

Eyeopener

More hints about hikes in the US in 2022

The Fed is not adhering to the transitory inflation anymore
 EURUSD unchanged, EURPLN remained above 4.60
 Polish government bond yields a bit higher, contrary to core markets
 Today unemployment and inflation expectations data, German Ifo

On Friday we got to see the first positive CPI reading in Japan in more than a year and major upward surprises with flash PMIs in Japan and Australia. PMI in Europe were also better than expected, but not all of them: German and euro zone manufacturing surprised to the upside with slight declines in monthly terms, while gauges for services fell more than expected. There was also a positive message: improvement in employment despite problems with supplies and maintained cost pressure. At the end of the European session May Daly and Jerome Powell from Fed spoke and both, despite earlier comments about temporary nature of inflation, were pointing to a risk that inflation will remain elevated for the better part of 2022. The Fed had assured that the bank will use all available measures should inflation prove persistent and it will be ready for many scenarios. According to Powell, next year the USA will probably be close to full employment (this is a key condition to start hiking rates).

Fiscal data in ESA 2010 standard showed that the **GG sector revenues amounted to PLN270bn in 2Q21 and rose by 14.7% y/y**, with VAT up by 23.9% y/y. Spending amounted to PLN272bn and fell by 16.9% y/y, including investment by 12.5% y/y. The GG deficit amounted to 2.8% of GDP (sum for four quarters) as compared to 6.7% of GDP in 1Q21. These numbers are somewhat better than we expected, so this year's deficit could be closer to our previous forecast of 2.5% than to our current at 3.5% (we increased our forecast after 2021 budget act amendment).

M3 money supply rose in September by 8.6% y/y. The growth rate of cash in circulation fell for the first time since the start of the pandemic below 15% y/y, household deposits rose again at c.7% y/y and corporate deposits by 6.9% y/y. Total credit corrected for FX moves was up 2.7% y/y (before the pandemic it was rising by c.5% y/y), with household credit up 5.2% y/y (the highest pace since April 2020) and corporate credit down by only 0.6% y/y (vs -2.5% y/y previously).

In October there was a decline of sectoral business sentiment indicators, but it was almost entirely due to seasonal factors. In general, the assessment of outlook worsened more than did the assessment of current situation. SA-adjusted indicators showed small m/m changes: improvement in construction and transport, stabilisation in industry and worsening in retail and wholesale trade as well as hotels and restaurants. ICT and financial and insurance sectors were the only ones to show more optimism when it comes to the business outlook.

MPC member Eryk Łon said that his view at the November MPC meeting will be shaped by the November NBP inflation projection and in particular the time span of inflation staying above the upper bound of the inflation target. The GDP path will also be important to him.

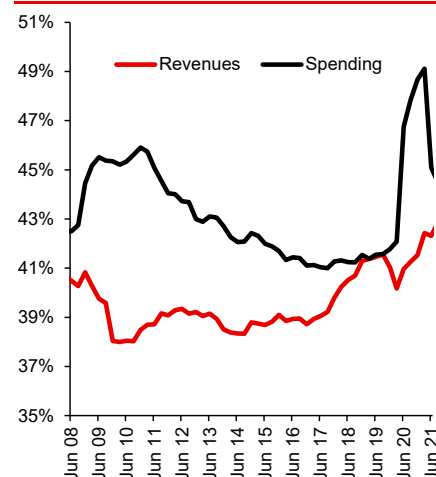
EURUSD opened and closed around 1.1625 and its intraday rise ended with a sharp decline after the Fed members' remarks. This morning EURUSD opens at 1.1655.

EURPLN stabilised slightly above 4.60 and made some futile attempts during the day to break below the level. This week upward trend in core market yields might continue hence the pressure on EM currencies might persist. The situation on global markets means that the risks for EURPLN are asymmetric (to the upside). This week we expect EURPLN to increase to 4.65 or higher, however, the possibility of another significant inflation increase in Poland (the data release is due on Friday) might prove sufficient to stop the move higher. Already today we will learn if in October there was a significant rise of consumer inflation expectations.

As regards **other CEE currencies**, EURCZK was also stable at 25.65 and EURHUF did not depart from 364.0. Due to the higher than expected interest rate hike decision in Russia, USDRUB fell to 70.4 from 71.2 in the previous day, i.e. by 1.2%. The Central Bank of Russia hiked interest rates from 6.75% to 7.50%, while markets were anticipating the move to 7.0%.

On the **interest rate market** bond yield curve moved up and steepened slightly (2Y went up 3bp, 10Y 6bp). UST yields fell on Friday by 4bp to 1.65%. Polish IRS rates moved up by 3-4bp. The market pricing of interest rate hikes in the next 12M has increased further. This week we expect a stabilisation at the short end of the curve and a slow rise of IRS rates and bonds at the long end, following core markets. The BGK has planned the Covid bond auction for today with the supply at PLN0.5bn at least.

Revenues and spending of the GG sector, 4 quarters sum, % of GDP



Source: Eurostat, GUS, Santander

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FX market

Today's opening

EURPLN	4.6047	CZKPLN	0.1788
USDPLN	3.9516	HUFPLN*	1.2524
EURUSD	1.1650	RUBPLN	0.0561
CHFPLN	4.3104	NOKPLN	0.4724
GBPPLN	5.4233	DKKPLN	0.6180
USDCNY	6.3818	SEKPLN	0.4601

*for 100HUF

Last session in the FX market 22.10.2021

	min	max	open	close	fixing
EURPLN	4.590	4.608	4.606	4.607	4.607
USDPLN	3.947	3.964	3.960	3.959	3.958
EURUSD	1.162	1.166	1.162	1.163	-

Interest rate market 22.10.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.87	3
DS0726 (5Y)	2.34	7
DS0432 (10Y)	2.83	8

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	2	0.27	0	-0.49	-1
2L	2.17	2	0.61	-2	-0.34	1
3L	2.37	2	0.92	-2	-0.20	1
4L	2.49	4	1.12	-4	-0.10	2
5L	2.56	3	1.26	-4	-0.02	1
8L	2.67	2	1.52	-7	0.17	1
10L	2.75	2	1.63	-7	0.28	0

WIBOR rates

Term	%	Change (bps)
O/N	0.29	1
T/N	0.39	1
SW	0.50	0
2W	0.52	0
1M	0.59	0
3M	0.70	0
6M	0.91	1
1Y	1.19	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.14	4
3x6	1.61	4
6x9	2.03	5
9x12	2.41	7
3x9	1.78	5
6x12	2.23	7

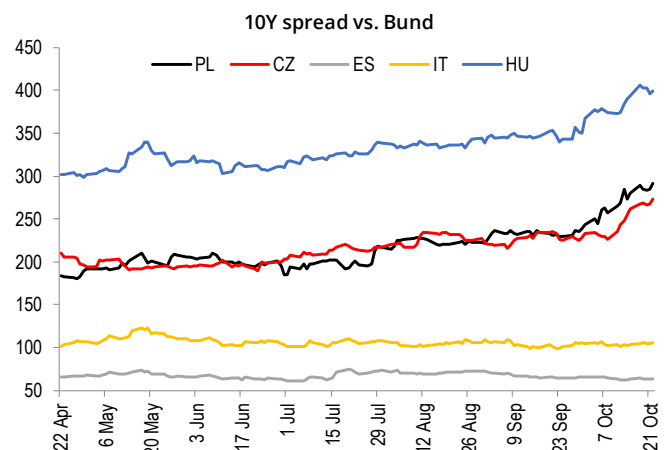
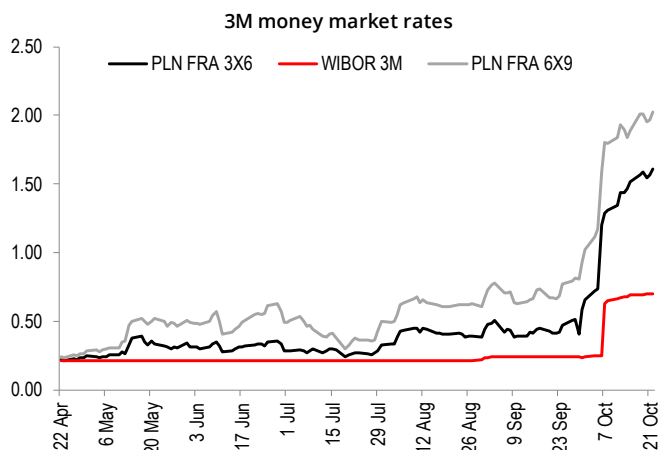
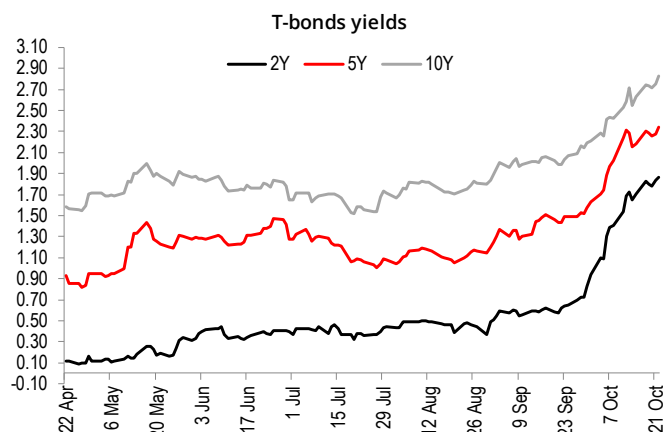
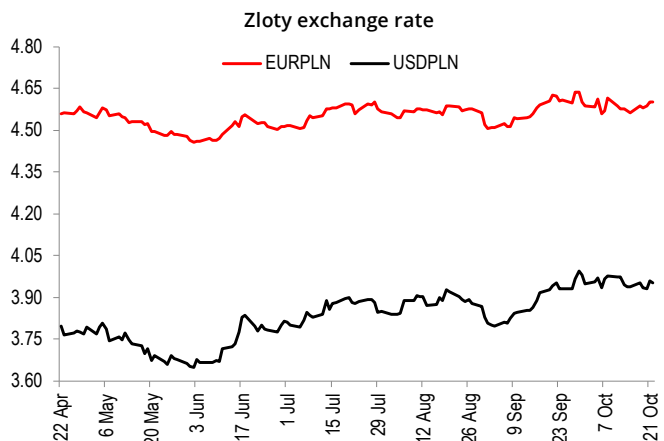
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	292	7
France	10	0	34	0
Hungary	60	0	399	4
Spain	30	0	63	0
Italy	43	0	106	1
Portugal	20	0	51	0
Ireland	11	0	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 (22 October)								
09:30	DE	Germany Manufacturing PMI	Oct	pts	56.6		58.2	58.4
09:30	DE	Markit Germany Services PMI	Oct	pts	55.2		52.4	56.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	57.1		54.7	58.6
10:00	EZ	Eurozone Services PMI	Oct	pts	55.4		54.7	56.4
14:00	PL	Money Supply M3	Sep	% y/y	8.6	8.5	8.6	9.1
MONDAY (25 October)								
10:00	DE	IFO Business Climate	Oct	pts	97.9		-	98.8
10:00	PL	Unemployment Rate	Sep	%	5.6	5.6	-	5.8
TUESDAY (26 October)								
16:00	US	Consumer Conference Board	Oct	pts	109.5		-	109.3
16:00	US	New Home Sales	Sep	% m/m	2.4		-	1.5
WEDNESDAY (27 October)								
	DE	Retail Sales	Sep	% m/m	-0.8		-	1.1
14:30	US	Durable Goods Orders	Sep	% m/m	-1.0		-	1.8
THURSDAY (28 October)								
11:00	EZ	ESI	Oct	pct.	-		-	117.8
13:45	EZ	ECB Main Refinancing Rate	Oct/21	%	0.0		-	0.0
14:00	DE	HICP	Oct	% m/m	0.0		-	0.3
14:30	US	GDP Annualized	3Q	% Q/Q	3.0		-	6.7
14:30	US	Initial Jobless Claims		k			-	290.0
16:00	US	Pending Home Sales	Sep	% m/m	1.0		-	8.1
FRIDAY (29 October)								
09:00	CZ	GDP SA	3Q	% y/y	3.2		-	8.1
10:00	PL	CPI	Oct	% y/y	6.4	6.4	-	5.9
10:00	DE	GDP WDA	3Q	% y/y	2.7		-	9.4
11:00	EZ	Flash HICP	Oct	% y/y	3.7		-	3.4
11:00	EZ	GDP SA	3Q	% y/y	3.5		-	14.2
14:30	US	Personal Spending	Sep	% m/m	0.5		-	0.8
14:30	US	Personal Income	Sep	% m/m	-0.1		-	0.2
14:30	US	PCE Deflator SA	Sep	% m/m	0.3		-	0.4
16:00	US	Michigan index	Oct	pts	71.4		-	71.4

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

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