

Eyeopener

“Whatever it takes”, Polish edition

MPC hiked interest rates by 75bp, will do “whatever it takes” to tame inflation
 Equity indices and EURUSD stable before Fed meeting, higher afterwards
 10Y UST yield rose to 1.58% after solid macro data
 Polish IRS rates strongly up after NBP rate hike
 Today, German factory orders, interest rate decisions in Czechia and UK

On the day of the FOMC meeting, but before the event, stock markets were calm, but 10Y UST yield rose to 1.58% following a streak of positive US data. After the Fed decision, US equity indexes rose to new all-time highs. October ADP report showed that US companies increased employment by more than had been expected (571k). ISM services index rose to 66.7 pts, the highest level ever. Industrial orders in September also came above expectations. The economic picture based on these result is that the supply side is not able to catch up with the dynamically growing demand, which may keep fuelling price growth. In Europe the ECB president Christine Lagarde said that it is very unlikely that there will be a rate hike in the Eurozone in 2022.

FOMC did not change interest rates and suggested patience when it comes expecting rate hikes. In line with expectations, the bank has started to decrease its asset purchases from November on. The tapering pace is in line with expectations and equal to USD15bn per month (USD10bn cut to government bond purchases and USD5bn cut to MBS purchases). Fed chair J.Powell said that the US economy will return to demand and supply balance (the imbalance is lasting longer than expected) and inflation will drop to the 2% target in the longer term.

MPC decided to hike interest rates by 75bp. The new NBP projection showed slightly lower GDP growth for 2022 (still close to 5%) and noticeably higher CPI inflation path (in 2022 5.8% on average). The second in a row significant rate increase (after +40bp in October) points to the fact that the MPC's assessment of inflationary risks has changed considerably. After the NBP governor's press conference at which he declared to do "whatever it takes" in to tame inflation, we think that the hiking cycle will be continued and the next steps will be data-driven. The hike already in December cannot be ruled out (inflation will breach 7% in our opinion), while the target reference rate in this hiking cycle might reach 3%. More in [our commentary](#).

The LFS unemployment rate (s.a.) remained in September at 3.4% for a third month in a row, one of the lowest in the EU and not much above its all-time low of 2.9% from March 2020. The number of unemployed (s.a.) stood at 574k, slightly lower vs August, but 3.6% above the level from the year ago. The data imply the continuation of the downward trend in labour participation and in the number of employed, after their earlier rise to the local peak in mid-2021. It is worth remembering that the LFS data do not take into account the population of short-term migrant workers. The strong labour demand signalled by companies in the business surveys should result in sustained high wage pressure in the nearest quarters.

EURUSD was stable before the FOMC meeting near 1.158. After the FOMC the rate jumped to 1.161 but overnight the whole move retraced and EURUSD starts Thursday again at 1.158.

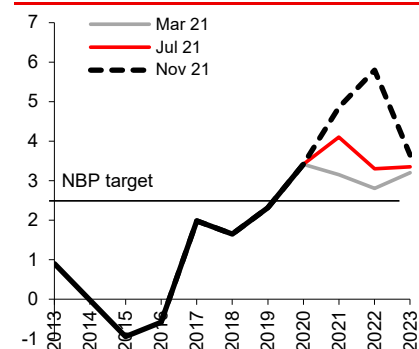
EURPLN in reaction to the NBP interest rate hike fell 0.5% to 4.5850 and fell even slightly lower overnight towards 4.5800. As a result the exchange rate currently resides at the 50-day moving average and whether or not it will go through the level will be important in the context of a exchange rate direction in the coming days.

As for the other CEE currencies, EURHUF seems to be stabilising around 359 after the downside trend that lasted since 27 October. MNB meeting minutes from 19 October revealed that the decision to hike rates by 15bp to 1.80% was unanimous. The bank precommitted to continue the rate hikes cycle as long as the inflation outlook stabilises around the MNB target (3.0% +/-1pp) and the risks regarding inflation become balanced. Currently the balance of risks is tilted to the upside and such situation may last longer than it had been expected. Also, the moment the CPI returns to the target and the monetary policy adjustment may take longer than had been expected. EURCZK dropped by 0.2% to 25.52. USDRUB rose by 0.9% to 72.15 (50-day moving average) and since the end of August the rise is already almost 4.0%. Russian inflation was higher than expected at 8.1% y/y (the CBR target is 4.0%).

On **the interest rate market** both curves, i.e. bond and IRS, in reaction to the NBP rate hike moved up and flattened. In case of bonds, short end increased c.20bp and long end c.15bp. IRS curve rose 20bp in 2Y segment (to 2.72%) and 10bp in 10Y (to 2.94%). FRA 1x4 closed at 1.71%, which most likely means anticipation of +25bp rate hike in December.

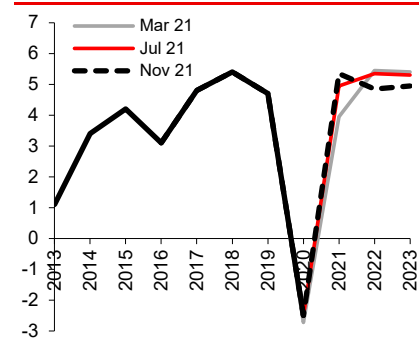
The **Ministry of Finance** informed that today's switch auction it will buy back PS0422, OK0722, WS0922 series while selling OK0724, PS1026 and DS0432 as well as WZ1126 and WZ1131 floaters.

CPI growth according to NBP projections (projection mid-points)



Source: NBP, Santander

GDP growth according to NBP projections (projection mid-points)



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.5796	CZKPLN	0.1804
USDPLN	3.9554	HUFPLN*	1.2786
EURUSD	1.1575	RUBPLN	0.0551
CHFPLN	4.3343	NOKPLN	0.4644
GBPPLN	5.4124	DKKPLN	0.6212
USDCNY	6.3938	SEKPLN	0.4626

*for 100HUF

Last session in the FX market 03/11/2021

	min	max	open	close	fixing
EURPLN	4.571	4.608	4.602	4.592	4.600
USDPLN	3.948	3.980	3.973	3.964	3.968
EURUSD	1.156	1.160	1.158	1.158	-

Interest rate market 03/11/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.34	10
DS0726 (5Y)	2.66	16
DS0432 (10Y)	2.91	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	2.35	26	0.31	1	-0.51	-1
2L	2.73	23	0.67	2	-0.31	1
3L	2.90	22	0.96	3	-0.19	0
4L	2.93	19	1.13	4	-0.11	0
5L	2.93	16	1.27	4	-0.05	0
8L	2.91	12	1.51	3	0.11	0
10L	2.94	10	1.62	6	0.21	0

WIBOR rates

Term	%	Change (bps)
O/N	0.28	3
T/N	0.59	22
SW	0.59	4
2W	0.66	5
1M	0.72	8
3M	0.84	6
6M	1.05	6
1Y	1.35	7

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	27
3x6	2.46	28
6x9	2.90	36
9x12	3.10	29
3x9	2.69	30
6x12	3.06	31

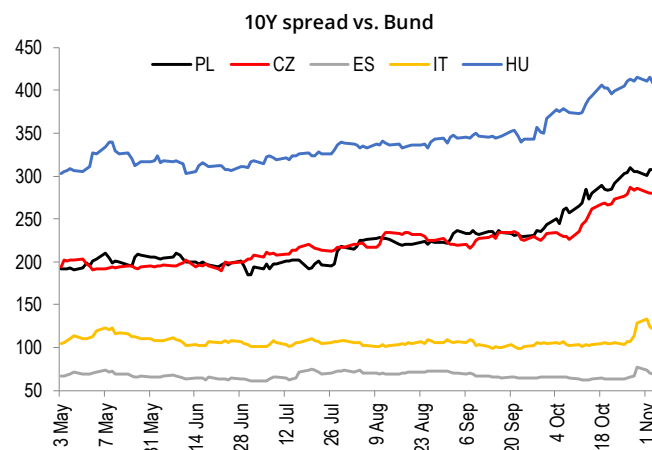
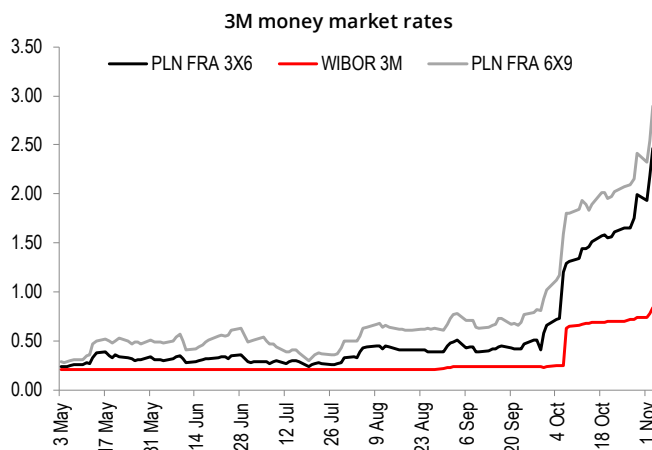
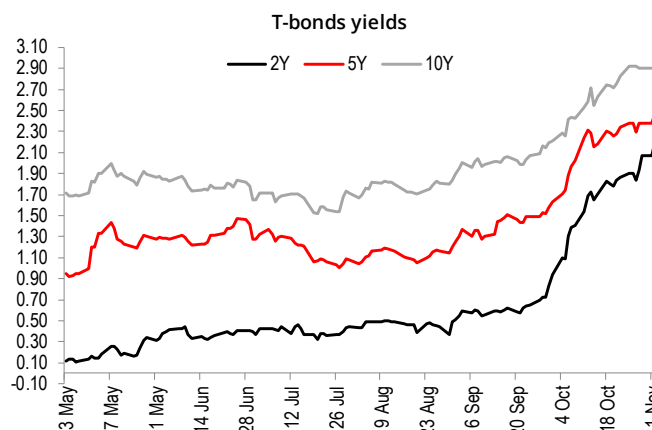
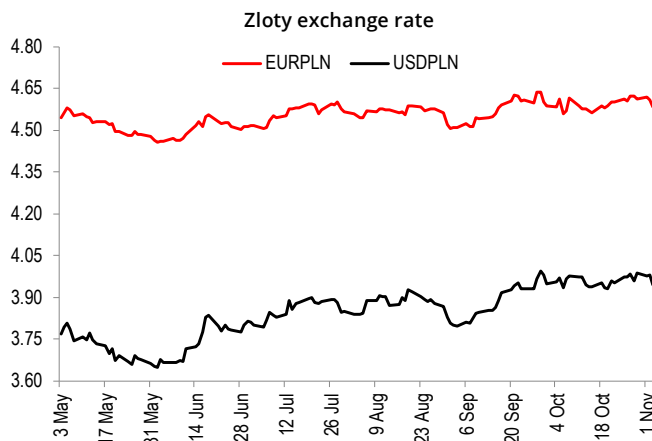
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	52	0	308	1
France	10	0	35	0
Hungary	60	0	409	-6
Spain	33	0	69	-1
Italy	48	-4	122	-3
Portugal	22	0	60	-1
Ireland	11	0	43	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 (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	5.9
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)							
15:00	US	ISM manufacturing	Oct	pts	60.2	60.8	61.1
TUESDAY (2 November)							
09:00	PL	Poland Manufacturing PMI	Oct	pts	53.1	52.0	53.8
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
WEDNESDAY (3 November)							
	PL	MPC decision		%	0.75	1.00	1.25
02:45	CN	Caixin China PMI Services	Oct	pts	53.1	53.8	53.4
11:00	EZ	Unemployment Rate	Sep	%	7.4	7.4	7.5
13:15	US	ADP report	Oct	k	400.0	571.0	523.0
15:00	US	Durable Goods Orders	Sep	% m/m	-0.4	-0.3	-0.4
15:00	US	ISM services	Oct	pts	62.0	66.7	61.9
15:00	US	Factory Orders	Sep	% m/m	0.1	0.2	1.2
19:00	US	FOMC decision	Nov/21		0.25	0.25	0.25
THURSDAY (4 November)							
08:00	DE	Factory Orders	Sep	% m/m	1.8	1.3	-8.8
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
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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