

31 October 2022

Eyeopener

October inflation is coming

Today, preliminary reading of Polish CPI inflation for October, we assume a breakthrough of 18% y/y

Moody's did not update Poland's rating on Friday,

Inflation in major Eurozone economies beat forecasts

The zloty made up 2% to the dollar and 1.3% to the euro over the past week

Continued mood swings on Polish bonds

Today, at 10:00 a.m., preliminary data on October inflation in Poland. Our CPI forecast is 18.3% y/y (vs. 17.2% in September). The median according to Bloomberg is much lower: 17.7% y/y. If we're right, that would mean a renewed strong increase in inflation momentum, only partly driven by food and energy price hikes, but increasingly spilling over into other categories. According to our estimates, food rose by about 2% m/m in October - clearly above the seasonal pattern, and fuels became more expensive by as much as 9% m/m. However, other goods and services were also likely to go up quickly. According to us, core inflation excluding food and energy accelerated to 11.3% y/y (a new record, 10.7% in September), implying a 1.2% m/m increase in core prices (still very high). Also today, preliminary October HICP inflation in the Eurozone (the sub-data presented on Friday - from Italy, Germany and France - suggest we'll see strong growth) and preliminary Q3 GDP for more European countries and for the Eurozone as a whole (on Friday, Germany showed a result better than forecast). This morning, German retail sales data were released (down -0.9% y/y). It is quite possible that also today the CSO will show revised quarterly GDP data (according to information from earlier this month, when the annual figures were revised, they were to appear "in the second half of October." The revision could significantly affect the projected GDP path for the coming quarters (for now, it's impossible to say which way).

Friday evening saw **Moody's decision on Poland's credit rating**. The agency did not update Poland's rating, which remained at A2 with a stable outlook. The other major rating agencies, S&P and Fitch, rate Poland's creditworthiness one level lower than Moody's.

The overall **ESI index for Poland** showed a gentle rebound of 0.4 points to 88.6 in October, interrupting a series of five declines (by a total of 10 points). The industry and retail sectors assessed their situation slightly better, with increasing pessimism in services and construction. The combined employment index worsened, to 93.2 points - it hasn't been this low in two years. In manufacturing, domestic orders were rated worse m/m, and foreign orders slightly better. In construction, fading demand is a growing problem, while supply constraints (materials and workers) are less so. Weakening demand was also reported by the service sector. In retail, on the other hand, the problem of availability of goods has decreased and sales have improved (although the index of expected employment has fallen). The index of consumer expected inflation fell and reached the third lowest value of the last two years.

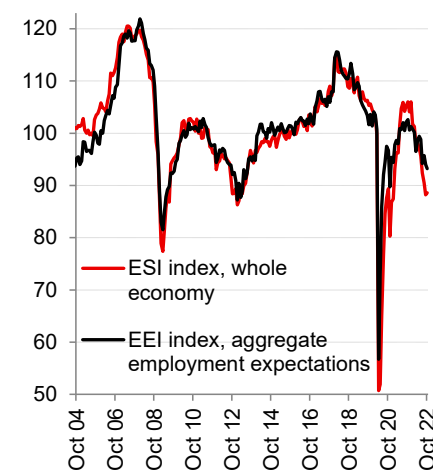
EURUSD slipped slightly below the 0.995 level on Friday, with the common currency losing ground on declining expectations for a Eurozone rate target following Thursday's ECB meeting. A weaker Eurozone ESI economic sentiment indicator further reinforced pessimism.

EURPLN fluctuated around 4.72. After deep declines last week, the Fed meeting and a reading of new non-farm payrolls in the US may provide a chance for the exchange rate to unwind upwards this week, which could provide stronger support for the dollar on global markets. This morning, the exchange rate rose to 4.73.

Other CEE currencies: **EURHUF** rose to 411 from around 408, the Forint was hurt by a high PPI inflation reading and a cyclical increase in month-end demand for foreign currencies from local companies. **EURCZK** rose to around 24.50 from around 24.46. The Czech koruna's weakness was the result of a closed local market on Friday due to a holiday.

Debt market: Domestic yield curve rebounded by about 23 bps on average. Today's domestic CPI reading for October may further support the weakening trend in Polish debt. In the core markets, yields also rose. This was supported by Friday's inflation readings from France, Germany and Italy, which again surprised to the upside.

Poland: ESI economic climate index and aggregate employment index



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4,7230	CZKPLN	0,1921
USDPLN	4,7496	HUFPLN*	1,1335
EURUSD	0,9940	RUBPLN	0,0770
CHFPLN	4,7567	NOKPLN	0,4570
GBPPLN	5,4874	DKKPLN	0,6331
USDCNY	7,2843	SEKPLN	0,4315

*For 100HUF

Last session in the FX market 28.10.2022

	min	max	open	close	fixing
EURPLN	4,7129	4,7364	4,7190	4,7171	4,7199
USDPLN	4,7218	4,7631	4,7272	4,7468	4,7477
EURUSD	0,9925	0,9989	0,9983	0,9932	-

Interest rate market 28.10.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8,39	18
DS0727 (5Y)	8,35	26
DS0432 (10Y)	8,16	25

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8,20	7	5,00	12	2,51	14
2L	8,17	11	4,78	17	2,83	17
3L	7,84	12	4,51	16	2,87	21
4L	7,61	12	4,34	15	2,88	19
5L	7,49	12	4,24	15	2,90	19
8L	7,35	12	4,06	12	2,94	16
10L	7,34	12	4,04	13	2,98	14

WIBOR rates

Term	%	Change (bps)
O/N	6,90	42
T/N	6,83	0
SW	6,95	1
2W	7,01	2
1M	7,12	2
3M	7,48	2
6M	7,68	2
1Y	7,81	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,60	-1
3x6	7,96	7
6x9	8,21	9
9x12	8,19	12
3x9	8,13	5
6x12	8,37	10

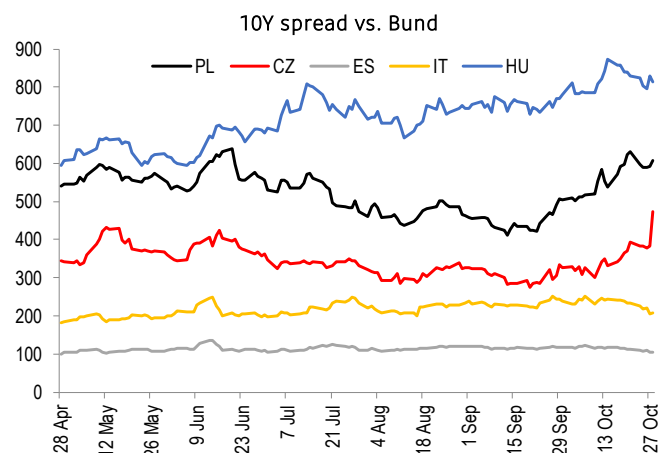
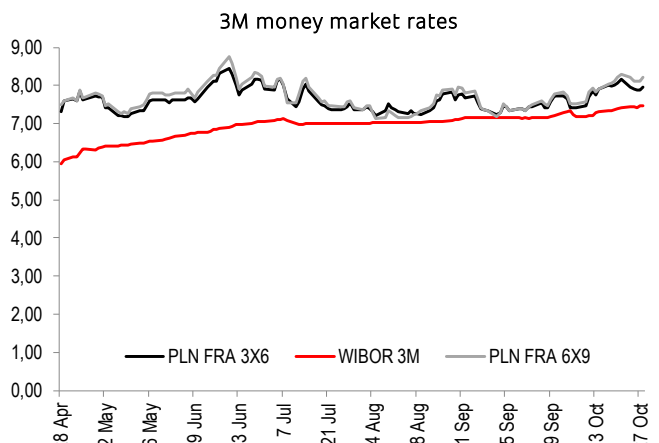
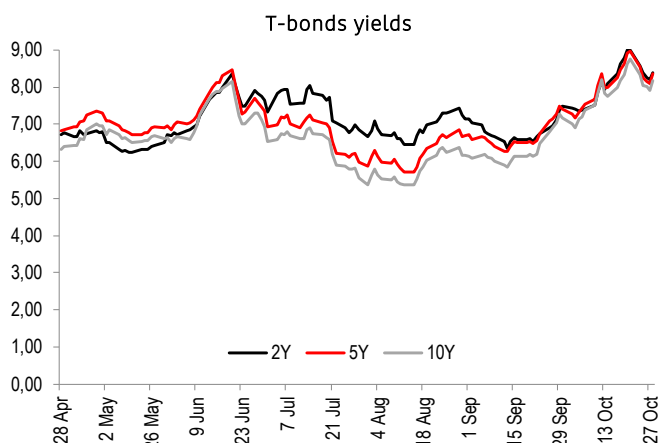
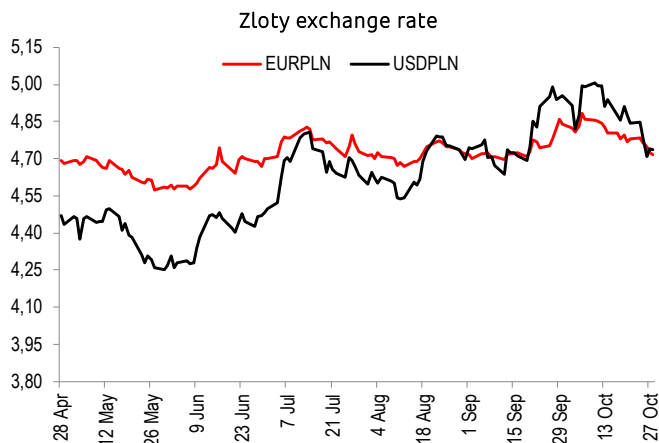
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	-2	608	14
France	20	0	51	0
Hungary	254	-4	814	-16
Spain	63	0	106	2
Italy	60	-3	207	1
Portugal	48	0	99	1
Ireland	22	0	46	5
Germany	21	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 (28 October)							
10:00	DE	GDP WDA	3Q	% y/y	0.7	1.1	1.7
11:00	EZ	ESI	Oct	pct.	92.4	92.5	93.7
14:00	DE	HICP	Oct	% m/m	0.5	1.1	2.2
14:30	US	Personal Spending	Sep	% m/m	0.4	0.6	0.6
14:30	US	Personal Income	Sep	% m/m	0.4	0.4	0.4
14:30	US	PCE Deflator SA	Sep	% m/m	0.3	0.3	0.3
16:00	US	Michigan index	Oct	pts	59.6	59.9	59.8
16:00	US	Pending Home Sales	Sep	% m/m	-4.0	-10.2	-1.9
MONDAY (31 October)							
08:00	DE	Retail Sales	Sep	% m/m	-0.6	0.9	-1.4
10:00	PL	CPI	Oct	% y/y	17.7	18.3	-
11:00	EZ	Flash HICP	Oct	% y/y	9.8	-	10.0
11:00	EZ	GDP SA	3Q	% y/y	2,1	-	4.1
TUESDAY (1 November)							
	PL	National holiday					
09:00	CZ	GDP SA	3Q	% y/y	1.6	-	3.7
15:00	US	ISM manufacturing	Oct	pts	50.0	-	50.9
WEDNESDAY (2 November)							
08:00	DE	Exports SA	Sep	% m/m	0.6	-	3.2
09:00	PL	Poland Manufacturing PMI	Oct	pts	42.7	42.1	-
09:55	DE	Germany Manufacturing PMI	Oct	pts	45.7	-	47.8
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	46.6	-	48.4
13:15	US	ADP report	Oct	k	200.0	-	208.0
19:00	US	FOMC decision	Nov.22		4.00	-	3.25
THURSDAY (3 November)							
02:45	CN	Caixin China PMI Services	Oct	pts	49.2	-	49.3
11:00	EZ	Unemployment Rate	Sep	%	6.6	-	6.6
14:30	CZ	Central Bank Rate Decision	Nov.22		7.0	-	7.0
15:00	US	Durable Goods Orders	Sep	% m/m	0.6	-	0.4
15:00	US	ISM services	Oct	pts	55.5	-	56.7
15:00	US	Factory Orders	Sep	% m/m	0.4	-	0.0
FRIDAY (4 November)							
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	-2.4
09:55	DE	Markit Germany Services PMI	Oct	pts	44.9	-	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	48.2	-	48.8
13:30	US	Change in Nonfarm Payrolls	Oct	k	200.0	-	263.0
13:30	US	Unemployment Rate	Oct	%	3.6	-	3.5

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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