

Eyeopener

Zloty even more strong before MPC meeting

Equities markets keep rebounding post the earlier Covid-19 related fears
 EURUSD volatile, EURPLN declined even more before the MPC meeting
 Yields, IRS and FRA in Poland fall further, in the US bonds decline
 Today MPC meeting, Hungarian inflation

Tuesday was the second straight day of rebound in global equity markets – indices in Europe and USA increased by over 2%. Crude oil price went up 3% (Brent above \$75 p/b again). Also natural gas price and industrial metals gained. 10Y UST yield moved up by 3bp to 1.48% and Bund yield by 1bp to -0.37%. EURUSD declined during the day, to 1.1230, and despite that the zloty strengthened further. Later on, EURUSD rebounded and today starts the session at 1.1290. On Tuesday morning the German industrial output surprised positively, after a disappointment from factory orders one day earlier. Also, ZEW expectations index was quite solid (while the current index was worse than expected).

Local governments' revenues were PLN75.4bn in 3Q21, up 6% y/y. Expenditures were 2.3% higher y/y at PLN74.4bn. Their budget balance at the end of 3Q was +PLN23.4bn. We think the local governments will end the year with a surplus of c.PLN10bn. Investment outlays were PLN11.1bn, down 1.4% y/y in nominal terms – we expected a 2-percent rise here. This strengthens our view that the high investment growth in 3Q in total economy (13.4% y/y nominally, 9.3% y/y in real terms) was caused by high increase in the private sector. We see local governments' investment activity as limited in the coming quarters.

ECOFIN agreed a change in the use of zero VAT rates, i.a. to necessity goods. The formal approval should come in 1H22. Polish government wants to cut VAT on food to zero for 6M when there is such possibility.

Deputy EC head Valdis Dombrovskis said it is unlikely that recovery plans of Poland and Hungary get approved still this year, which means the countries will most likely lose the possibility to tap the unconditional tranche of recovery funds (i.e. not requiring any rule of law related changes).

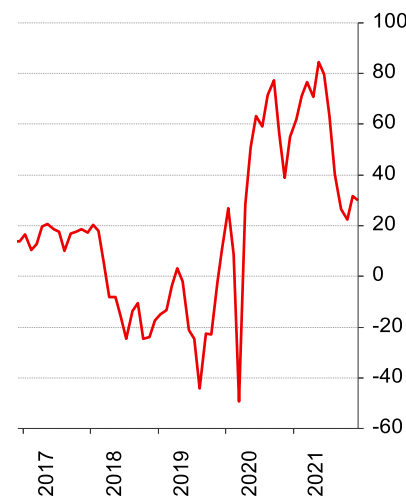
EURUSD went deeper in a more decisive manner and for a part of the day stayed below 1.123, albeit it returned to 1.127 at close. This morning the FX pair is near 1.129.

EURPLN managed to drop on Tuesday to almost 4.58. The circumstances were against such move: appreciation of the dollar, market expectations of today's rate decision going down, news on fading chance of recovery funds prepayment. Today MPC decides on rates – we described the potential market impact in the previous Eyeopener. Mind that the NBP governor's speech on Thursday at 1500CET will also be important and might potentially reverse the market response to the MPC decision or extend it. In our view, the government's anti-inflation shield and new Covid strain will not prevent a significant, possibly 75bp hike today, but will make the Council signal that it wants to wait until the next NBP projection with further moves.

Other CEE currencies: EURCZK approaching 25.45 moved towards the upper end of the range from the recent days. EURHUF increased 0.5% to 367.5. Forint's depreciation took place despite the press interview of central bank deputy governor Barnabas Virag, who heralded more interest rate hikes, including the bigger increase of the weekly deposit rate than the main interest rate set at the regular meetings. Oil price increase kept USDRUB near 74.0.

On the Polish **interest rate market** yields declined by 5-10bp, with the biggest move in 2Y-4Y segment. IRS curve decreased by 8-10bp for rates above 3Y and by 4bp at the short end. FRA rates decreased by 6bp one day before the MPC meeting, with the highest one 6x9 being now slightly more than 1pp above the current WIBOR 3M. The Ministry of Finance at the bond switching auction on Thursday will offer bonds OK0724, PS1026, WZ1126, WZ1131, DS0432, and buy back PS0422, OK0722, WS0922, WZ1122.

German ZEW Economic Sentiment index



Source: Refinitiv Datastream, Santander Bank Polska
 Source: Refinitiv Eikon, Santander

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FX market

Today's opening			
EURPLN	4.5821	CZKPLN	0.1796
USDPLN	4.0575	HUFPLN*	1.2418
EURUSD	1.1292	RUBPLN	0.0550
CHFPLN	4.3939	NOKPLN	0.4501
GBPPLN	5.3728	DKKPLN	0.6158
USDCNY	6.3555	SEKPLN	0.4464

*for 100HUF

Last session in the FX market						07/12/2021
	min	max	open	close	fixing	
EURPLN	4.579	4.603	4.593	4.581	4.599	
USDPLN	4.062	4.092	4.068	4.073	4.079	
EURUSD	1.123	1.130	1.129	1.125	-	

Interest rate market 07/12/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	2.86	-8
DS0726 (5Y)	3.25	-6
DS0432 (10Y)	3.20	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	3.01	-5	0.45	3	-0.50	0
2L	3.14	-4	0.90	5	-0.35	1
3L	3.12	-3	1.18	6	-0.24	2
4L	3.07	-6	1.29	5	-0.17	2
5L	3.01	-10	1.36	5	-0.13	1
8L	2.91	-11	1.51	5	0.01	0
10L	2.89	-11	1.56	5	0.10	0

WIBOR rates

Term	%	Change (bps)
O/N	0.98	0
T/N	1.37	-1
SW	1.73	7
2W	1.81	6
1M	1.95	2
3M	2.26	2
6M	2.55	2
1Y	2.75	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	2.79	0
3x6	3.08	-4
6x9	3.31	-7
9x12	3.26	-8
3x9	3.29	-5
6x12	3.44	-5

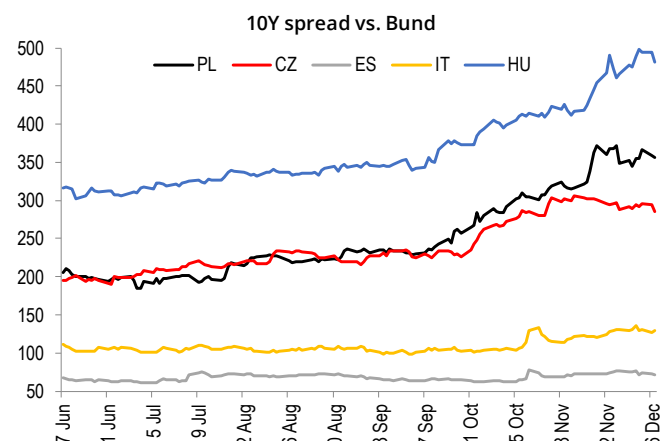
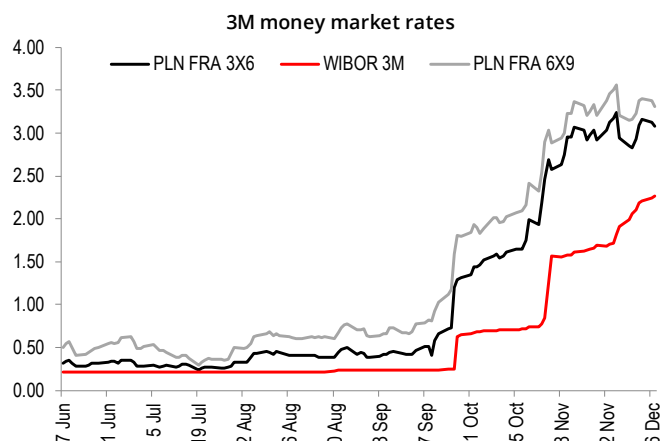
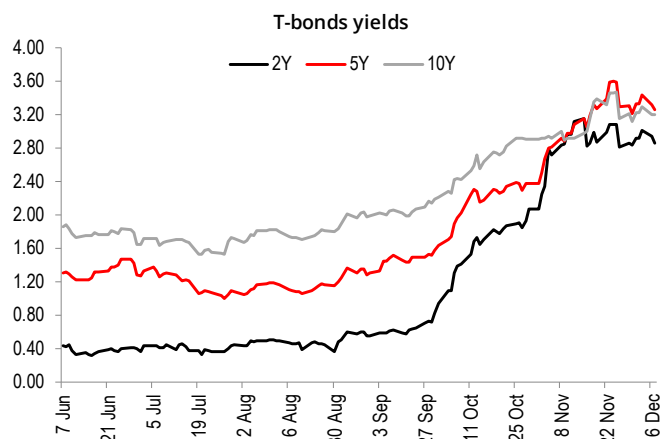
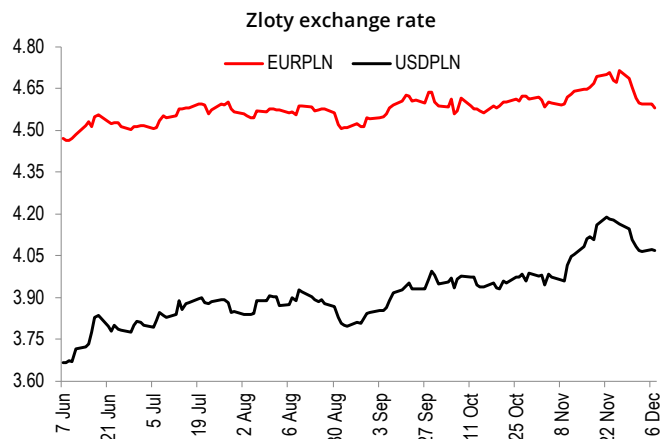
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	54	2	357	-1
France	9	0	35	-1
Hungary	55	0	481	-13
Spain	35	0	71	-2
Italy	48	0	129	2
Portugal	23	0	64	-1
Ireland	11	0	45	-1
Germany	7	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 (3 December)								
02:45	CN	Caixin China PMI Services	Nov	pts	53.0		52.1	53.8
09:55	DE	Markit Germany Services PMI	Nov	pts	53.4		52.7	52.4
10:00	EZ	Eurozone Services PMI	Nov	pts	56.6		55.9	54.6
11:00	EZ	Retail Sales	Oct	% m/m	0.3		0.2	-0.4
14:30	US	Change in Nonfarm Payrolls	Nov	k	545.5		210	546.0
14:30	US	Unemployment Rate	Nov	%	4.5		4.2	4.6
16:00	US	Durable Goods Orders	Oct	% m/m	-0.5		-0.4	-0.5
16:00	US	ISM services	Nov	pts	65.0		69.1	66.7
16:00	US	Factory Orders	Oct	% m/m	0.5		1.0	0.2
MONDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	-0.3		-6.9	1.3
TUESDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	1.0		2.8	-0.5
09:00	CZ	Industrial Production	Oct	% y/y	-6.8		-7.4	-4.0
09:00	HU	Industrial Production SA	Oct	% y/y	-2.0		-2.7	-1.7
11:00	EZ	GDP SA	3Q	% y/y	3.7		3.9	3.7
11:00	DE	ZEW Survey Current Situation	Dec	pts	5.0		-7.4	12.5
WEDNESDAY (8 December)								
	PL	MPC decision		%	1.75	2.00	-	1.25
09:00	HU	CPI	Nov	% y/y	7.3		7.4	6.5
THURSDAY (9 December)								
08:00	DE	Exports SA	Oct	% m/m			-	-0.7
14:30	US	Initial Jobless Claims		k			-	222.0
FRIDAY (10 December)								
08:00	DE	HICP	Nov	% m/m			-	0.3
09:00	CZ	CPI	Nov	% y/y	5.9		-	5.8
14:30	US	CPI	Nov	% m/m	0.7		-	0.9
16:00	US	Michigan index	Dec	pts	68.0		-	67.4

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

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