

Eyeopener

Melting current account surplus

MPC voted in September to hike reference rate to 2.0%
 Equity markets lower, dollar stronger again, UST yields higher
 Polish IRS and bond yields went up again
 Today, Polish flash CPI and manufacturing PMI, US manufacturing ISM

On Thursday the equity markets behaviour was mixed during the day but main markets ended the day in the red. Core market yields have risen again. 10Y UST by 4bp to 1.54%, testing for a 4-th time within a short time frame an important technical level breaking of which could further weaken EM FX and increase Polish yields. Bund closed the day at -0.18% (up 3bp) partly following UST and partly due to higher than expected German inflation (4.1% y/y vs 4.0% expected vs 3.4% in the previous month). The US Senate has accepted and President Biden signed the temporary funding bill which averts government shutdown till 3 December.

The Polish **Constitutional Court** has again not ruled regarding the supremacy of EU law over the Polish law and called for a break until 7 October (next Thursday).

According to **minutes from the MPC meeting** in September the Council rejected two rate-hike motions: one to lift rates by 15bp (reference rate to 0.25%), another to raise reference rate by 190bp, to 2.0%. This seems to show growing frustration among the hawkish MPC members that the central bank is already well behind the curve. However, we think it does not have important implications for the monetary policy outlook. The majority is still controlled by the NBP president. According to minutes, this majority believes that necessary conditions to consider policy normalisation are: 1) uncertainty regarding pandemic impact has to diminish with economic outlook remaining positive, 2) forecasts must show inflation above the NBP target in the coming years. They also underscored the importance of November NBP projection. We still believe that monetary policy tightening is very likely to start in just few months from now. November is still not ruled out but we are not sure if the pandemic 4th wave will be already fading by then. If not, then December or January are quite likely, as the last moments when the MPC is still there in the current setup (before some of the members get replaced by new ones). A.Glapiński signalled he is not a fan of small movement by 15bp at the beginning but we do not think the MPC would dare to move by more than 25bp in one step.

Balance of payments data for 2Q showed a significantly smaller surplus on C/A than the sum of NBP's monthly estimates: +€0.37bn instead of +€2.04bn. The largest revision was in primary income balance, to -€10.22bn (from -€8.09bn, by 26.4%). An upside revision was made in services balance, to +€6.26bn from +€5.89bn with much higher growth of exports and imports than estimated earlier (their annual growth rate was pushed to 23.1% and 23.2% respectively, from 10.8% and 9.0%). There was also a downside revision of C/A results for all quarters of 2020 (by an average of €0.7bn) and for 1Q21 (down €0.2bn). The much lower result for 2Q confirms that the recent high surpluses were a temporary phenomenon and if the balance of payments keeps worsening this would be a negative fundamental factor for the zloty. After the revision the 12M moving sum of C/A balances was 1.3% of GDP in July, after holding at around 2.8% between October 2020 and April 2021.

LFS unemployment rate reached 3.4% in August, unchanged vs July. We expect to see small declines of jobless rate in the nearest months: on one hand the demand for workers remains strong, on the other hand finding workers is increasingly difficult.

According to a **preliminary estimate of the main crops**, in 2021 34.5mn tonnes of cereals were produced (3% less than in 2020), vegetable output was c.3.9mn tonnes, down 2%/y, fruit from trees 4.4mn tonnes (+13%/y) and fruit from bushes and berries 0.6mn tonnes (-1%/y). In our view this means a mild positive pressure on vegetable prices in 1H22 and possibly a larger drop of fruit prices.

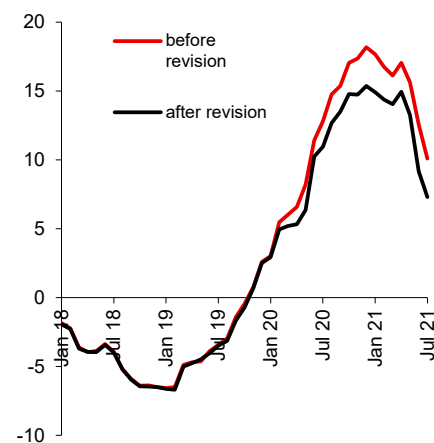
EURUSD initially on Thursday fell 0.3% to 1.1570, then rebounded to the opening level 1.16 and then overnight fell again to 1.1577 this morning. The persistent breach of 1.16 would increase probability of moving towards 1.14, in our view.

EURPLN fell to 4.60 from 4.64 (0.8%) after NBP minutes showed there was a motion for interest rate hike to 2.0% (from current 0.1%). We think the 4.60 level will hold after which the rate should march towards the 4.70 level.

As for the **other regional currencies**, EURHUF was stable near 360.0. August PPI in Hungary has slowed down a bit to 14.4% y/y from 14.8% a month before. EURCZK fell as much as 0.9% to 25.28 after the CNB has surprised the markets with a 75bp hike to 1.50% (markets expected 50bp which already was higher than the 2 previous CNB rates increases of 25bp). USDRUB was roughly stable near 72.80.

On the **domestic interest rate market** the bond yield steepened (2Y +2bp to 0.63%, 10Y +4bp to 2.19%) and the IRS curve flattened (2Y +13bp to 1.27%, 10Y +9bp to 2.27%), following the core markets. The bond sell-off could be higher, but for 4Q21 the Finance Ministry plans only 5 switching tenders and no regular auctions. Thus, the asset swap spreads will likely remain narrow. In October the Finance Ministry auctions are planned for 7th and 21st. The BGK plans its auctions on 11th and 25th. The NBP purchasing auction is planned for 13th October. Foreign investors' holdings of POLGB rose to PLN127.8bn at the end of August. Central budget's deposits were equal to PLN177bn at the end of September.

Current account balance, 12m sum, EURbn



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luzziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 18 84

FX market

Today's opening			
EURPLN	4.6105	CZKPLN	0.1817
USDPLN	3.9807	HUFPLN*	1.2810
EURUSD	1.1578	RUBPLN	0.0546
CHFPLN	4.2707	NOKPLN	0.4540
GBPPLN	5.3558	DKKPLN	0.6197
USDCNY	6.4452	SEKPLN	0.4536

*for 100HUF

Last session in the FX market						30/09/2021
	min	max	open	close	fixing	
EURPLN	4.587	4.648	4.628	4.605	4.633	
USDPLN	3.957	4.016	3.987	3.977	3.993	
EURUSD	1.157	1.161	1.161	1.158	-	

Interest rate market 30/09/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.82	10
DS0726 (5Y)	1.57	5
DS0432 (10Y)	2.19	5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.70	4	0.17	0	-0.52	0
2L	1.25	12	0.38	0	-0.43	0
3L	1.55	9	0.64	-1	-0.35	0
4L	1.75	9	0.87	-1	-0.27	1
5L	1.89	8	1.04	-1	-0.19	0
8L	2.13	7	1.37	-3	0.03	1
10L	2.24	6	1.49	-3	0.17	1

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	-1
SW	0.11	1
2W	0.16	0
1M	0.18	0
3M	0.23	-1
6M	0.31	0
1Y	0.48	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.34	2
3x6	0.58	18
6x9	0.93	12
9x12	1.23	15
3x9	0.67	8
6x12	1.05	14

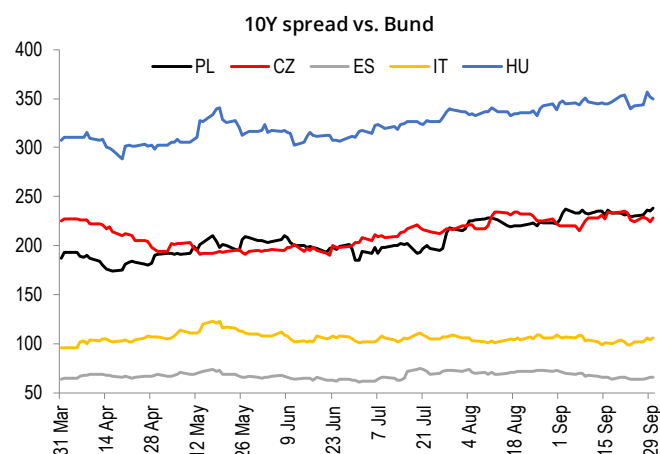
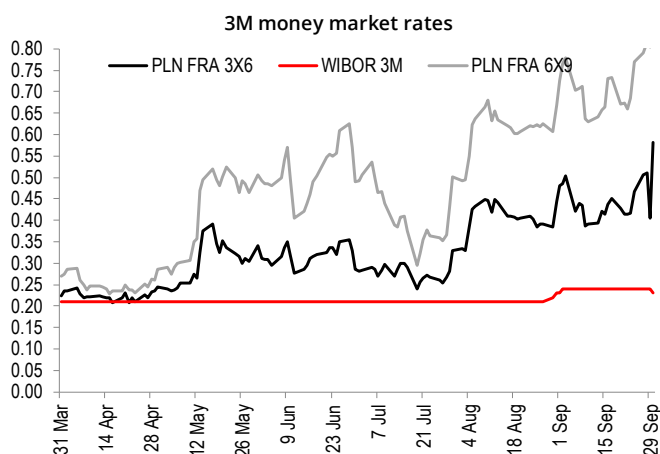
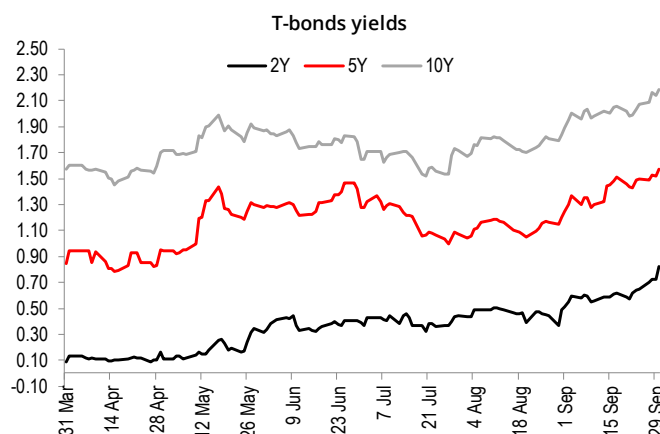
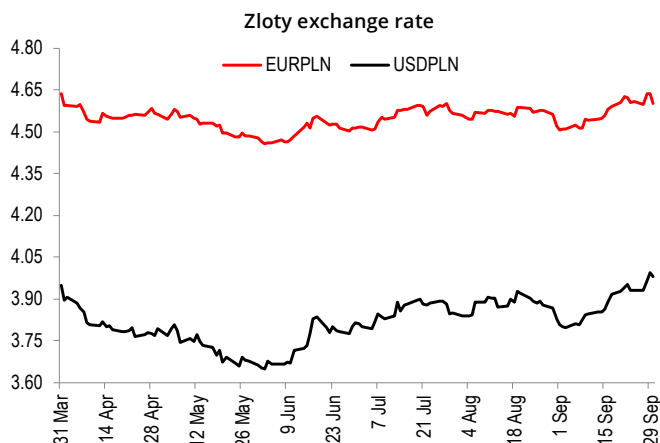
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	238	3
France	10	0	35	1
Hungary	59	0	350	-2
Spain	31	0	66	0
Italy	45	0	106	2
Portugal	21	0	57	1
Ireland	11	0	39	0
Germany	7	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 (24 September)							
10:00	DE	IFO Business Climate	Sep	pts	98.9	98.8	99.4
16:00	US	New Home Sales	Aug	% m/m	1.0	1.5	1.0
MONDAY (27 September)							
14:30	US	Durable Goods Orders	Aug	% m/m	0.6	1.1	-0.1
TUESDAY (28 September)							
16:00	US	Consumer Conference Board	Sep	pts	115.0	109.3	115.2
WEDNESDAY (29 September)							
11:00	EZ	ESI	Sep	pct.	117.0	117.8	117.6
16:00	US	Pending Home Sales	Aug	% m/m	1.4	8.1	-2.0
THURSDAY (30 September)							
09:00	CZ	GDP SA	2Q	% y/y	8.2	8.1	8.2
11:00	EZ	Unemployment Rate	Aug	%	7.6	7.5	7.6
14:00	PL	Current account balance	2Q	€m		2041	372
14:00	PL	MPC minutes	Aug				2746
14:00	DE	HICP	Sep	% m/m	0.2	0.3	0.1
14:30	US	GDP Annualized	2Q	% Q/Q	6.6	6.7	6.6
14:30	US	Initial Jobless Claims		k	330.0	362.0	351.0
14:30	CZ	Central Bank Rate Decision	Sep/21		1.25	1.50	0.75
FRIDAY (1 October)							
08:00	DE	Retail Sales	Aug	% m/m	1.5	1.5	-4.5
09:00	PL	Poland Manufacturing PMI	Sep	pts	-	54.5	56.0
09:30	DE	Germany Manufacturing PMI		pts	58.5	-	58.5
10:00	EZ	Eurozone Manufacturing PMI		pts	58.7	-	58.7
10:00	PL	CPI	Sep	% y/y	5.5	5.5	5.5
11:00	EZ	Flash HICP	Sep	% y/y	3.3	-	3.0
14:30	US	Personal Spending	Aug	% m/m	0.7	-	0.3
14:30	US	Personal Income	Aug	% m/m	0.2	-	1.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.3	-	0.4
16:00	US	Michigan index	Sep	pts	71.0	-	71.0
16:00	US	ISM manufacturing	Sep	pts	59.5	-	59.9

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.