

17 November 2022

Eyeopener

Core CPI sets another record

Today Eurozone HICP inflation, announcement of UK fiscal package
Two Polish MPC members signal de-anchoring of inflation expectations
Polish Core inflation got record high, small acceleration of housing prices
Zloty calmed down, small-scale rebound of Polish bond yields

Today HICP inflation data in the Eurozone (and European Union countries) and US real estate market data. In the UK, the announcement of a new fiscal package - this time consisting of tax hikes and budget cuts to better align fiscal policy with the central bank's efforts to control inflation (the previous proposed package was supposed to introduce significant fiscal loosening, but its announcement led to a large repricing of the pound and British bonds and ultimately to a government replacement).

MPC member Ludwik Kotecki said he still sees room for interest rate hikes, inflation is the biggest problem for the Polish economy, and the NBP projection is too optimistic about lowering the rate of price growth. According to Kotecki, consumer inflation expectations have unanchored and are now as high as 20-40%. The worrying behaviour of inflation expectations was also pointed out yesterday by **Henryk Wnorowski**, but he added that the MPC is now focusing on the economic slowdown. In contrast, according to **Cezary Kochalski**, the current level of rates is adequate, and inflation will begin to decline in Q2 2023.

In October **Polish main core inflation measure**, CPI ex food, fuel and energy, rose to 11.0% y/y from 10.7%, setting yet another all-time high. The rise was marginally smaller than our estimate and the consensus (11.1%), but the m/m change of 1.0% was in line with expectations. The three alternative core inflation measures all reached record high levels: CPI ex administered prices at 18.7% y/y, CPI ex most volatile components at 14.4% y/y and 15-percent trimmed mean at 14.3% y/y, with their m/m price changes in the high 1.3-1.9% range. The 1.0% m/m rise of the main core CPI measure is the highest for October in the 22-year data history (just like in the case of the previous two releases) and signals continued strong underlying inflationary trend. We assume that core inflation may keep rising to c.11.6% y/y in December this year but declines should dominate in 2023.

The National Bank of Poland's data on housing prices in 3Q22 showed a slight acceleration in primary market prices: to 15.8% y/y from 15.6% y/y in Warsaw, to 18.5% y/y from 18.2% y/y in the 6 largest cities ex Warsaw, and to 20.4% y/y from 20.2% y/y in 10 medium-sized cities. However, the growth rate of the hedonic indices decreased: to 11.1% y/y from 12.9% y/y in Warsaw, to 15.1% y/y from 16.1% y/y in the 6 largest cities ex Warsaw and to 13.1% y/y from 16.4% y/y in the 10 medium-sized cities. The price growth in the secondary market also declined. In our view, the weakening of the credit market observed in recent months will translate into a reduction in housing prices momentum in the coming months, with property prices declining in real terms.

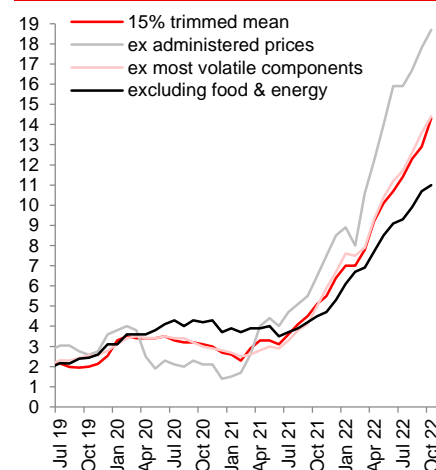
EURUSD moved closer to 1.04 from around 1.035. A better-than-expected US retail sales reading for October did not help the dollar. USD remains under the influence of declining expectations regarding further US rate hikes, a process that started after the weaker-than-expected October CPI inflation reading and was further reinforced by a drop in PPI prices in the latest data.

The **EURPLN** went from the area of 4.73 seen at the beginning of the European session back to c.4.69. The zloty was helped by a decrease in tension surrounding the missile incident, now considered an accident and not a Russian attack on NATO territory, as markets had initially feared.

Other CEE currencies: **EURCZK** rose from around 24.35 to near 24.37. **EURHUF** fluctuated around the 409 level.

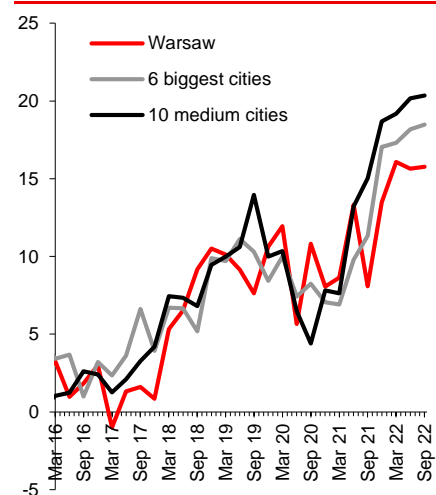
Debt market: the domestic yield curve rose by around 6bp on average. There was also some unwinding in rate hike expectations in the FRA market. In the main markets, yields continued to fall. Despite a strong US retail sales reading, the US curve deepened the inversion process after the Fed's Esther George said that there is a growing risk of inflation anchoring at a high level in the US economy, mostly due to impact of the overheated labour market, making it more difficult for the central bank to fight inflation without triggering a recession.

Core inflation measures, % y/y



Source: NBP, Santander

Primary market housing prices, % y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.6925	CZKPLN	0.1925
USDPLN	4.5185	HUFPLN*	1.1606
EURUSD	1.0384	RUBPLN	0.0748
CHFPLN	4.7935	NOKPLN	0.4517
GBPPLN	5.3532	DKKPLN	0.6308
USDCNY	7.1272	SEKPLN	0.4315

*for 100HUF

Last session in the FX market						16.11.2022
	min	max	open	close	fixing	
EURPLN	4.6810	4.7258	4.7253	4.6864	4.6942	
USDPLN	4.4980	4.5643	4.5597	4.5108	4.505	
EURUSD	1.0364	1.0438	1.0372	1.0393	-	

Interest rate market

16.11.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.13	8
DS0727 (5Y)	7.27	5
DS0432 (10Y)	7.04	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.50	12	5.08	0	2.66	-2
2L	7.16	11	4.65	0	2.82	-2
3L	6.71	8	4.25	-1	2.78	0
4L	6.39	5	4.02	-3	2.71	-1
5L	6.22	5	3.88	-5	2.68	-2
8L	6.08	5	3.66	-10	2.68	-9
10L	6.10	7	3.64	-10	2.70	-6

WIBOR rates

Term	%	Change (bps)
O/N	6.52	-3
T/N	6.67	-9
SW	6.89	0
2W	6.94	0
1M	6.99	-3
3M	7.40	-2
6M	7.60	-2
1Y	7.72	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.33	9
3x6	7.35	13
6x9	7.37	20
9x12	7.15	22
3x9	7.48	9
6x12	7.46	17

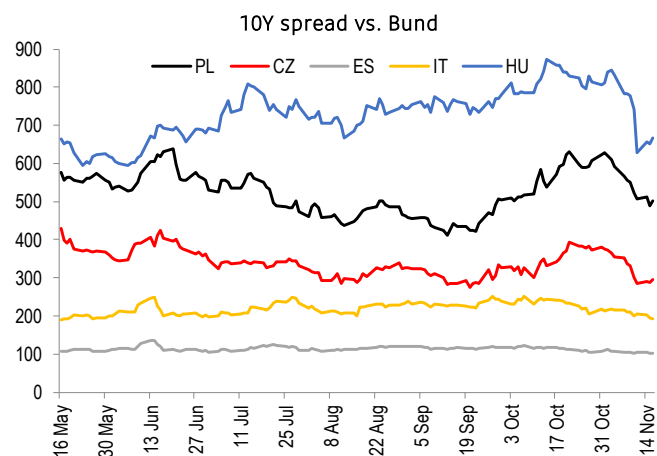
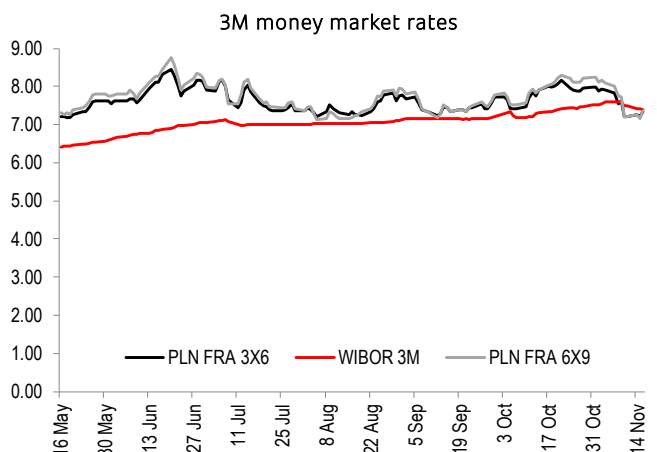
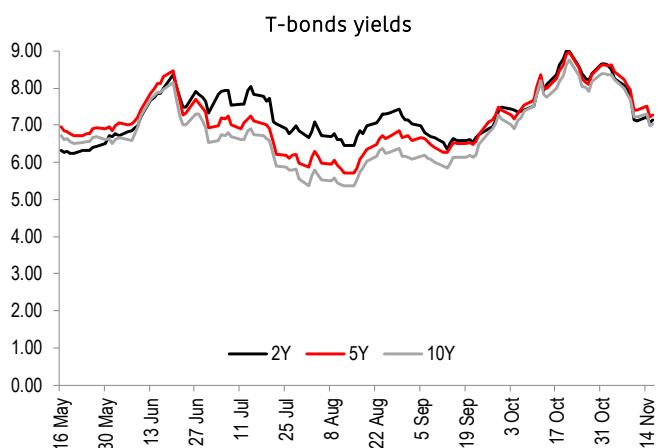
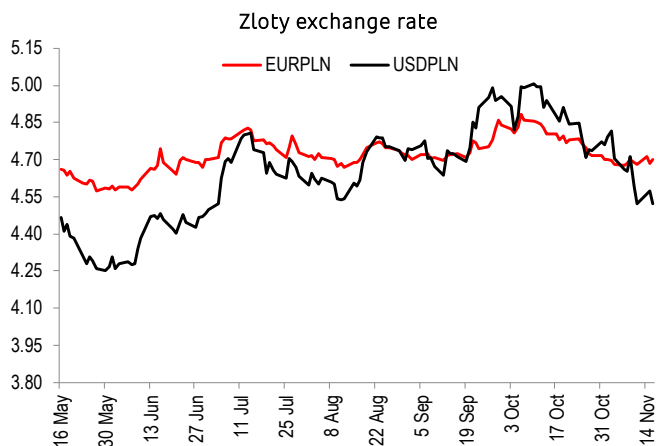
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	137	5	503	13
France	15	0	48	-1
Hungary	223	0	666	16
Spain	58	0	103	0
Italy	58	0	193	-2
Portugal	43	0	98	0
Ireland	20	0	50	-3
Germany	18	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			
THURSDAY (10 November)								
09:00	CZ	CPI	Oct	% y/y	17.9	-	15.1	18.0
14:30	US	CPI	Oct	% m/m	0.6	-	0.4	0.4
14:30	US	Initial Jobless Claims	Nov.22	k	220	-	225	218
FRIDAY (11 November)								
	PL	National holiday						
08:00	DE	HICP	Oct	% m/m	1.1	-	-	2.2
16:00	US	Michigan index	Nov	pts	59.5	-	-	59.9
MONDAY (14 November)								
11:00	EZ	Industrial Production SA	Sep	% m/m	0.3	-	0.9	2.0
14:00	PL	Current Account Balance	Sep	€mn	-2929	-2915	-1561	-3967
14:00	PL	Trade Balance	Sep	€mn	-1921	-2135	-2054	-2927
14:00	PL	Exports	Sep	€mn	27746	27422	28498	25358
14:00	PL	Imports	Sep	€mn	29667	29557	30552	28285
TUESDAY (15 November)								
09:00	HU	GDP	3Q	% y/y	-	-	3.5	6.5
10:00	PL	CPI	Oct	% y/y	17.9	17.9	17.9	17.2
10:00	PL	GDP	3Q	% y/y	3.4	3.5	3.5	5.8
11:00	EZ	GDP SA	3Q	% y/y	-	-	2.1	4.3
11:00	DE	ZEW Survey Current Situation	Nov	pts	-	-	-64.5	-72.2
WEDNESDAY (16 November)								
14:00	PL	CPI Core	Oct	% y/y	11.2	11.1	11.0	10.7
14:30	US	Retail Sales Advance	Oct	% m/m	0.9	-	1.3	0.0
15:15	US	Industrial Production	Oct	% m/m	0.0	-	-0.1	0.4
THURSDAY (17 November)								
11:00	EZ	HICP	Oct	% y/y	9.9	-	-	10.7
14:30	US	Housing Starts	Oct	% m/m	-1.0	-	-	-8.1
FRIDAY (18 November)								
16:00	US	Existing Home Sales	Oct	% m/m	-7.0	-	-	-1.5

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

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