

28 October 2021

Eyeopener

Yields lower ahead of the ECB meeting

Poland got fined again by ECJ
 EURUSD stable, EURPLN slightly higher
 Noticeable yields decline in Poland and abroad
 Today US GDP, ECB meeting, ESI business cycle indicators

Yesterday's session was marked by significant declines on the bond markets with 10Y UST down to 1.56% from 1.62% on Tuesday and 10Y Bund down to -0.18% from -0.12% (below last week's trading range). Higher-than-expected oil reserves in the USA made the Brent oil price go down by 1.5%. EURUSD did not move away from 1.16. Stock markets were dominated by declines. German economy minister Peter Altmaier said that even if there are no lockdowns, the economy will be negatively affected by high inflation. One day before the first GDP estimate for 3Q21 in the USA the GDPnow model estimated by the Atlanta Fed projected this reading for only 0.2% q/q in annualised terms. For the better part of September the model was showing over 3.5%, but forecasts deteriorated rapidly in September. Meanwhile, Bloomberg consensus is still at about 3%. The central bank of Canada (BoC) announced it is ending purchases within its QE and will only reinvest maturing bonds. BoC also announced that rates are likely to go up in mid-2022. The Bank of Japan did not change its interest rates and decreased forecasts for 2021 to 3.4% from 3.8% (but increased in 2022 to 2.9% from 2.7%). This is suggesting that the Japanese monetary policy is unlikely to change for a longer period. The ECB meeting is scheduled for today.

The European Court of Justice set at €1mn the daily fine for Poland for not suspending the judicial Disciplinary Chamber despite being told so. Recently the European Commission also reminded Poland about the daily fines of €0.5mn, accumulating for over a month already (and still not paid in by Poland), imposed for not shutting down the Turow lignite mine. The EC warned that as a last resort it will deduct from the tranches of EU money it sends to Poland the money the country owes the EU due to the ECJ fines.

After September the central budget showed a surplus of PLN47.6bn (vs. PLN43.4bn after August). Revenues in September were up 12.3% y/y and expenditures were down 0.8% y/y. VAT revenues rose by c.4.6% y/y, CIT by 10.6% y/y and PIT by 12.7% y/y. We assume that by the end of the year the central budget balance will move to a PLN40bn deficit due to frontloading of 2022 expenditures.

Deputy NBP governor Marta Kightley said that a radical reduction of inflation would put a very high cost on the economy. In general, inflation will be pushed towards the target by rate hikes and QE taper. The October hike was to prevent the high inflation from becoming permanent next year, when the expected strong economic performance might trigger a wage-price spiral – a phenomenon which is still absent in the economy. **Finance minister Tadeusz Kościński** expressed hope that the October rate hike was a signal that rates will be going up more, but stressed that the central bank has little influence on inflation which is based on external factors. He also said there are no plans to issue a country-wide lockdown to counter the pandemic, only regional restrictions are being considered.

NBP announced that the blackout period, when MPC members are not allowed to talk about monetary policy to the media, has been shortened from seven to five days before meetings and still covers one day after meetings.

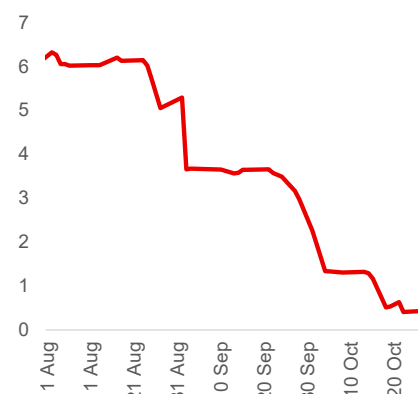
EURUSD remained close to 1.16 amid low volatility.

EURPLN was steady in the first half of the day but then climbed before Tuesday peak (4.6200) and this morning it is starting the day at 4.6240.

As regards **other CEE currencies**, the Czech koruna remained at 25.7 versus the euro and tested an important technical level (200-day moving average), while the forint gained 0.5% versus the euro and slid below 363.5. Given that oil price went strongly down below USD85 per barrel, USDRUB jumped by 1.5% to 70.5.

On the **interest rate market** yields reacted to declines on the core markets. The yield curve went down in the middle segment even by 10bp, while other two ends saw declines by 4-6bp. The IRS curve declined by 10bp, but the shorter end was a bit more stable. The FRA market went a bit back as regards pricing rate hikes in one year's time, but at the same time remained aggressive in the shorter term.

Evolution of Atlanta Fed GDPNow model estimate of 3Q US GDP growth, %q/q SAAR



Source: Atlanta Fed, Santander

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FX market

Today's opening			
EURPLN	4.6234	CZKPLN	0.1796
USDPLN	3.9845	HUFPLN*	1.2583
EURUSD	1.1600	RUBPLN	0.0564
CHFPLN	4.3364	NOKPLN	0.4723
GBPPLN	5.4748	DKKPLN	0.6213
USDCNY	6.3976	SEKPLN	0.4638

*for 100HUF

Last session in the FX market						27.10.2021
	min	max	open	close	fixing	
EURPLN	4.603	4.627	4.609	4.618	4.617	
USDPLN	3.966	3.989	3.972	3.981	3.982	
EURUSD	1.158	1.163	1.160	1.160	-	

Interest rate market 27.10.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.84	-6
DS0726 (5Y)	2.30	-8
DS0432 (10Y)	2.92	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	-1	0.29	2	-0.48	3
2L	2.17	-5	0.65	3	-0.31	3
3L	2.37	-7	0.92	1	-0.19	2
4L	2.46	-9	1.11	0	-0.12	0
5L	2.54	-10	1.22	-3	-0.06	-2
8L	2.64	-11	1.47	-5	0.10	-5
10L	2.72	-11	1.56	-7	0.20	-6

WIBOR rates

Term	%	Change (bps)
O/N	0.24	0
T/N	0.34	-2
SW	0.51	1
2W	0.54	1
1M	0.60	1
3M	0.72	1
6M	0.94	1
1Y	1.23	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.13	-3
3x6	1.65	0
6x9	2.10	1
9x12	2.47	0
3x9	1.78	-3
6x12	2.24	-5

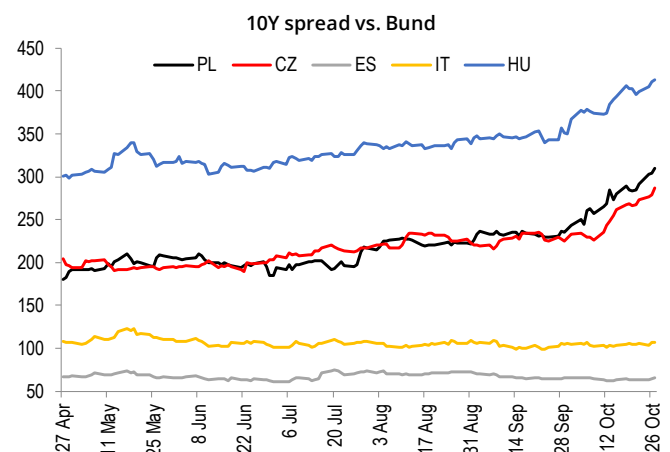
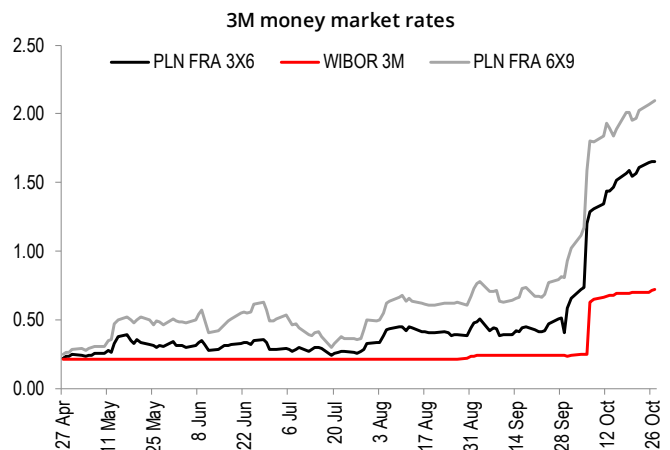
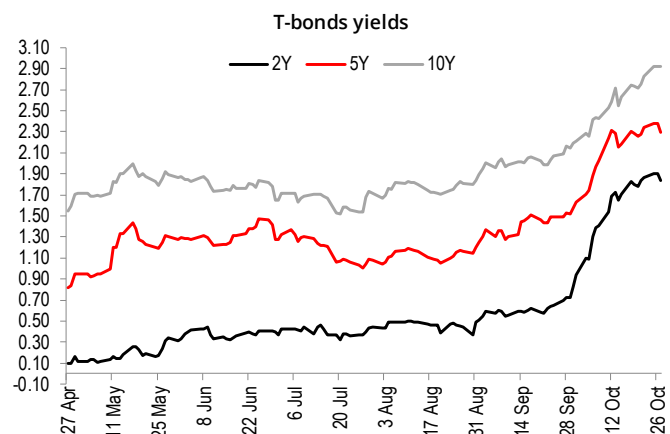
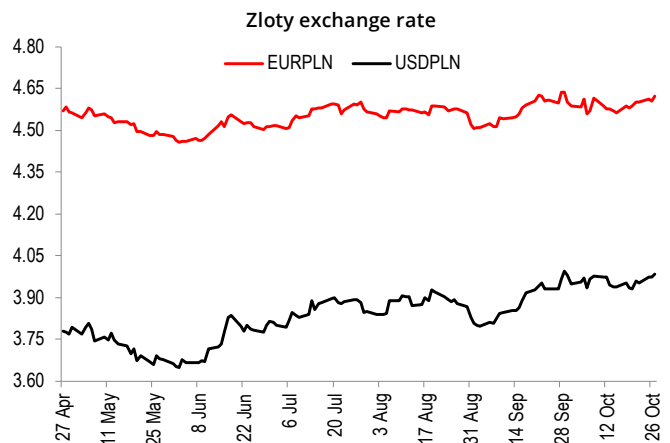
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	53	0	310	6
France	10	0	35	0
Hungary	60	0	413	2
Spain	30	0	65	1
Italy	43	0	107	0
Portugal	20	0	56	1
Ireland	11	0	40	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		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		-0.4	1.3
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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