

24 October 2022

# Eyeopener

## Construction on a brake

Today M3 money supply in Poland, flash PMIs for main economies  
Weak construction output, retail sales close to expectations in September  
Fiscal balance at -1.5% of GDP after 2Q22, government predicts -4.7% for 2022  
Bonds rebounded on Friday afternoon after massive selloff

**Today's** data releases include: September's M3 money supply in Poland, preliminary October PMI indices in Germany and the euro area. Over the weekend, as expected, Xi Jinping was elected for a third term as general secretary of China's Communist Party. This morning, China released a set of data postponed from the previous week: 3Q GDP growth was 3.9% y/y vs. forecast of 3.3%; September retail sales rose 2.5% y/y (3.0% expected), industrial production 6.3% y/y (consensus 4.8%).

**Retail sales** rose by 4.1% y/y in September vs. 4.2% y/y in August, coming between our 3.5% forecast and the market consensus of 4.5%. The result was strongly dragged down by fuels. We expect a gradual slowdown in retail sales in the coming months, given diminishing purchasing power of households. **Construction output** rose by just 0.3% y/y in September, down from 6.1% y/y in August, against market consensus and our forecast that there could be a slight acceleration. Output next year could be marked by significant declines. A broad deterioration in expectations was seen in October **sectoral business sentiment** indicators. We wrote more on these numbers in our [Economic comment](#).

The **central budget** recorded a surplus of PLN27.5bn after nine months this year, just PLN70m lower than after August. In September alone, revenues were by 4.9% lower than a year earlier and expenditure 6.5% higher. VAT receipts rose by around 2.8% y/y, compared to -4.4% in August. CIT revenues rose by 22.6% y/y and PIT 6.6% y/y. On the expenditure side, the Social Security Fund subsidy was noticeably lower than in previous months (-55% against August) and than a year ago (-52.7% y/y). The following months are likely to see a strong deterioration in the budget balance. We assume that the year will close with a deficit above PLN20bn. It is worth bearing in mind, however, that the central deficit result has little to do with the actual **deficit of the entire general government sector** - the latter amounted to PLN5.7bn in 2Q22 and 1.5% of GDP calculated as 4Q sum vs GDP (similar to Q1). General government revenues increased by 13.6% y/y in 2Q and expenditures by 13.4% y/y, including interest on debt by 38.5% y/y. The October [fiscal notification](#) shows that the government expects the deficit to widen to 4.7% of GDP (PLN141bn) by the end of this year. However, the notification is not a good indication of the deficit, e.g. last year it suggested a PLN133bn gap, while the actual deficit was PLN 48bn. In our view, the deficit in 2022 will be much smaller than shown in the notification and may not exceed 3% of GDP. The public finance deficit for 2021 was revised to 1.8% from 1.9% of GDP. Prime Minister Morawiecki said on Friday that the deficit in 2022 will be smaller than the markets forecast and that the government will pursue a responsible macroeconomic policy and will do all it takes to reduce the current account deficit.

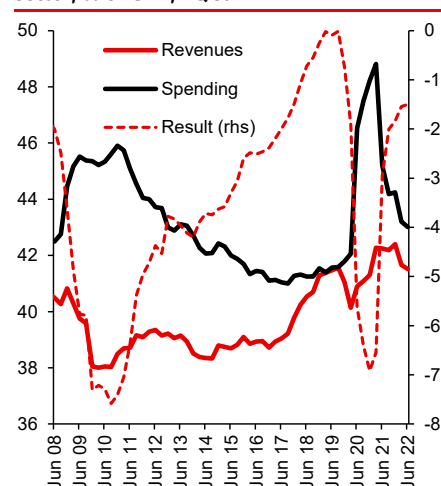
**EURUSD** rose above the 0.98 level. During the Friday's session, the rate attempted to go down near 0.97, but rebounded at the end of the day after the publication of a WSJ article suggesting that after a 75bp hike in November, the Fed will begin debating whether to slow the pace of rate hikes from December to 50bp. This resulted in lowering expectations of the US rate target, with the market retreating from levels near 5%. The dollar was also hurt by the Bank of Japan's intervention to defend the yen.

**EURPLN** oscillated between 4.76 and 4.79, finally ending the day near 4.77. Support for the zloty was provided by rising expectations for an increase in NBP rates in the FRA market and a weakening dollar.

**Other CEE currencies:** EURCZK slipped from near 24.50 to around 24.49. EURHUF rose above 415 from near 406, but the exchange rate ended Friday near 409 thanks to dollar weakness.

**Debt market:** Domestic yield curve across the board rose about 7 bps on average. During the day, yields rose several times but by the end of the day the market had given back much of the earlier weakness. The domestic 10-year yield, which had been attacking the 9.12% level, eventually ended the day below 8.80%. It should be noted, however, that including Friday's correction, last week saw it rise by about 100 bps. Expectations in the FRA market also rose markedly, which shows that the market has stopped believing in the possibility of an imminent end to the NBP rate hike cycle despite the continued dovish rhetoric of most MPC members. The main markets also saw yields limit their gains by the end of Friday due to signals from the U.S. market that the Fed may slow the pace of further monetary tightening starting in December.

Revenues, spending and result of the GG sector, % of GDP, 4Q sum



Source: GUS, Eurostat, Santander

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## FX market

### Today's opening

EURPLN	4.7748	CZKPLN	0.1945
USDPLN	4.8544	HUFPLN*	1.1442
EURUSD	0.9837	RUBPLN	0.0798
CHFPLN	4.8459	NOKPLN	0.4603
GBPPLN	5.4618	DKKPLN	0.6412
USDCNY	7.2552	SEKPLN	0.4315

\*for 100HUF

### Last session in the FX market

21/10/2022

	min	max	open	close	fixing
EURPLN	4.7606	4.7878	4.7648	4.7692	4.7804
USDPLN	4.8376	4.9325	4.8777	4.8397	4.9
EURUSD	0.9703	0.9856	0.9770	0.9852	-

## Interest rate market

21/10/2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	9.00	2
DS0727 (5Y)	8.97	6
DS0432 (10Y)	8.76	13

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	8.31	5.01	2.62
2L	8.33	4.85	2.99
3L	8.12	4.62	3.04
4L	7.95	4.45	3.08
5L	7.89	4.35	3.12
8L	7.80	4.23	3.21
10L	7.78	4.21	3.26

## WIBOR rates

Term	%	Change (bps)
O/N	6.51	-1
T/N	6.73	0
SW	6.90	0
2W	6.94	0
1M	7.06	0
3M	7.43	3
6M	7.62	5
1Y	7.73	7

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

Term	%	Change (bps)
1x4	7.68	-4
3x6	8.16	9
6x9	8.30	9
9x12	8.32	14
3x9	8.35	9
6x12	8.51	13

## Measures of fiscal risk

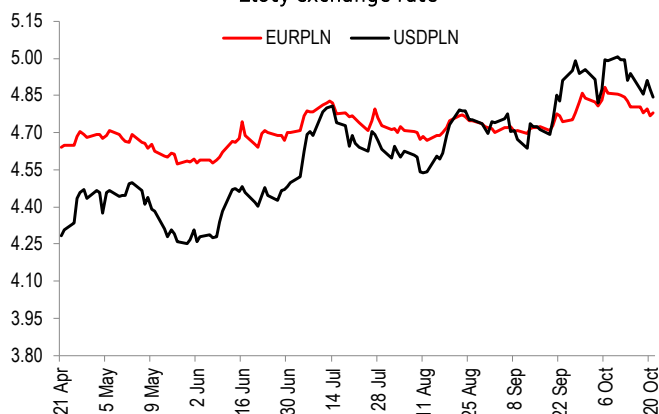
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	155	632
France	20	55
Hungary	260	830
Spain	65	112
Italy	75	233
Portugal	50	105
Ireland	25	47
Germany	23	-

\* 10Y treasury bonds over 10Y Bunds

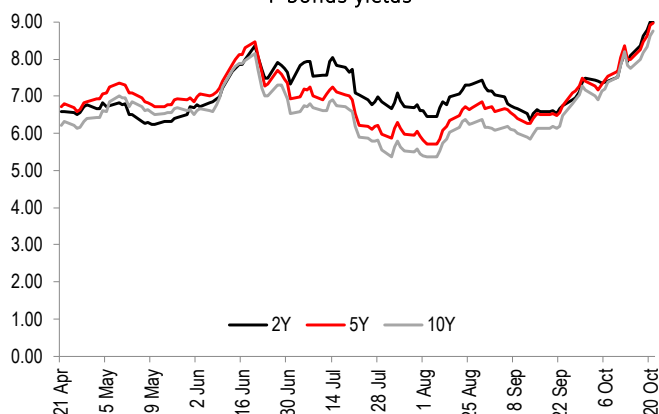
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

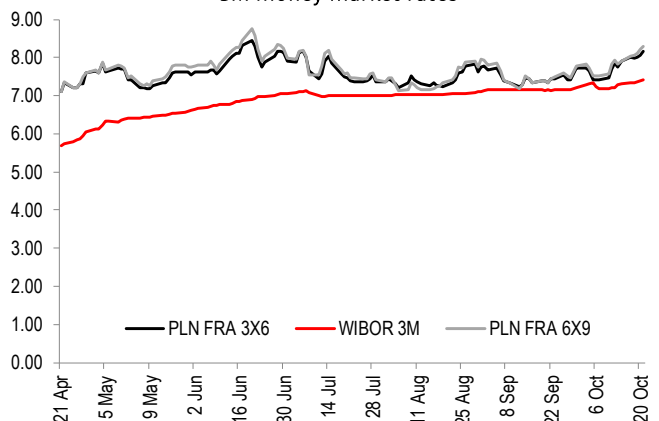
## Zloty exchange rate



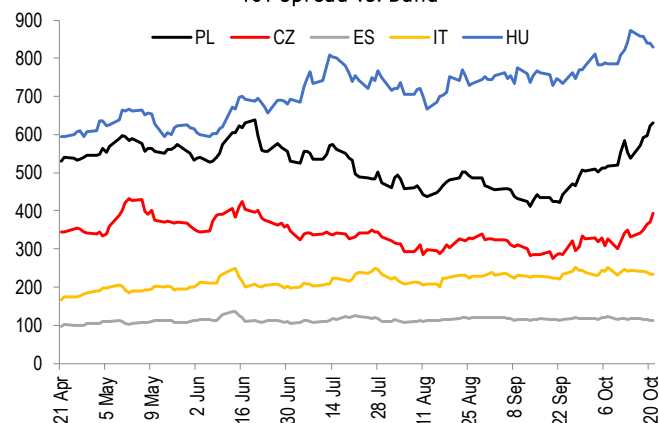
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (21 October)								
10:00	PL	Construction output	IX	% r/r	6.5	9.2	0.3	6.1
10:00	PL	Retail sales	IX	% r/r	4.5	3.5	4.1	4.2
MONDAY (24 October)								
09:30	DE	PMI manufacturing	X	pkt	47.1			47.8
09:30	DE	PMI services	X	pkt	45.1			45.0
10:00	EZ	PMI manufacturing	X	pkt	48.0			48.4
10:00	EZ	PMI services	X	pkt	48.5			48.8
14:00	PL	M3 money supply	IX	% r/r	7.6	7.7		7.4
TUESDAY (25 October)								
10:00	DE	Ifo	X	pkt	83.8			84.3
10:00	PL	Unemployment rate	IX	%	4.8	4.8		4.8
14:00	HU	Central bank decision		%	13.0			13.0
16:00	US	Conference Board	X	pkt	105.0			108.0
WEDNESDAY (26 October)								
16:00	US	New home sales	IX	% m/m	-12.4			28.8
THURSDAY (27 October)								
14:15	EZ	ECB decision		%	2.0			1.3
14:30	US	Durable goods orders	IX	% m/m	0.6			-0.2
14:30	US	GDP	III kw.	% k/k	2.1			-0.6
FRIDAY (28 October)								
10:00	DE	GDP WDA	III kw.	% r/r	0.8			1.7
11:00	EZ	ESI	X	pkt	0.0			93.7
14:00	DE	HICP inflation	X	% m/m	0.4			2.2
14:30	US	Personal spending	IX	% m/m	0.3			0.4
14:30	US	Personal incomes	IX	% m/m	0.3			0.3
14:30	US	PCE price index	IX	% m/m	0.3			0.3
16:00	US	Michigan	X	pkt	59.5			59.8
16:00	US	Pending home sales	IX	% m/m	-5.0			-2.0
	PL	Moody's rating review						

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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