

Eyeopener

Zloty weaker again

Stock markets stable on Friday
 Moody's: verdict of the Tribunal was credit negative
 Kropiwnicki: MPC's decision was unanimous
 Dollar slightly weaker, EURPLN up to 4.62
 Today inflation in Czech Republic

The main equity markets did not change much at the end of last week. On Friday the UST yields saw elevated volatility – they temporarily fell to 1.56% after the labour market data, but at the end of the day were above 1.60% (+14bp in one week). Bund closed the week at -0.16% (+6bp in one week) and Brent crude oil at \$83 p/b, almost 5.3% higher (at the OPEC+ meeting on Monday the supply was not increased). US non-farm employment rose in September by 194k, well below expectations at c.500k (previous reading was revised from 235k to 366k), amid weaker hiring by local and state governments. Weaker labour market report will probably not delay the start of QE tapering (since November). In turn the ECB president said we are facing a very atypical economic recovery and the exit from the pandemic situation should be managed with great caution.

MPC member Eugeniusz Gatnar said that the interest rate increase to 0.50% had a "communication" value. In his opinion, in the 4 quarters horizon the inflation would not return the inflation target band (2.5% +/- 1pp), he added that the inflation is driven by supply shocks and monetary policy is not effective in combating such shocks. Gatnar also thought that the monetary policy should return to the pre-pandemic stance. **Lukasz Hardt** was of similar opinion and thought that interest rates should return to the 1.50% but the pace of adjustment is still not set. Hardt said that the bigger interest rates move was needed as the MPC was behind the curve already. **Jerzy Kropiwnicki** said that the October interest rate hike was supposed to decrease the pressure for further MPC moves, and he expects interest rates stable at least till the end of his term (January 2022). He also said that in October the MPC voted unanimously.

According to the **Moody's rating agency** (A2, stable) the Constitutional Court verdict from 7 October might result in delays in the EU Recovery Fund launch and lower the GDP growth (the agency estimate of the programme's impact is at 0.3-0.5 pp per year) which would be negative for sovereign credit rating. According to the **Fitch** rating agency (A-, stable) the relations with the EU will remain tense but the Polish government is likely to withdraw from actions which threaten the inflow of the EU funds.

From 1 January 2022 the Ministry of Finance plans to **increase the excise tax on alcohol** (strong alcohol, wine and beer) **and tobacco**. In the years 2023-2027 the excise tax rate should increase every year as well. We expect that the increase in the tax would add 0.20-0.25 pp to the CPI inflation in 2022 and 0.15-0.20 pp in the following years, with the effect spread into a few first months of the year.

GUS released aggregate **financial data of companies for 1H21** broken down by employment count. Revenues of companies employing 10-49 persons rose by 11.5% y/y, 49-249 employees – by 17.8% y/y and with 250+ employees – 20.4% y/y. The situation in smaller enterprises (employing 10-49 persons) improved slower than in large ones, but they still had better revenues and financial results than in the same period of 2019 and net profitability was higher (7.3% vs. 6.0% in 1H19). In turn investments in smaller companies rose in real terms by 14.2% y/y, faster than among larger companies (8.5% y/y in firms with 50-249 employment, 7.8% y/y in 250+), but during the pandemic they dropped stronger than in large companies and in 1H21 returned to the level from 2019. We think that the high appetite for investments among small companies should hold.

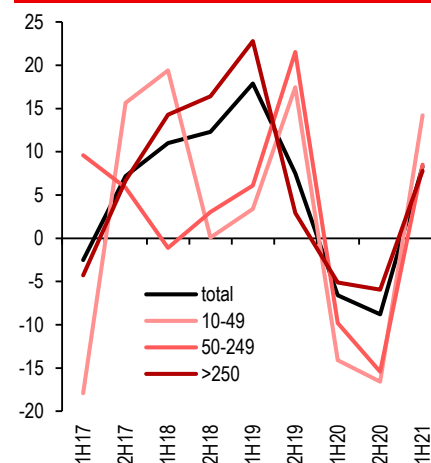
EURUSD, after a week of mild declines, eventually failed to go below 1.1550 and due to the poor US non-farm payrolls reading closed the week at 1.1575.

EURPLN opened around 4.58 on Friday morning, but closed at 4.62, offsetting the whole decline from Wednesday and Thursday, which were a consequence of the unexpected Wednesday rate hike. This morning the exchange rate is close to 4.60. The rebound of EURPLN might have been caused partly by the NBP governor, who avoided giving explanations about future monetary policy and partly by the ruling of the Constitutional Tribunal. In our view the risk premium will be going up in Polish assets and EURPLN will be going up (possibly to 4.64 this week and 4.70 by the end of the month).

As for the **other CEE FX**, EURHUF rose by 0.7% to 361 and we think it may head for 365 due to a worsening trade balance, among other factors. September inflation was 5.5% y/y (4.9% y/y a month earlier) and was in line with expectations. EURCZK rose somewhat to 25.47, August Czech retail sales disappointed (3.7% y/y vs. 5.3% expected and 1.5% previously). Strong rise of energy commodities keeps supporting the ruble – USDRUB closed the week 1.4% lower than the previous one.

On the domestic interest rate market, Friday was a day of stabilisation after abrupt changes from the earlier part of the past week. On one hand we see the current pricing of future rate hikes as excessive (we see a 25bp hike in November and 1.50% or less as the final rate level at the end of 2022) and with the return of liquidity and the stabilisation we should see some downside correction (of IRS rates and bond yields). On the other hand, after the Constitutional Tribunal verdict the risk premium in Polish assets may be going up, which may reduce the scale of the possible correction, but is in our view unlikely to cancel it. At the 7-day NBP bill auction on Friday a new record was set with sales at PLN257bn.

Investment outlays, real, %y/y, companies by employment count



Source: GUS Santander

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FX market

Today's opening			
EURPLN	4.5966	CZKPLN	0.1805
USDPLN	3.9698	HUFPLN*	1.2677
EURUSD	1.1583	RUBPLN	0.0554
CHFPLN	4.2823	NOKPLN	0.4672
GBPPLN	5.4245	DKKPLN	0.6155
USDCNY	6.4349	SEKPLN	0.4569

*for 100HUF

Last session in the FX market						08.10.2021
	min	max	open	close	fixing	
EURPLN	4.586	4.622	4.587	4.611	4.596	
USDPLN	3.970	3.999	3.971	3.985	3.978	
EURUSD	1.154	1.158	1.155	1.157	-	

Interest rate market 08.10.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.41	2
DS0726 (5Y)	2.02	5
DS0432 (10Y)	2.43	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.48	-1	0.18	1	-0.51	0
2L	1.92	-1	0.43	2	-0.40	3
3L	2.13	-4	0.73	3	-0.31	3
4L	2.24	-2	0.96	3	-0.23	3
5L	2.32	-2	1.14	4	-0.14	3
8L	2.46	-2	1.47	3	0.10	4
10L	2.53	-2	1.62	5	0.24	4

WIBOR rates

Term	%	Change (bps)
O/N	0.21	8
T/N	0.44	-4
SW	0.50	-1
2W	0.50	-1
1M	0.56	0
3M	0.65	2
6M	0.76	3
1Y	1.03	8

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.00	5
3x6	1.31	2
6x9	1.80	-1
9x12	2.12	-6
3x9	1.40	-3
6x12	1.97	2

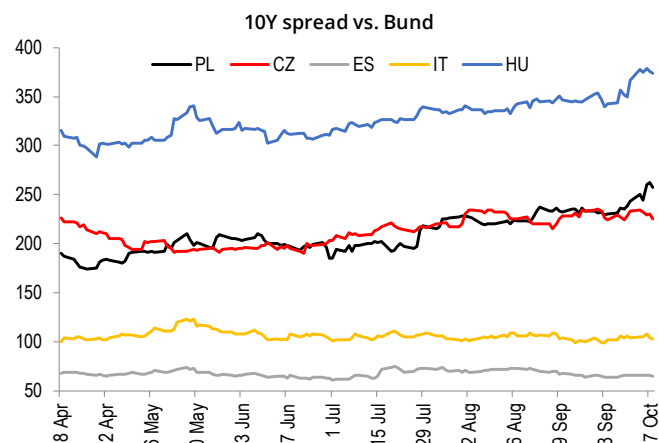
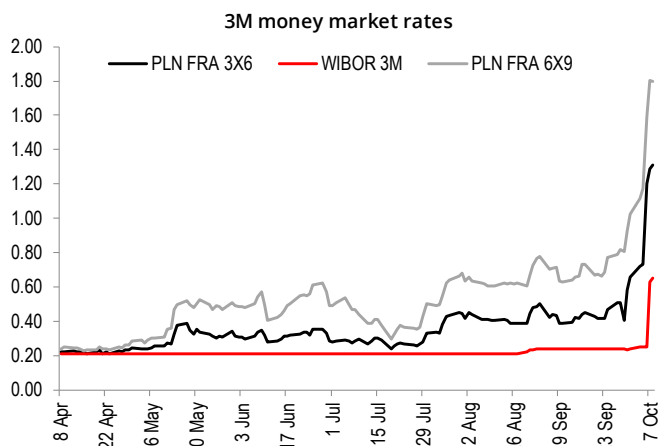
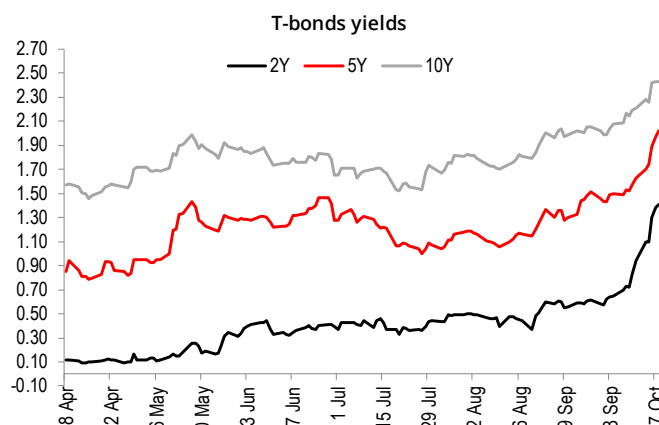
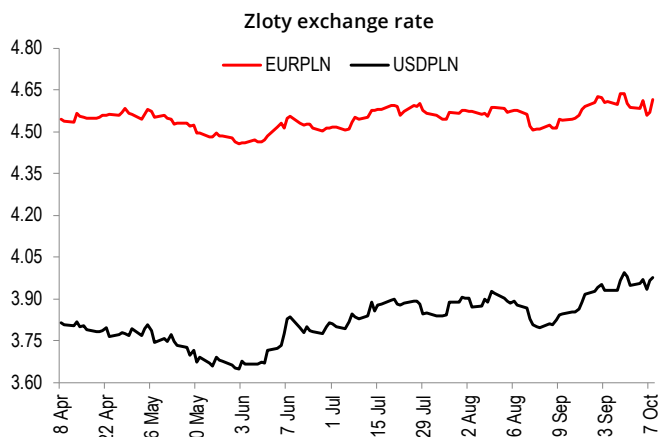
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	257	-5
France	10	0	34	-1
Hungary	59	0	374	-2
Spain	31	0	64	-1
Italy	44	0	103	-1
Portugal	21	0	52	-3
Ireland	11	0	37	-2
Germany	8	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 (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	49.2	51.4	46.7	
08:00	DE	Exports SA	Aug	% m/m	0.5	-1.2	0.6	
09:00	HU	CPI	Sep	% y/y	5.5	5.5	4.9	
14:30	US	Change in Nonfarm Payrolls	Sep	k	500.0	194.0	235.0	
14:30	US	Unemployment Rate	Sep	%	5.1	4.8	5.2	
MONDAY (11 October)								
09:00	CZ	CPI	Sep	% y/y	4.5	-	4.1	
TUESDAY (12 October)								
11:00	DE	ZEW Survey Current Situation	Oct	pts	29.0	-	31.9	
WEDNESDAY (13 October)								
08:00	DE	HICP	Sep	% m/m	0.3	-	0.3	
11:00	EZ	Industrial Production SA	Aug	% m/m	-1.5	-	1.5	
14:30	US	CPI	Sep	% m/m	0.3	-	0.3	
20:00	US	FOMC Meeting Minutes	Sep/21					
THURSDAY (14 October)								
14:00	PL	Current Account Balance	Aug	€mn	-747	-896	-	-1827.0
14:00	PL	Trade Balance	Aug	€mn	-850	-289	-	-714.0
14:00	PL	Exports	Aug	€mn	21147	21600	-	22346.0
14:00	PL	Imports	Aug	€mn	22016	21889	-	23060.0
14:30	US	Initial Jobless Claims		k		-	326.0	
FRIDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	5.8	5.8	-	5.5
14:30	US	Retail Sales Advance	Sep	% m/m	-0.3	-	0.7	
16:00	US	Michigan index	Oct	pts	73.5	-	72.8	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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