

Eyeopener

Market awaiting MPC decision

Equity markets stable on Friday, slightly up on Monday
 EURUSD after big drop on Friday, again near 1.16
 Bond yields in the core markets quite stable
 EURPLN above 4.61, awaiting the MPC meeting
 Today manufacturing PMI in Poland, Germany, euro zone

On Friday equity indices were stable. The US 10Y bond yield firstly moved +4b to 1.61% only to fall back to 1.56% in the second part of the day. 10Y Bund rose +6bp to -0.07% only to fall to -0.11% at the very end of the week. EURUSD was even more volatile: on Friday gave back all Thursday gains (to 1.1690 from 1.1600) and more - closed the week at 1.1560. Those moves might have resulted from end of month flows as well as pretty rich economic calendar on Friday. Preliminary 3Q21 GDP data were published in the Eurozone (3.7% y/y vs 3.5% y/y expected), Germany (2.5% y/y, as expected), France (3.3% y/y vs 2.4% y/y expected), Italy (3.8% y/y vs 3.0% y/y expected) as well as Spain (2.7% y/y vs 3.9% y/y). The inflation in the Eurozone moved up to 4.1% y/y - much above the expectations at 3.7% y/y and the reading from the previous month (3.4% y/y). The core inflation printed at 2.0% y/y vs 1.9% y/y expected. In the US, the Fed's favourite inflation measure PCE increased to 4.4% y/y (the core PCE to 3.6% y/y). September personal income disappointed and fell by -1.0% y/y vs -0.3% expected. On Monday (market holiday in Poland) global stocks slightly increased while EURUSD moved up to 1.16.

Flash CPI inflation in Poland rose in October to 6.8% y/y from 5.9% y/y in September, way above our (already elevated) forecast and market consensus at 6.5%. This is yet another big upward surprise in a row, which means that inflation forecasts for the coming quarters must be increased further. It is now almost certain that CPI will exceed 7% y/y before year-end and it may reach 8% y/y in 1Q22. The data increases probability that the NBP will hike rates again in November, we think +50bp is quite likely. And it is clear to us that this is not going to be the end of the tightening cycle.

EURUSD dropped suddenly on Friday from around 1.1700, which was its 50-day moving average, to 1.1560 (by 1.1%). As a result the exchange rate ended the month slightly lower than the previous one (-0.2%). Yesterday the euro recovered some of the loss and the exchange rate was again close to 1.16.

EURPLN on Friday fell by 0.3% to 4.6110. The weekly change was +0.3% and the monthly change was +0.1%. This morning the exchange rate is opening slightly higher. This week the behaviour of EURPLN will depend mostly on the MPC decision at the Wednesday meeting. If the 50bp rate hike we expect gets delivered, the exchange rate may stabilise for some time.

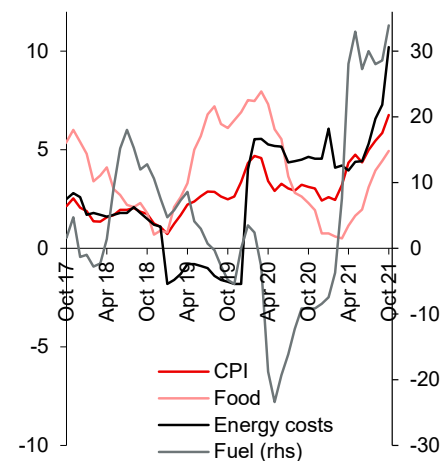
As for the **other CEE currencies**, EURHUF continued on Friday its three-day correction by 1.7% in total, and only on Friday the drop was 0.4%, to 359.8. Hungarian wage data for August were a slight disappointment at 8.9% y/y (vs 9.5% expected) but are still at a decent level. EURCZK, which was going up without a break for the last two weeks, on Friday dropped by 0.3% to 25.67. Flash 3Q GDP in Czechia was 2.8% y/y which was below the 3.2% market median. The ruble basket rose somewhat but USDRUB - due to the volatility of the dollar - was up by a whole 1.0%, to 70.9. The Friday data from Russia were mixed, retail sales (for September) was a bit worse than expected (5.6% y/y vs 5.8%), but the September unemployment rate was down to 4.3% from 4.4% (no change was expected).

On the Polish fixed income market, the long end of the government bond curve declined on Friday by 3bp (10Y to 2.84%) while the front end increased by 10bp (2Y to 1.99%). The IRS curve moved higher in all tenors but mostly at the front end as well (2Y up 9bp to 2.41% vs 10Y up 3bp to 2.78%). The moves had to do with even higher expectations regarding the NBP interest rate increase at the upcoming meeting.

The Ministry of Finance informed that the pre-financing of 2022 borrowing needs is 8%. This month the MinFin plans two switching auctions on November 4 and 25, and no outright auctions. **BGK** plans two bond auctions: November 8 and 29. **NBP** plans one bond purchase auction on November 17. Moreover on Friday NBP sold 7-day bills worth PLN242bn.

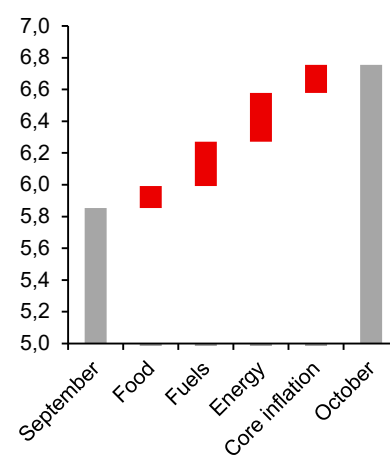
Moody's agency informed on Friday that it did not review Poland's sovereign rating.

CPI inflation, % y/y



Source: GUS, Santander

Breakdown of CPI acceleration in October



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6230	CZKPLN	0.1804
USDPLN	3.9829	HUFPLN*	1.2683
EURUSD	1.1604	RUBPLN	0.0557
CHFPLN	4.3771	NOKPLN	0.4725
GBPPLN	5.4371	DKKPLN	0.6212
USDCNY	6.3984	SEKPLN	0.4665

*for 100HUF

Last session in the FX market						01/11/2021
	min	max	open	close	fixing	
EURPLN	4.604	4.625	4.606	4.616	4.621	
USDPLN	3.979	3.999	3.985	3.982	3.966	
EURUSD	1.155	1.159	1.156	1.159	-	

Interest rate market 01/11/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.07	0
DS0726 (5Y)	2.37	0
DS0432 (10Y)	2.90	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.97	-2	0.33	2	-0.48	-2
2L	2.40	0	0.69	1	-0.25	-2
3L	2.58	0	0.95	0	-0.11	-2
4L	2.66	0	1.11	0	-0.03	-1
5L	2.69	0	1.23	1	0.02	-2
8L	2.76	3	1.45	0	0.17	-2
10L	2.78	1	1.56	1	0.27	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.29	3
T/N	0.35	2
SW	0.52	1
2W	0.56	2
1M	0.61	1
3M	0.74	2
6M	0.96	2
1Y	1.26	3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.28	-3
3x6	1.94	-5
6x9	2.32	-9
9x12	2.73	1
3x9	2.18	-3
6x12	2.62	1

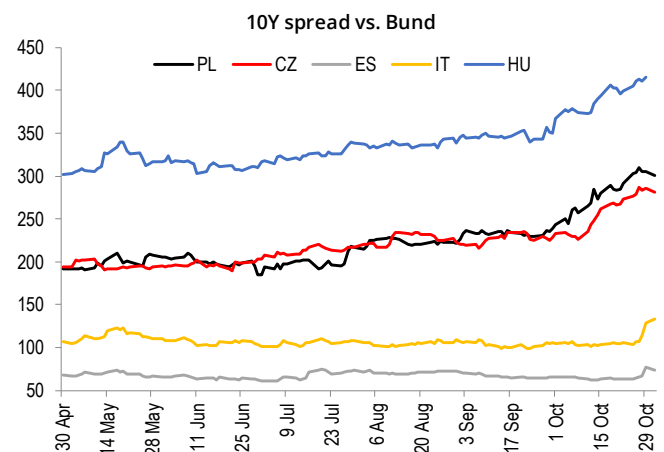
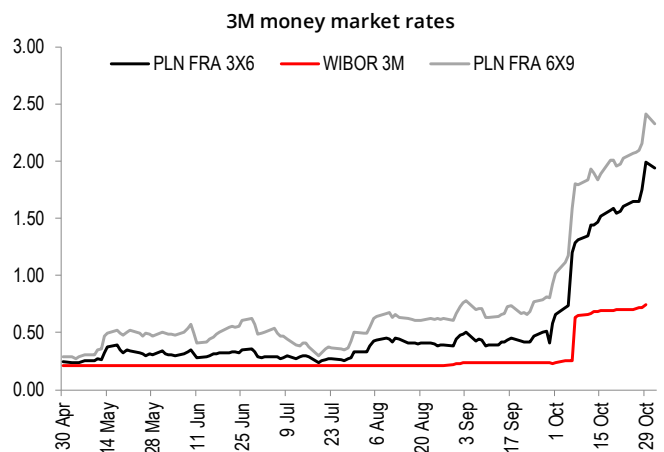
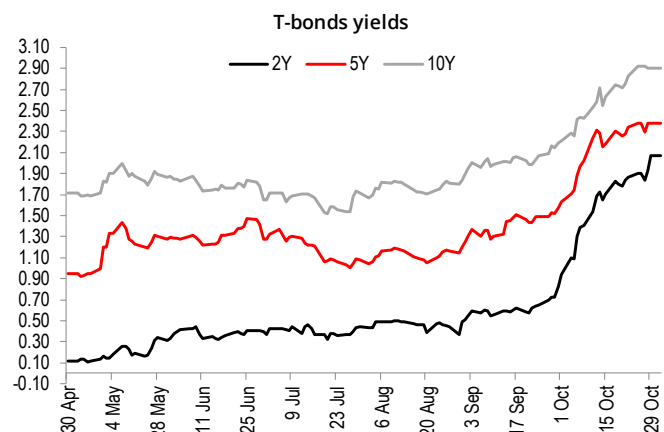
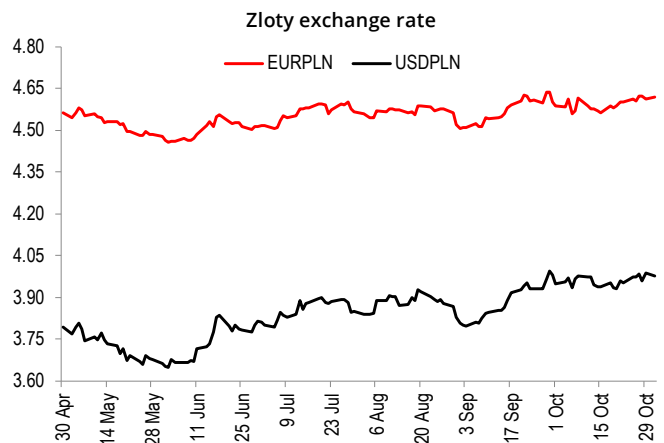
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	301	-5
France	10	0	38	-6
Hungary	60	0	0	-415
Spain	35	2	74	-3
Italy	53	3	133	4
Portugal	23	1	66	-2
Ireland	11	0	44	-4
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

FRIDAY (29 October)								
09:00	CZ	GDP SA		3Q	% y/y	3.2	2.8	8.1
10:00	PL	CPI		Oct	% y/y	6.4	6.8	6.8
10:00	DE	GDP WDA		3Q	% y/y	2.5	2.5	9.4
11:00	EZ	Flash HICP		Oct	% y/y	3.7	4.1	3.4
11:00	EZ	GDP SA		3Q	% y/y	3.5	3.7	14.2
14:30	US	Personal Spending		Sep	% m/m	0.6	0.6	0.8
14:30	US	Personal Income		Sep	% m/m	-0.3	-1.0	0.2
14:30	US	PCE Deflator SA		Sep	% m/m	0.3	0.3	0.4
16:00	US	Michigan index		Oct	pts	71.4	71.7	71.4
MONDAY (1 November)								
09:55	DE	Germany Manufacturing PMI		Oct	pts	58.2	-	58.2
10:00	EZ	Eurozone Manufacturing PMI		Oct	pts	58.5	-	58.5
15:00	US	ISM manufacturing		Oct	pts	60.2	-	61.1
TUESDAY (2 November)								
09:00	PL	Poland Manufacturing PMI		Oct	pts	53.1	52.0	-
								53.4
WEDNESDAY (3 November)								
	PL	MPC decision			%	0.75	1.00	-
								0.50
02:45	CN	Caixin China PMI Services		Oct	pts	53.5	-	53.4
09:55	DE	Markit Germany Services PMI		Oct	pts	52.4	-	52.4
10:00	EZ	Eurozone Services PMI		Oct	pts	54.7	-	54.7
11:00	EZ	Unemployment Rate		Sep	%	7.4	-	7.5
13:15	US	ADP report		Oct	k	400.0	-	568.1
15:00	US	Durable Goods Orders		Sep	% m/m		-	-0.4
15:00	US	ISM services		Oct	pts	61.8	-	61.9
15:00	US	Factory Orders		Sep	% m/m	-0.2	-	1.2
19:00	US	FOMC decision		Nov/21		0.25	-	0.25
THURSDAY (4 November)								
08:00	DE	Factory Orders		Sep	% m/m	0.4	-	-7.7
14:30	US	Initial Jobless Claims			k	287.5	-	290.0
14:30	CZ	Central Bank Rate Decision		Nov/21		2.0	-	1.5
FRIDAY (5 November)								
08:00	DE	Industrial Production SA		Sep	% m/m	-0.8	-	-4.0
09:00	HU	Industrial Production SA		Sep	% y/y	-	-	0.6
11:00	EZ	Retail Sales		Sep	% m/m	0.2	-	0.3
13:30	US	Change in Nonfarm Payrolls		Oct	k	425.0	-	194.0
13:30	US	Unemployment Rate		Oct	%	4.7	-	4.8

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

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