

Eyeopener

MPC less eager to tighten than market assumes

Minutes from last MPC meeting showed no intention to keep hiking rates aggressively
 Equities stable despite more positive surprises in US company results
 EURUSD stable, UST and Bund yield up again
 EURPLN rose above 4.60, domestic bonds a bit weaker
 Today Polish M3 data, a set of flash PMIs (Germany, Eurozone)

On Thursday despite further, in general, positive surprises from the US corporates for 3Q21 stock exchanges were rather stable. Macroeconomic data were however rather positive: in the US the initial jobless claims fell to 290k, while existing home sales increased by 7% m/m. Fed's Christopher Waller said that if the inflation remains too high, Fed will need to act already in 2022, earlier and more aggressively than he expected. He added that the base case scenario is still for inflation to fall to 2% by the end of 2022, however he noted that there are more risks to the upside than expected and the situation might endure. Fed's Raphael Bostic said that first interest rates increases in the US might occur already between 3Q22 and 4Q22.

MPC minutes from October meeting, the one with unexpected 40bp rate hike, does not reveal the Council's eagerness to tighten the policy more. In fact it is easier to spot passages where they seem in doubt that the action was necessary than sentences justifying the October move, e.g. "The majority of the Council members judged that (...) inflation was not generating excessive wage pressure", "In the opinion of the majority of the Council members, demand-side factors alone were not causing an excessive increase in price growth". The justification of the hike was that "amidst probable further recovery in economic activity and favourable labour market conditions, inflation might persist at an elevated level longer than hitherto expected". Also, only a minority "underlined the importance of exchange rate channel in the monetary transmission mechanism", which we read as no desire of the MPC to actively shape the FX rate to curb inflation. As written in the final paragraph, further decisions will be data-dependent. We believe that the flash October CPI reading coming next week (we see it much above 6%) and the scale of the upward shift of the NBP staff inflation projection being prepared now will trigger more tightening already at the 3 November meeting. Another NBP document revealed that the +190bp motion from September was supported by only one member (Zubelewicz), while +15bp had three supporters (Gatnar, Hardt and Zubelewicz).

MPC's Rafal Sura said that interest rates should be increased only gradually and towards the levels seen before the pandemic. At the same time it is not clear for him if the next hike should occur already in November. He pointed to the fact that the 40bp interest rate increase on October meeting was aimed at preventing the development of a wage-price spiral which at this moment is not yet present, however could occur in 2022. In his opinion the reserve requirement ratio (increased to 2.0%) is already at the target level and needs no more changes.

Retail sales rose by 5.1% y/y in September, slightly below forecasts. Despite the fact that the data are solid overall, they show that retail sales does not want to return to the pre-pandemic trend despite the strong labour market and the lack of significant pandemic restrictions, which might lower the retail sales and private consumption growth in 4Q21. In September Polish **construction output** was quite depressed at only 4.3% y/y vs 8.2% market consensus and our 6.8% call. We assume that construction sector can maintain the c.4% y/y pace of output growth throughout 4Q, but in the course of 1H22 it may slide below zero. GUS revised quarterly GDP data for 2020 and 1H21 raising all economic growth readings in the period. GG deficit in 2020 was revised to 7.1% of GDP from 6.9% of GDP. Read more in our [Economic comment](#).

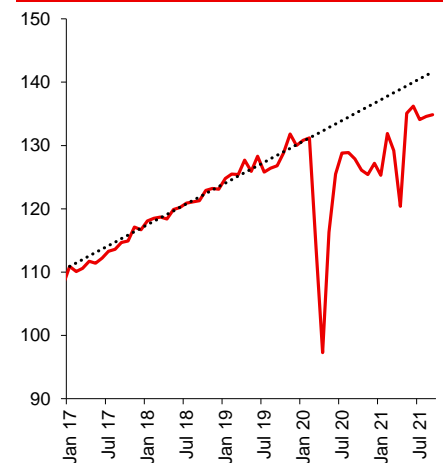
EURUSD was again stable near 1.1650.

EURPLN climbed by 0.5% to 4.60 (and temporarily by 0.6% to 4.61), partially due to generally negative global sentiment towards EM currencies, partially due to minutes from the October MPC meeting, which was relatively dovish given market expectations for further hikes.

As regards **other CEE currencies**, EURHUF climbed a bit to 362.9 (+0.2%) and is up 1.0% month-to-date. EURCZK increased even more (+0.3%) to 25.62 and similarly as in case of the forint the increase of the exchange rate since the start of the month is oscillating at 1.0%. For the first time in a longer period the ruble lost - USDRUB increased by 0.6% to 71.2

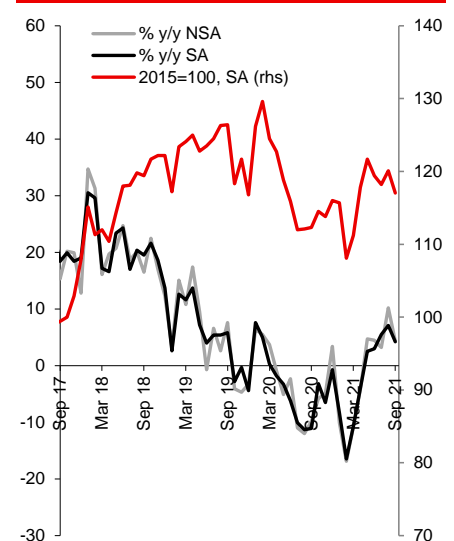
On the **interest rate market** the Bund yield climbed by other 3bp to -0.09% (11bp since the start of the week), while UST added only 1bp to 1.67% (19bp since the start of the week). The domestic curve climbed by 4-6bp and IRS by 2-3bp party due to moves on the global markets. The Finance Ministry sold bonds worth PLN4.2bn and bought papers worth PLN4.0 at this month's only auction (switch). After the tender the 2022 borrowing needs are covered in 8%. Meanwhile, the BGK bank informed it will offer three bond series worth at least PLN0.5bn on 25 October.

Retail sales in Poland, current level vs pre-pandemic trend, SA



Source: GUS, Santander

Construction output in Poland



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6034	CZKPLN	0.1791
USDPLN	3.9564	HUFPLN*	1.2540
EURUSD	1.1634	RUBPLN	0.0557
CHFPLN	4.3113	NOKPLN	0.4730
GBPPLN	5.4564	DKKPLN	0.6184
USDCNY	6.3941	SEKPLN	0.4603

*for 100HUF

Last session in the FX market		21/10/2021			
	min	max	open	close	fixing
EURPLN	4.577	4.607	4.581	4.603	4.593
USDPLN	3.928	3.959	3.932	3.953	3.945
EURUSD	1.163	1.166	1.165	1.164	-

Interest rate market 21/10/2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.84	6
DS0726 (5Y)	2.28	2
DS0432 (10Y)	2.75	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.67	3	0.26	2	-0.49	2
2L	2.14	4	0.62	8	-0.35	2
3L	2.35	3	0.94	8	-0.22	4
4L	2.45	3	1.16	9	-0.12	5
5L	2.53	3	1.30	7	-0.04	5
8L	2.65	4	1.58	5	0.16	3
10L	2.72	4	1.70	5	0.27	2

WIBOR rates

Term	%	Change (bps)
O/N	0.28	1
T/N	0.38	1
SW	0.50	0
2W	0.52	1
1M	0.59	0
3M	0.70	0
6M	0.90	1
1Y	1.18	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.10	2
3x6	1.57	2
6x9	1.97	1
9x12	2.34	1
3x9	1.73	2
6x12	2.16	1

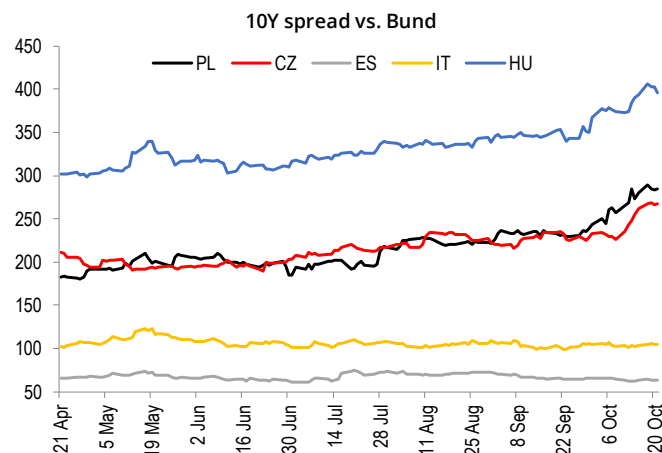
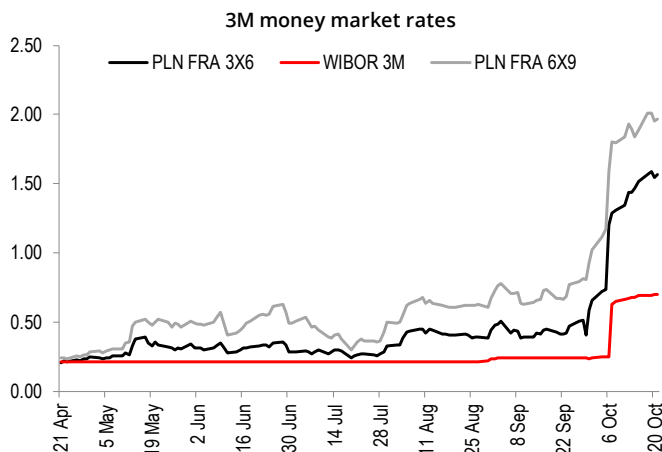
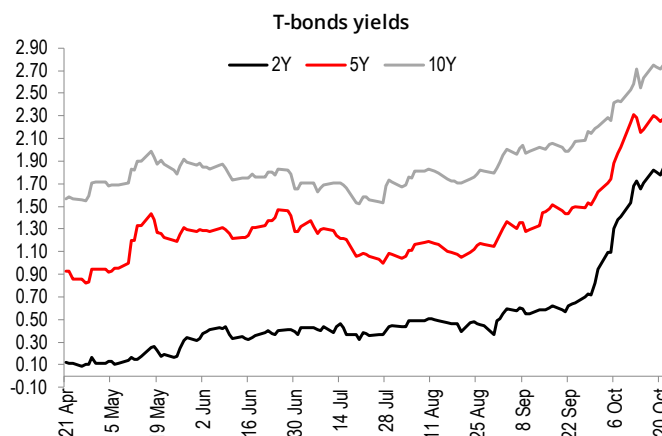
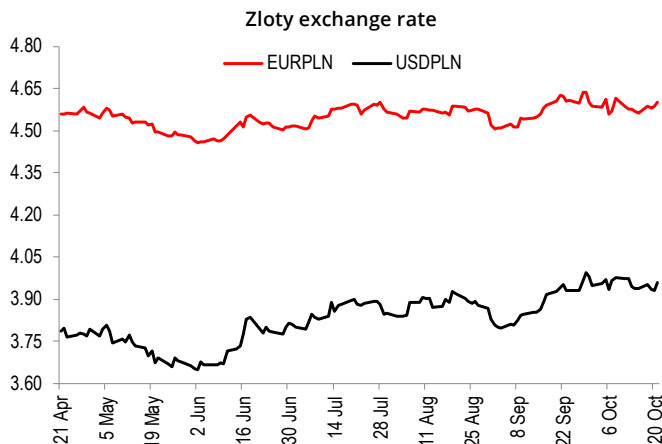
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	285	1
France	10	0	34	0
Hungary	60	0	396	-7
Spain	30	0	63	0
Italy	43	0	105	1
Portugal	19	0	51	0
Ireland	11	1	37	1
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 (15 October)								
10:00	PL	CPI	Sep	% y/y	5.8		5.9	5.8
14:30	US	Retail Sales Advance	Sep	% m/m	-0.2		0.7	0.7
16:00	US	Michigan index	Oct	pts	73.0		71.4	72.8
MONDAY (18 October)								
14:00	PL	CPI Core	Sep	% y/y	4.1	4.2	4.2	3.9
15:15	US	Industrial Production	Sep	% m/m	0.1		-1.3	-0.1
TUESDAY (19 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	0.7	0.5	0.6	0.9
10:00	PL	Average Gross Wages	Sep	% y/y	8.7	9.0	8.7	9.5
14:00	HU	Central Bank Rate Decision	Oct/21	%	1.80		1.80	1.65
14:30	US	Housing Starts	Sep	% m/m	0.0		-1.6	3.9
WEDNESDAY (20 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	8.2	7.6	8.8	13.2
10:00	PL	PPI	Sep	% y/y	10.0	9.9	10.2	9.5
11:00	EZ	HICP	Sep	% y/y	3.4		3.4	3.4
THURSDAY (21 October)								
10:00	PL	Construction Output	Sep	% y/y	8.0	6.8	4.3	10.2
10:00	PL	Retail Sales Real	Sep	% y/y	5.2	6.2	5.1	5.4
14:30	US	Initial Jobless Claims		k	297.0		290.0	296.0
14:30	US	Index Philly Fed	Oct		25.0		23.8	30.7
16:00	US	Existing Home Sales	Sep	% m/m	3.7		7.0	-2.0
FRIDAY (22 October)								
09:30	DE	Germany Manufacturing PMI	Oct	pts	56.8		-	58.4
09:30	DE	Markit Germany Services PMI	Oct	pts	55.0		-	56.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	57.3		-	58.6
10:00	EZ	Eurozone Services PMI	Oct	pts	55.5		-	56.4
14:00	PL	Money Supply M3	Sep	% y/y	8.6	9.1	-	9.1

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

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