the reading was driven by the rise of the expectations component, while the one describing the current situation deteriorated significantly from -60.5 to -72.1 points, compared to the consensus of -69.

The government adopted a draft bill on the **indexation of pensions** in 2023 at 13.8%, in line with earlier announcements. The cost of the bill is to amount to PLN41.8bn under this assumption. However, the final size of the indexation will depend on the yet unknown actual average inflation in 2022. In addition, the PM announced that the government intends to introduce the 13th and 14th pensions permanently into the system and that next year's 14th pension - which was not included in the draft budget and which, according to us, could cost more than PLN12bn - is to be financed from the state budget through savings and improvements in tax collection.

MPC's Cezary Kochalski, in an interview for TVN24, assessed that there is little, if any, room for further interest rate hikes. The main argument, in his opinion, is the closing of the output gap (deviation of GDP from potential GDP). The July NBP's projection indicated a possible closing of the gap at the turn of 2022/2023 and its slightly negative values at least until the end of 2024. Kochalski assumes that in the following months inflation will remain close to the September reading of 17.2% y/y (in our opinion, in October it will already be at c. 18% y/y and by the end of the year it will go up to around 18.5% y/y).

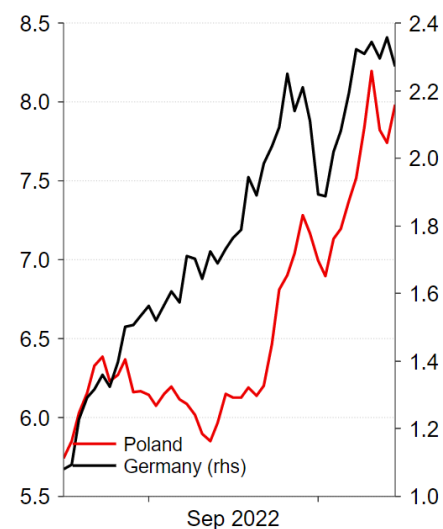
EURUSD remained above the 0.98 level on Tuesday. The stabilisation of euro quotations was helped by a slightly better-than-expected reading of the German ZEW index for October.

EURPLN went slightly below 4.79, however, for most of the day the rate oscillated around the level of 4.80, with a spike to 4.82. In anticipation of domestic publications at the end of the week, the rate remains under the dominant influence of the situation on EURUSD.

Other CEE currencies: **EURHUF** rose to 413 from near 410. The MNB left the 1-day O/N deposit rate unchanged - the introduction of the rate last week helped the MNB contain the forint's progressive depreciation. **EURCZK** oscillated around the 24.56 level.

Debt market: Domestic yields rose across the curve by about 22bp on average. The slope of the curve became even more negative, signalling that the market is increasingly boldly beginning to discount a stagflationary scenario. The entire asset swap curve also widened noticeably and the yield spread of Polish 10-year paper to the Bund approached 600bp.

Polish and German 10Y yields



Source: Refinitiv, Santander

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FX market

Today's opening

EURPLN	4.7876	CZKPLN	0.1946
USDPLN	4.8694	HUFPLN*	1.1104
EURUSD	0.9832	RUBPLN	0.0788
CHFPLN	4.8810	NOKPLN	0.4591
GBPPLN	5.5014	DKKPLN	0.6436
USDCNY	7.2232	SEKPLN	0.4372

*for 100HUF

Last session in the FX market 18.10.2022

	min	max	open	close	fixing
EURPLN	4.7797	4.8202	4.7932	4.7894	4.8092
USDPLN	4.8521	4.9004	4.8627	4.8686	4.8929
EURUSD	0.9811	0.9875	0.9856	0.9840	-

Interest rate market 18.10.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8.61	25
DS0727 (5Y)	8.45	21
DS0432 (10Y)	8.18	20

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.08	0	4.97	-2	2.57	-2
2L	8.07	6	4.80	-2	2.98	-1
3L	7.82	7	4.53	-2	3.03	-1
4L	7.62	6	4.34	-2	3.06	-4
5L	7.54	8	4.22	0	3.10	-2
8L	7.38	8	4.03	-1	3.17	-2
10L	7.35	8	3.98	-1	3.22	-2

WIBOR rates

Term	%	Change (bps)
O/N	6.54	-15
T/N	6.67	-8
SW	6.89	-1
2W	6.94	0
1M	7.06	2
3M	7.34	1
6M	7.49	2
1Y	7.61	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.65	-2
3x6	7.98	-3
6x9	8.06	2
9x12	8.00	-4
3x9	8.12	-3
6x12	8.21	2

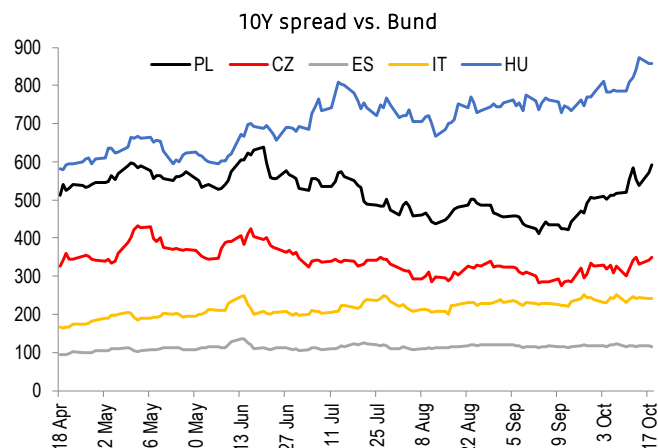
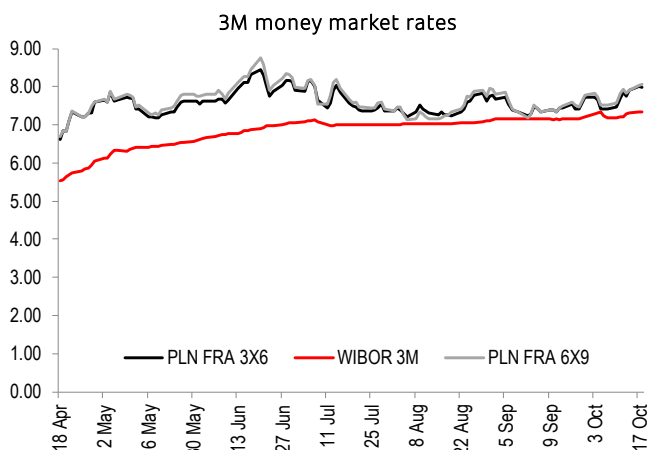
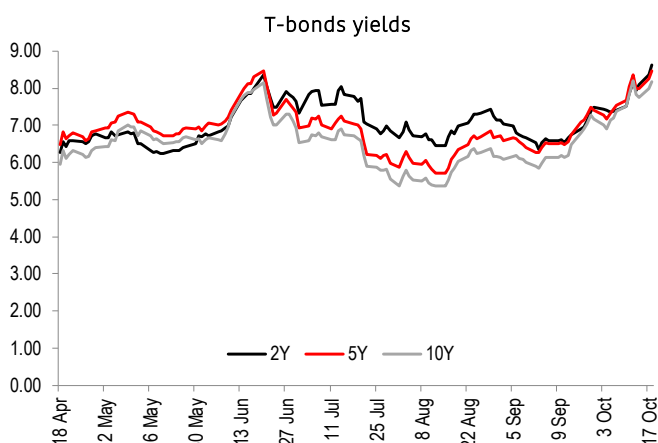
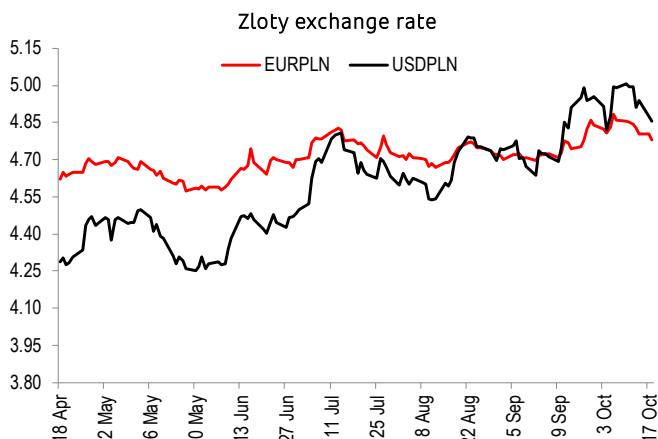
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	150	0	591	20
France	20	0	58	0
Hungary	258	0	859	0
Spain	68	0	115	-1
Italy	78	0	242	1
Portugal	53	0	108	-1
Ireland	25	0	56	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		
FRIDAY (14 October)							
10:00	PL	CPI	Sep	% y/y	17.2	17.2	17.2
14:00	PL	C/a balance	Aug	€mn	-1642	-1534	-3967
14:00	PL	Trade balance	Aug	€mn	-1317	-2226	-2927
14:00	PL	Export	Aug	€mn	26560	24775	25358
14:00	PL	Import	Aug	€mn	27876	27001	28285
14:30	US	Retail sales	Sep	% m/m	0.2	0.0	0.3
16:00	US	Michigan index	Aug	pts	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		-72.2
15:15	US	Industrial Production	Sep	% m/m	0.1		0.4
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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