

27 October 2021

Eyeopener

Increased military spending

On Tuesday quiet day on the markets
 EURUSD just below 1.60, EURPLN stable above 4.60
 Small moves on the Polish fixed income market
 Today German consumer confidence, US durables

Tuesday was calm in the financial markets. Equity markets were rising slightly, bond yields in core markets fell slightly. EURUSD moved just below 1.16 (which may open the door for more significant dollar strengthening). Among the new data releases one should note the Conference Board indicator of US consumer confidence, which jumped unexpectedly after three months of decline. Its level, 113.8, is still lower than before the pandemic (130 on average), but the perception of prices moving higher opened consumers for bigger spending. The US Richmond Fed indicator also surprised to the upside (new orders and employment went up, amid very low inventories of goods and materials and long delivery times). The big surprise was also the activity in the US housing market (14-percent rebound of house sales in one month). The German index of consumer confidence released this morning improved and surprised positively (0.9 vs. 0.4 previously). Germans also seem to be boosting private spending in reaction to looming inflation. However, if elevated inflation will last longer than "transitory", the consumer confidence may worsen in future.

The government has created Armed Forces Support Fund (FWSZ), which will be receiving money from issuance of state and BGK bonds, subsidies from the central budget and the NBP profit. So far the NBP profit was supporting the central budget in general and was not assigned to any particular area of expenditures. The fact that the new fund is going to be handled by BGK means that its expenditures will avoid the spending rule – the fiscal discipline tool. At the press conference presenting the fund it was said that it will allow for radical increase of military spending and will drive the annual expenditures on defence way above 2% of GDP (that was the only hint so far on the planned total size of the fund). What we have learned about the fund suggests that the government is planning to stimulate domestic demand even more despite high inflation and still highly accommodative monetary policy. We also suspect that the bonds issued to finance the fund will eventually reach the NBP – its QE program remains active even if the scale of bond purchases has recently been negligible.

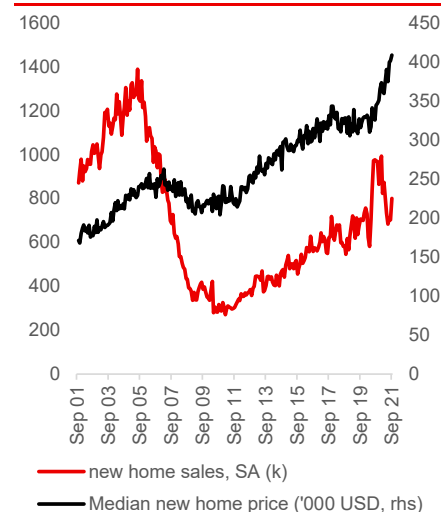
EURUSD was stable during the day, showing minor moves, but managed to descend at the end of the day below 1.16 and this morning is still exactly at the level.

EURPLN backtracked after the rise the day before to 4.6150, but its attack on 4.6000 was unsuccessful and in the end the exchange rate stabilised in the evening at 4.6090.

As regards **other CEE currencies**, trading on EURCZK and EURHUF looked the same as in case of EURPLN – reversal of the move from the previous day and a relatively small size of the decline. EURHUF opens today at 365.4 and EURCZK at 25.70 – exactly at its 200-day moving average. We expect both FX pairs to rise more. USDRUB was quite comfortable below 70 and did not attempt to return above the level.

On the **interest rate market** this was a day of insignificant moves following several sessions of high volatility. The largest recorded change was a rise of the long end of the IRS curve by 2-3bp. FRA rates were also stable. Volatility was reduced also on core bond markets. The markets may be getting more quiet due to the approaching key event of the week – the ECB meeting. The bank has pre-committed to reduce the scale of asset purchases in December, so we assume that at the Thursday meeting it will only try to calm down the debt markets, given the substantial rise of yields in last weeks.

US New home sales data



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6063	CZKPLN	0.1789
USDPLN	3.9687	HUFPLN*	1.2478
EURUSD	1.1604	RUBPLN	0.0571
CHFPLN	4.3198	NOKPLN	0.4744
GBPPLN	5.4660	DKKPLN	0.6190
USDCNY	6.3839	SEKPLN	0.4612

*for 100HUF

Last session in the FX market						26/10/2021
	min	max	open	close	fixing	
EURPLN	4.596	4.620	4.612	4.604	4.613	
USDPLN	3.954	3.983	3.974	3.971	3.974	
EURUSD	1.158	1.163	1.160	1.159	-	

Interest rate market 26/10/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.90	0
DS0726 (5Y)	2.37	-1
DS0432 (10Y)	2.92	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	3	0.27	1	-0.50	0
2L	2.22	1	0.62	1	-0.35	0
3L	2.45	2	0.92	2	-0.21	0
4L	2.55	1	1.11	2	-0.12	0
5L	2.64	3	1.25	0	-0.04	0
8L	2.74	2	1.52	-1	0.15	-1
10L	2.82	2	1.63	-1	0.26	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.24	-4
T/N	0.36	-3
SW	0.50	0
2W	0.53	1
1M	0.59	0
3M	0.71	1
6M	0.93	1
1Y	1.22	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.15	0
3x6	1.65	0
6x9	2.08	1
9x12	2.47	4
3x9	1.81	-2
6x12	2.28	5

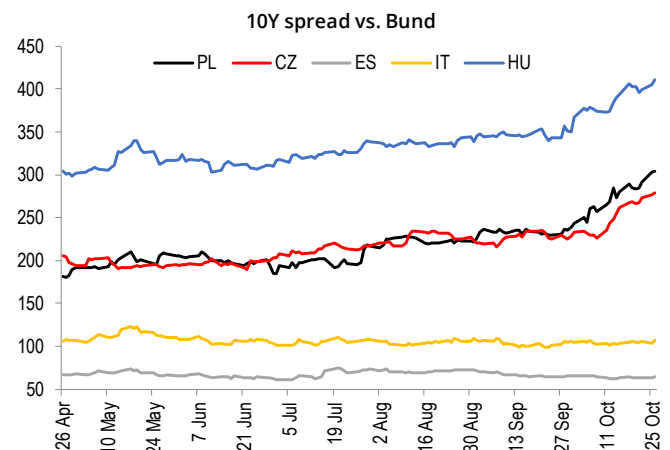
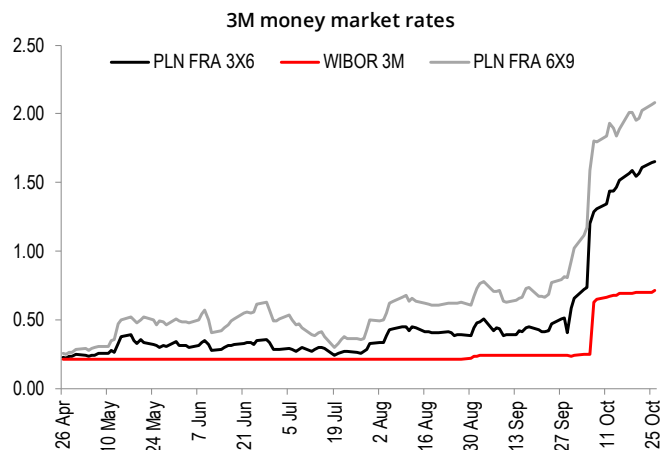
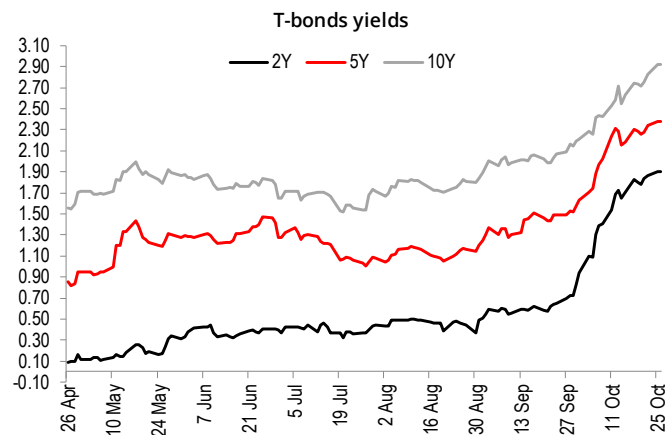
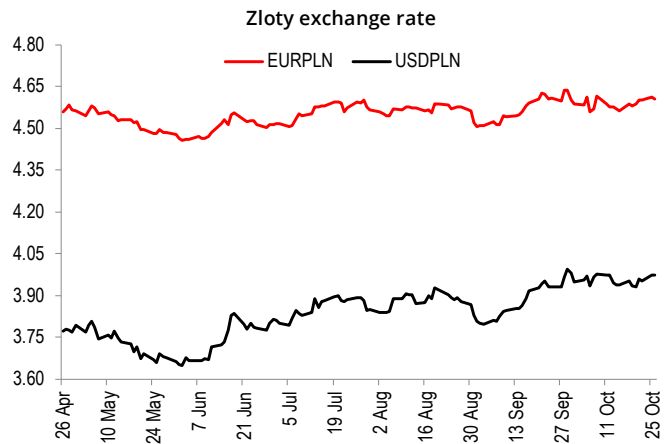
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	304	1
France	10	0	34	1
Hungary	60	0	411	6
Spain	30	0	65	2
Italy	43	0	107	3
Portugal	20	0	54	3
Ireland	11	0	39	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 (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		97.7	98.8
10:00	PL	Unemployment Rate	Sep	%	5.6	5.6	5.6	5.8
TUESDAY (26 October)								
16:00	US	Consumer Conference Board	Oct	pts	109.5		113.8	109.8
16:00	US	New Home Sales	Sep	% m/m	2.4		14.0	-1.4
WEDNESDAY (27 October)								
	DE	Consumer Confidence (GfK)	Sep	% m/m	-0.5		0.9	0.3
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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