

3 November 2021

## Eyeopener

### What will the MPC do?

Equity markets in Europe and USA slightly up

Stronger dollar, 10Y UST yield stable (1.55%) before the FOMC meeting

Yield of 10Y Bund lower by 6bp, yield of 10Y POLGB up 5bp

Today MPC decision, FOMC meeting, services PMI/ISM

In the eve of FOMC meeting markets were less volatile, as usually just before the important economic event. Yield of 10Y UST has not changed (1.55%) and dollar gained only slightly. German Bund gained (10Y yield fell to -0.16%) while Polish bonds lost (+5bp to 2.89%) and thus the spread widened to 305bp – the level not seen since 2017. Final readings of manufacturing PMIs in the euro zone, Germany, France were revised slightly. The former two to the downside (correspondingly: -0.2pp to 58.3 and -0.4pp to 57.8) while French to the upside (0.1pp to 53.6). PMI readings from Italy and Spain were mixed – the former rose 1.5pp to 61.1, the latter fell 0.7pp to 57.4. Inflation in Switzerland surprised to the upside by 0.1pp.

**PMI in Polish manufacturing** unexpectedly rose in October to 53.8 pts from 53.4 while a decline to 53.1 was expected. Output and new orders indicators were still above the breakeven level, but their growth was muted by supply chain issues – input shortages and transportation bottlenecks – which were most likely also behind the dampened demand from the EU (the second month in a row of weaker foreign orders). The rising costs were still being transmitted to higher output prices. The backlogs of work increased further also because firms were unable to recruit new staff due to shortages on the labour market. Still, the level of finished goods stocks went up for the first time in nine months. Despite the difficulties firms remain optimistic about future activity.

According to **NBP's credit survey**, the demand for credit improved in 3Q21, however less than expected. The banking sector expects improvement in demand for credit also in 4Q21E. The exception were the long-term loans for SME where there was no rebound and also none is expected anytime soon. In 4Q21E banks plan to ease the credit policy towards SME and keep it unchanged for the big corporations. Banks felt in 3Q21 and expect in 4Q21E a decent increase in the demand for consumption credit while at the same time the credit policy in this segment of the market is being loosened still. On the other hand, in the mortgages segment, banks expect a slight slowdown of the demand as the credit policy in the segment is being tightened (implementation of Recommendation S). In 3Q21 the banks have felt a significantly increased demand for financing of fixed assets which suggest a further increase in the investment dynamics in the corporate sector in the period. A further, albeit smaller than in 2Q21, increase for fixed assets was seen in the consumer sector. The survey indicates that the demand for mortgages is stimulated by the situation in the housing market (significant price increases).

**EURUSD** closed on Tuesday at 1.1590 (-0.1%) and is 0.3% higher MTD. If at today's FOMC meeting the slowdown in the pace of purchases of bonds (tapering) will be launched, the dollar might gain in the short-term.

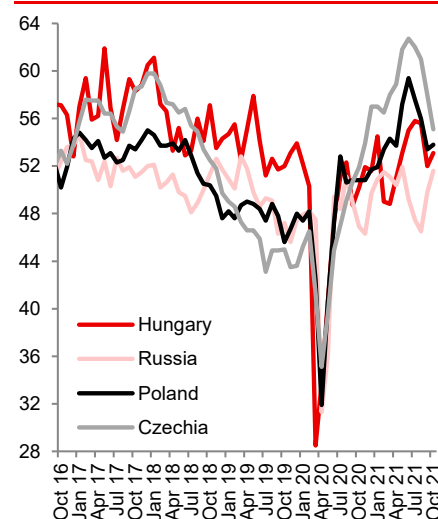
**EURPLN** fell on Tuesday by 0.3% to 4.6080 partly as a function of a positive surprise to the manufacturing PMI, partly as a function of even higher FRA contracts at the front end of the curve (more details below in the fixed income paragraph). EURPLN in the nearest days will depend on today's MPC decision regarding interest rates. We expect an increase by 50bp.

As for the **other CEE currencies**, EURHUF dropped by 0.4% to 359.4 after the better-than-expected reading of manufacturing PMI (53.1 pts vs 52.5). September PPI at 14.0% y/y was lower than a month earlier (14.4% y/y). The trade balance declined in August to the lowest level in a decade at -€751mn (a drop from -€461mn a month earlier). Import growth in EUR was 19.0% y/y while export was up only 4.2% y/y. EURCZK was stable on Tuesday (25.58), similar to USDRUB (71.55).

On **the interest rate market** the Polish bond yield curve rose vs the Friday closing levels by c.8bp on the short end (2Y up to 2.07%) and by 3bp on the long end (10Y to 2.87%), while the IRS curve moved up more less in a parallelly by 6bp (2Y to 2.48%, 10Y to 2.84%). FRA contracts saw large moves, e.g. 3x6 up 17bp to 2.17% and 9x12 up 7bp to 2.83%. Ahead of today's MPC meeting the market is pricing in rate hikes at the three closest meetings by respectively 75bp, 50bp and 25bp (150bp in total in a matter of three months).

The **Ministry of Finance** informed that at the switch auction planned for Thursday, 4 November it will buy back PS0422, OK0722, WS0922 series while selling OK0724, PS1026 and DS0432 as well as WZ1126 and WZ1131 floaters.

#### Manufacturing PMIs



Source: Markit, Santander

#### Breber

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### FX market

Today's opening			
EURPLN	4.6052	CZKPLN	0.1804
USDPLN	3.9739	HUFPLN*	1.2699
EURUSD	1.1585	RUBPLN	0.0556
CHFPLN	4.3500	NOKPLN	0.4670
GBPPLN	5.4169	DKKPLN	0.6212
USDCNY	6.3984	SEKPLN	0.4642

\*for 100HUF

Last session in the FX market						02/11/2021
	min	max	open	close	fixing	
EURPLN	4.600	4.625	4.621	4.609	4.613	
USDPLN	3.964	3.986	3.981	3.981	3.977	
EURUSD	1.157	1.161	1.161	1.158	-	

### Interest rate market 02/11/2021

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.24	17
DS0726 (5Y)	2.50	13
DS0432 (10Y)	2.91	1

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	2.09	13	0.29	-3	-0.50	-2
2L	2.50	9	0.65	-4	-0.32	-7
3L	2.68	9	0.92	-3	-0.19	-8
4L	2.75	9	1.09	-2	-0.11	-8
5L	2.77	8	1.23	0	-0.05	-7
8L	2.79	3	1.47	3	0.11	-7
10L	2.84	5	1.57	1	0.21	-6

#### WIBOR rates

Term	%	Change (bps)
O/N	0.25	-4
T/N	0.37	2
SW	0.55	3
2W	0.61	5
1M	0.64	3
3M	0.78	4
6M	0.99	3
1Y	1.28	2

#### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.45	16
3x6	2.18	24
6x9	2.54	22
9x12	2.82	8
3x9	2.39	21
6x12	2.75	13

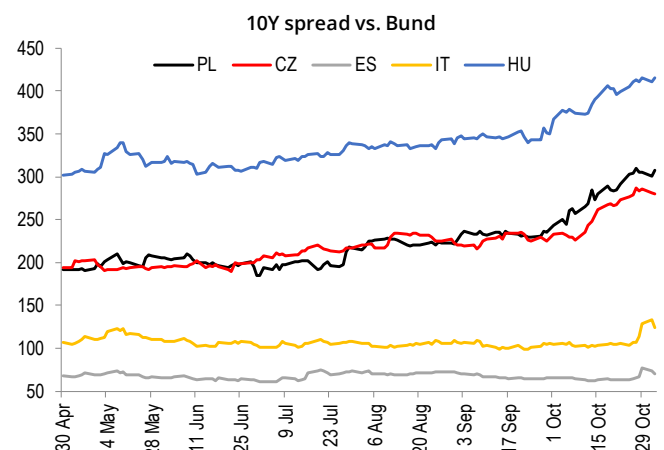
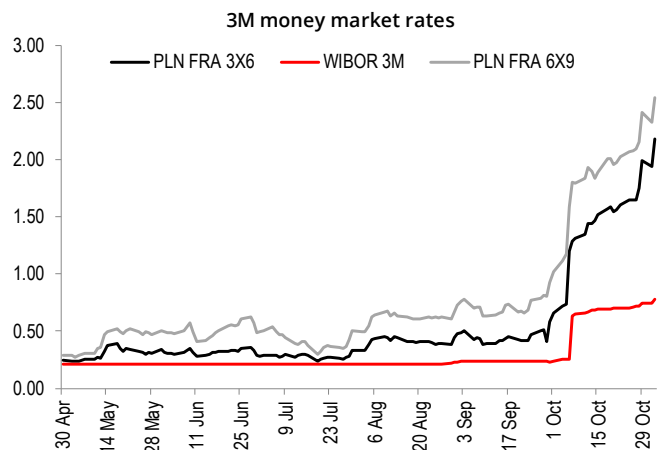
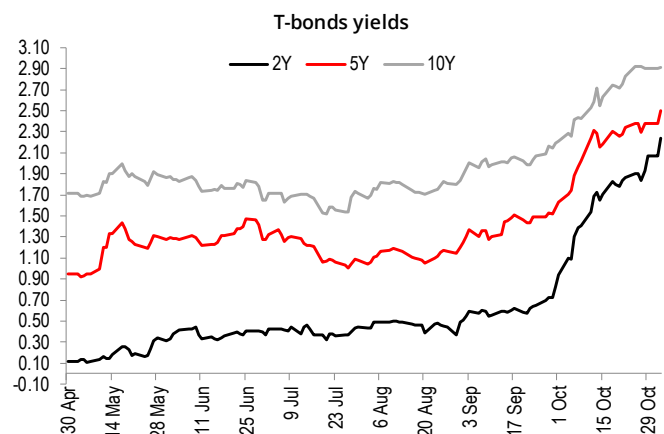
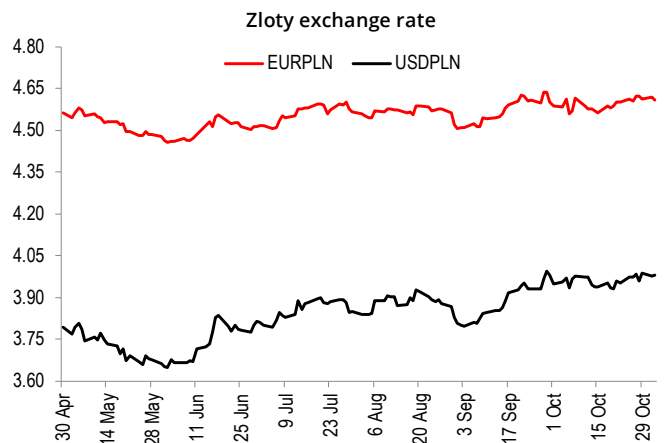
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	53	0	307	6
France	10	0	35	-2
Hungary	60	0	415	5
Spain	33	-1	70	-4
Italy	51	-2	125	-8
Portugal	22	-1	61	-5
Ireland	11	0	42	-3
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		
<b>FRIDAY (29 October)</b>							
09:00	CZ	GDP SA	3Q	% y/y	3.2	2.8	8.1
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Oct</b>	<b>% y/y</b>	<b>6.4</b>	<b>6.8</b>	<b>5.9</b>
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
<b>MONDAY (1 November)</b>							
15:00	US	ISM manufacturing	Oct	pts	60.2	60.8	61.1
<b>TUESDAY (2 November)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Oct</b>	<b>pts</b>	<b>53.1</b>	<b>52.0</b>	<b>53.8</b>
09:55	DE	Germany Manufacturing PMI	Oct	pts	58.2	57.8	58.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	58.5	58.3	58.5
<b>WEDNESDAY (3 November)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.75</b>	<b>1.00</b>	<b>-</b>
02:45	CN	Caixin China PMI Services	Oct	pts	53.1	53.8	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
<b>THURSDAY (4 November)</b>							
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
<b>FRIDAY (5 November)</b>							
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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