

10 November 2022

## Eyeopener

### Inflation will be high, so be it

MPC kept interest rates on hold, today NBP president's conference  
Global markets will focus today on US CPI inflation  
Zloty has been weakening and bond yields falling in anticipation of MPC decision

**Today**, the conference of the NBP governor will start at 15:00 CET, which should offer a broader justification of the MPC decision to leave interest rates unchanged at 6.75% yesterday. In addition, we will see the minutes of the previous MPC meeting, and abroad, October inflation data in the Czech Republic and the USA. The latter will be particularly important, as in recent quarters fluctuations in this indicator have significantly influenced the Fed's interest rate expectations initiating significant changes in global financial markets, including the Polish one.

**The Monetary Policy Council kept main interest rates unchanged (reference rate at 6.75%), in line with our expectations.** The decision was announced at 18:25, thus setting a new record. The new NBP projection shows - as preannounced by NBP Deputy President Marta Kightley few days ago - a worse GDP scenario, with the lower end of the 50% confidence interval in 2023 at the edge of recession. Nonetheless, the CPI inflation forecast has been markedly raised throughout the 2022-24 horizon (most notably in 2024, by 1.75bp), and assumes a descent near the inflation target only in the (unexpectedly added) 2025. The MPC's communiqué draws attention to the deterioration of the economic situation at home and abroad, but also (more than before) to the fact that the rise in inflation in Poland is due to second-round effects (the transmission of high commodity prices and corporate operating costs to the prices of consumer goods). The MPC - as it did a month earlier - has signalled its acceptance that the return of inflation to the target will be "gradual" (although it is worth appreciating that this time it is talking about a return "to" and not "towards" the target). The same is reflected in the decision to leave rates unchanged - after all, the NBP's projection indicates a lower chance of reaching the inflation target before 2025 than previously, but this did not prompt the Council to act. The MPC is counting on the weakening of the economy abroad and the tightening of monetary policy by major central banks to help contain inflation. It is worth noting, however, that despite both of these factors and the possibly changed assumptions on the anti-inflationary shield (the previous projection assumed that the shield would expire in October 2022, the NBP president suggested that the new projection would take the shield into account over the entire horizon), inflation is permanently higher than previously forecast and is already returning to target at a time when the economy is already accelerating. The communiqué, as before, does not close the door on future hikes (next decisions will depend on incoming information), but the bar for a resumption of the cycle seems to be hung high. Let us wait with final conclusions until the NBP president's conference today, but at the moment we think that the trigger for further increases could be either inflation significantly above 20% or a major weakening of the zloty.

**EURUSD** fell back to near parity from the 1.01 area. The dollar was helped by the worse-than-expected results of the Republicans in the congressional by-elections, which diminished the likelihood of a complete takeover of both houses of parliament. Today, the focus is on the US CPI inflation reading, which will determine the further direction of the exchange rate.

**EURPLN** has risen above 4.71 from around 4.69. The zloty has been hurt by keeping NBP rates unchanged despite no visible signs of waning inflationary pressure. Today's afternoon speech by NBP chief Adam Glapinski, which is likely to have a dovish tone, may encourage further weakening of the Polish currency.

**Other CEE currencies:** EURHUF has risen from just below 400 to around 401. MNB member Gyula Pleschinger said that the current account deficit this year could reach 8-9% of GDP and at the turn of the year the Hungarian economy could fall into technical recession. Inflation should peak in the first half of 2023, and its return to target should occur in 2024. EURCZK held steady around 24.31. The Czech government approved a plan to cap unit prices for electricity producers.

**Debt market:** Domestic yield curve fell by an average of about 13 bps, with the largest decline occurring at the short end of the curve in anticipation of the MPC's decision. The declines in yields were limited by the fact that the MPC's decision was announced about 1.5 hours after the close of the domestic market. Thus, today may bring further strengthening of domestic debt, mainly at the short end of the curve.

#### Inflation rate according to NBP projections

	Jul 22	Nov 22
2022	14.3 (±1.1)	14.45 (±0.05)
2023	12.45 (±2.65)	13.2 (±2.1)
2024	4.1 (±1.9)	5.85 (±1.75)
2025	-	3.5 (±1.4)

#### GDP growth according to NBP projections

	Jul 22	Nov 22
2022	4.7 (±0.8)	4.6 (±0.3)
2023	1.25 (±1.05)	0.65 (±0.95)
2024	2.25 (±1.25)	2.05 (±1.05)
2025	-	3.1 (±1.3)

Note: Table presents the middle points and width of ranges, in which GDP growth and CPI inflation will fall with 50-percent probability.

Source: NBP, Santander

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**FX market**

**Today's opening**

EURPLN	4.7155	CZKPLN	0.1936
USDPLN	4.7049	HUFPLN*	1.1683
EURUSD	1.0020	RUBPLN	0.0765
CHFPLN	4.7798	NOKPLN	0.4524
GBPPLN	5.3527	DKKPLN	0.6337
USDCNY	7.2489	SEKPLN	0.4314

\*for 100HUF

**Last session in the FX market 09/11/2022**

	min	max	open	close	fixing
EURPLN	4.6847	4.7096	4.6868	4.7027	4.7037
USDPLN	4.6534	4.6995	4.6553	4.6840	4.6817
EURUSD	1.0009	1.0086	1.0068	1.0035	-

**Interest rate market 09/11/2022**

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.83	-14
DS0727 (5Y)	7.97	-10
DS0432 (10Y)	7.70	-12

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.88	-6	5.17	-3	2.72	-5
2L	7.83	-7	4.93	-8	2.97	-8
3L	7.48	-10	4.62	-10	2.93	-10
4L	7.20	-11	4.40	-9	2.90	-11
5L	7.08	-9	4.27	-9	2.89	-12
8L	6.91	-11	4.09	-9	2.90	-12
10L	6.89	-10	4.06	-8	2.94	-11

**WIBOR rates**

Term	%	Change (bps)
O/N	6.88	-5
T/N	6.98	4
SW	7.05	-1
2W	7.09	2
1M	7.16	2
3M	7.59	0
6M	7.79	-1
1Y	7.92	1

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

Term	%	Change (bps)
1x4	7.54	2
3x6	7.63	7
6x9	7.73	-3
9x12	7.69	-3
3x9	7.79	4
6x12	7.86	-5

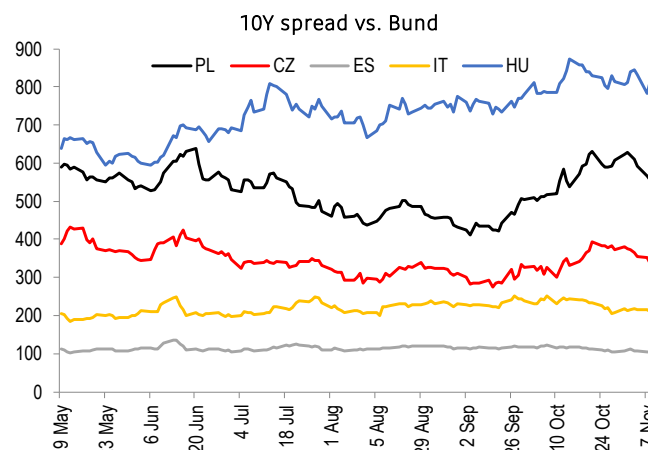
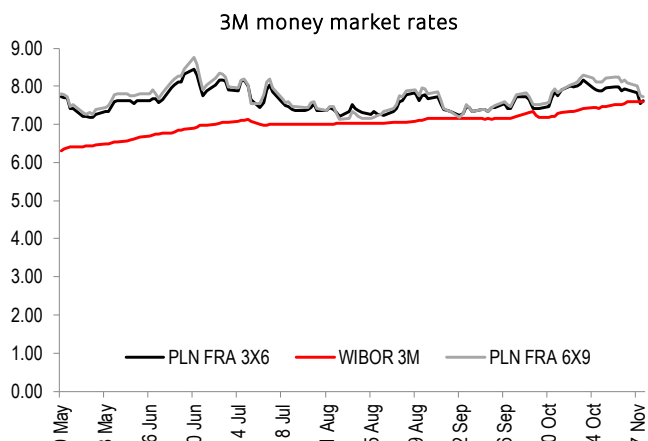
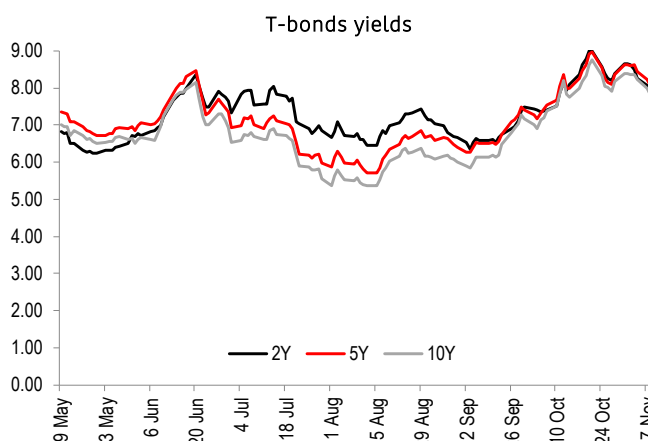
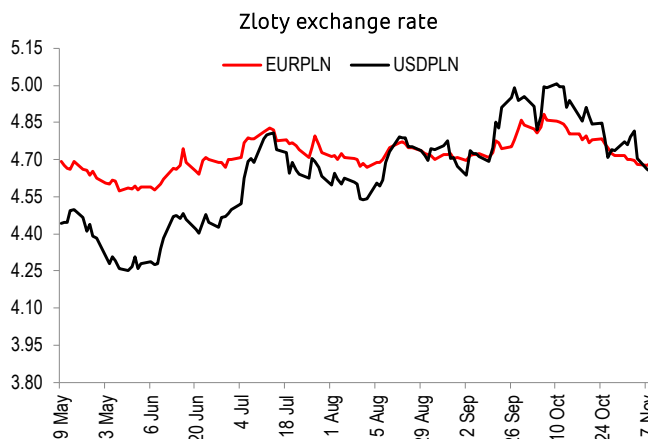
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	0	552	-3
France	20	0	52	0
Hungary	246	0	815	1
Spain	58	0	104	0
Italy	59	-1	210	-1
Portugal	43	0	97	1
Ireland	21	-3	49	-2
Germany	20	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 (4 November)								
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	-4.0	-2.0
09:55	DE	Markit Germany Services PMI	Oct	pts	44.9	-	46.5	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	48.2	-	48.6	48.8
13:30	US	Change in Nonfarm Payrolls	Oct	k	195.0	-	261.0	315.0
13:30	US	Unemployment Rate	Oct	%	3.6	-	3.7	3.5
MONDAY (7 November)								
08:00	DE	Industrial Production SA	Sep	% m/m	0.2	-	0.6	-0.8
09:00	CZ	Industrial Production	Sep	% y/y	7.2	-	8.3	10.3
TUESDAY (8 November)								
09:00	HU	Industrial Production SA	Sep	% y/y	8.5	-	11.3	14.2
11:00	EZ	Retail Sales	Sep	% m/m	0.4	-	0.4	0.0
WEDNESDAY (9 November)								
	PL	<b>MPC decision</b>	Nov	%	<b>7.00</b>	<b>6.75</b>	<b>6.75</b>	<b>6.75</b>
09:00	HU	CPI	Oct	% y/y	21.0	-	21.1	20.1
THURSDAY (10 November)								
09:00	CZ	CPI	Oct	% y/y	18.0	-	-	18.0
13:30	US	Initial Jobless Claims		k	220.0	-	-	217.0
<b>14:00</b>	<b>PL</b>	<b>MPC minutes</b>	<b>Oct</b>					
14:30	US	CPI	Oct	% m/m	0.7	-	-	0.4
<b>15:00</b>	<b>PL</b>	<b>NBP governor's conference</b>						
FRIDAY (11 November)								
08:00	DE	HICP	Oct	% m/m	1.1	-	-	2.2
16:00	US	Michigan index	Nov	pts	59.6	-	-	59.9

Source: Santander Bank Polska. Bloomberg. Parkiet  
\* in the case of a revision the data is updated

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