

2 November 2022

# Eyeopener

## Inflation still riled up

Today industrial PMIs, Poland showed weaker than before  
 CPI up 1.8% m/m in October, core inflation likely over 1% m/m  
 Zloty holds near 4.70 despite stronger dollar  
 Higher Polish bond yields and large widening of asset swap spreads

**Today**, readings of PMIs describing the condition of the industrial sector in the main euro area economies, as well as in Poland, will be released in the morning. We anticipate that the domestic index will fall - following the indicators in the euro area and Germany, for which preliminary values are already known - but not sharply enough to deepen the August low (40.9 points). Our forecast is 42.1 points vs. 43.0 points in September. Of the PMI indicators already published, the Chinese one rose from 48.1 to 49.2 points, the Czech one fell from 44.7 to 41.7 points, the US one fell from 50.9 to 50.2 points. This morning, we have already learned the results of German exports for September, which fell by 0.5% m/m against an expected increase of 0.5% and 2.9% previously in August.

**Eurozone inflation** expanded in October to 10.7% y/y from 9.9% y/y. All the main components further accelerated entering 4Q22 and core inflation rose to 5.0% y/y from 4.8%. In the following months, inflation growth will already be muted by a large base effect. The **Eurozone's preliminary GDP reading** for Q3 showed, as expected, an increase of 2.1% y/y (a marked deceleration from 4.1%). Quarterly growth amounted to 0.2% (Germany, France, Italy and Spain avoided a fall in GDP) vs. 0.8% q/q previously and in our view will most likely become negative next quarter.

**Polish CPI inflation** rose in October to 17.9% y/y from 17.2% according to the flash release. We expected a rise to 18.3% while the consensus was around 17.8% y/y. Food prices were the main reason of the rise of the headline inflation, going up by 2.7% m/m – huge, and well above our 2.0% forecast - a similar rise was seen at this time of the year only in 1995. The stats office captured in the October CPI print a far smaller rise of fuel prices (+4.1% m/m) than we saw in the gas stations data (c.9% m/m). Also the energy carriers component (incl. solid fuels for house heating) was smaller than we had thought. Our estimate of core inflation after the flash release is 11.1% y/y, up from September's 10.7%, and 1.1% m/m following +1.4% m/m in September – this suggests a further strong underlying inflation pressure inside the economy. We expect CPI to go up above 18% y/y by the end of the year and to peak in February at a bit less than 20% y/y. After that, there should be a descent of inflation in 2023, ending slightly below 10% y/y.

**Polish Development Fund (PFR) chairman Pawet Borys** said in an interview with TVN24 that the MPC will have to make several rate hikes of 25bp each more, but not because of the inflation situation but more because of the global situation - mainly the Fed's policy. In his opinion, it is necessary to ensure that the zloty is stable. Due to the fiscal situation, it is also possible that the government will not extend the anti-inflationary shield to 2023 and use other solutions instead.

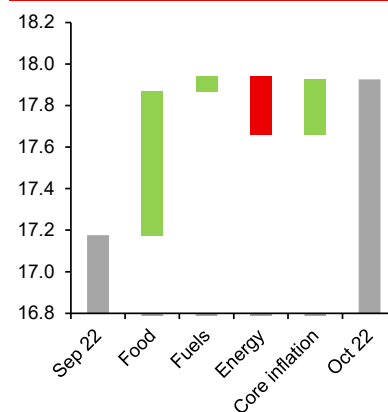
**EURUSD** slipped below the 0.99 level from around 0.995. The dollar strengthened on expectations for the Fed meeting (decision this evening, +75bp expected). Markets are assuming that even if the Fed may start to slow down rate hikes towards the end of the year, the rate hike cycle in the US will still last longer than in the euro area. Today's Fed meeting could further support the dollar if Jerome Powell's prospect of slowing the rate hike cycle continues to hinge on a slowdown in core inflation.

**EURPLN** remained in the 4.70 - 4.71 zone in the first days of the week. After a strong discount last week, the exchange rate needs fresh impulses. Today's Fed meeting may provide the impetus for an upward rebound in the course.

**Other CEE currencies:** **EURHUF** fell from around 409 to around 406. **EURCZK** fell from around 24.50 to around 24.47. The region's currencies are waiting for Today's Fed and Tomorrow's CNB meeting.

**Debt market:** Domestic yield continued its rebound after strong declines last week. The curve's gains were supported by a strong October inflation reading and an upward rebound in yields in the core markets. Domestic asset swaps also widened. The core markets expect that only a sharp drop in inflation could prompt central banks to slow down or end the cycle of hikes. In the case of the domestic market, an additional element that must be taken into account with a similar strategy is a dovish MPC, which may be reluctant to continue raising rates vigorously, even in the face of further clear increases in inflation.

### The categories behind the change of Polish y/y CPI inflation



Source: European Commission, Santander

### Economic Analysis Department:

aL. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://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	4,7038	CZKPLN	0,1921
USDPLN	4,7631	HUFPLN*	1,1553
EURUSD	0,9873	RUBPLN	0,0774
CHFPLN	4,7651	NOKPLN	0,4607
GBPPLN	5,4707	DKKPLN	0,6331
USDCNY	7,2774	SEKPLN	0,4321

\*For 100HUF

#### Last session in the FX market 01.11.2022

	min	max	open	close	fixing
EURPLN	4,6978	4,7186	4,7119	4,7001	4,7089
USDPLN	4,7261	4,7696	4,7473	4,7675	4,734
EURUSD	0,9851	0,9953	0,9923	0,9861	-

### Interest rate market 01.11.2022

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8,64	0
DS0727 (5Y)	8,61	0
DS0432 (10Y)	8,40	0

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8,24	-1	5,13	6	2,62	2
2L	8,22	1	4,92	8	2,89	2
3L	7,90	-2	4,64	8	2,91	1
4L	7,65	-1	4,45	7	2,91	0
5L	7,54	-1	4,33	5	2,92	-1
8L	7,41	-1	4,13	3	2,97	0
10L	7,39	-2	4,08	0	3,03	0

### WIBOR rates

Term	%	Change (bps)
O/N	6,75	-15
T/N	6,89	6
SW	6,95	0
2W	7,01	0
1M	7,15	3
3M	7,51	3
6M	7,72	4
1Y	7,82	1

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	7,69	0
3x6	8,00	0
6x9	8,25	0
9x12	8,23	0
3x9	8,18	0
6x12	8,42	0

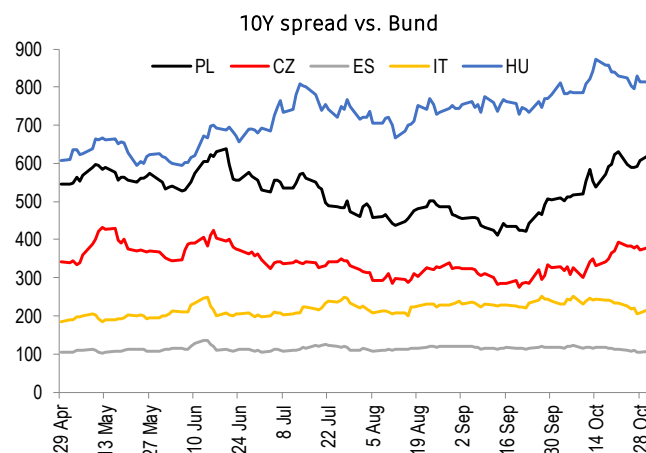
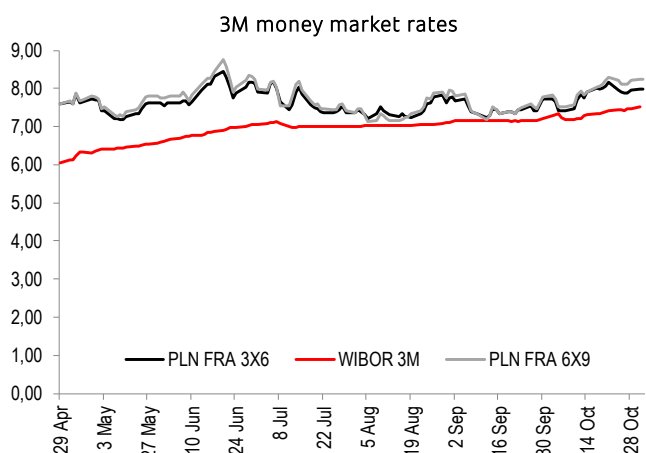
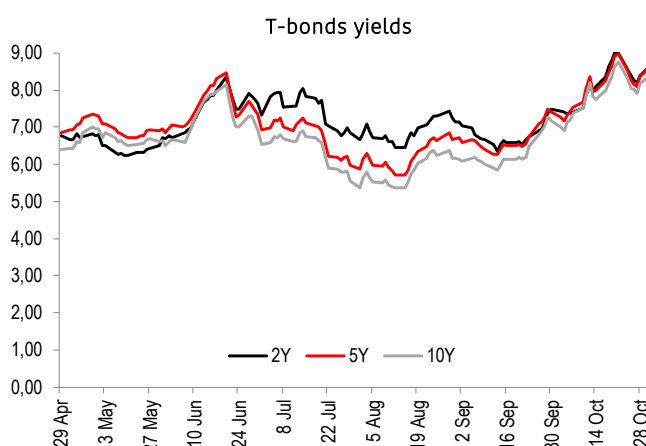
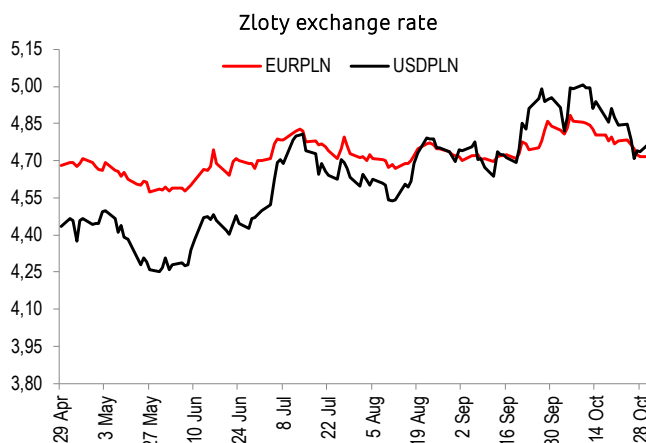
### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	0	627	3
France	20	0	55	1
Hungary	253	0	814	0
Spain	62	0	109	1
Italy	63	0	214	-3
Portugal	46	0	101	0
Ireland	24	0	51	5
Germany	20	-1	-	-

\* 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		
<b>FRIDAY (28 October)</b>							
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
<b>MONDAY (31 October)</b>							
08:00	DE	Retail Sales	Sep	% m/m	-0.6	0.9	-1.4
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Oct</b>	<b>% y/y</b>	<b>17.8</b>	<b>18.3</b>	<b>17.2</b>
11:00	EZ	Flash HICP	Oct	% y/y	10.3	10.7	10.0
11:00	EZ	GDP SA	3Q	% y/y	2.1	2.1	4.1
<b>TUESDAY (1 November)</b>							
	<b>PL</b>	<b>National holiday</b>					
09:00	CZ	GDP SA	3Q	% y/y	1.6	1.6	3.7
15:00	US	ISM manufacturing	Oct	pts	50.0	50.2	50.9
<b>WEDNESDAY (2 November)</b>							
08:00	DE	Exports SA	Sep	% m/m	0.6	-0.5	2.9
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Oct</b>	<b>pts</b>	<b>42.7</b>	<b>42.1</b>	<b>43.0</b>
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
<b>THURSDAY (3 November)</b>							
02:45	CN	Caixin China PMI Services	Oct	pts	49.2	-	49.3
<b>10:00</b>	<b>PL</b>	<b>Quarterly GDP data review</b>					
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
<b>FRIDAY (4 November)</b>							
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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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.