

## Eyeopener

### Powell did not sound softer at all

Poland's quarterly GDP data revision today, Czech central bank decision  
FOMC raised rates by 75 bps but announced slower pace of further rate hikes  
Polish industrial PMI below forecasts, German clearly below preliminary estimates  
EURPLN back above 4.70 after Fed, domestic yields rise behind base markets

**Today**, revised quarterly GDP data from 2010, including revised readings for Q1 and Q2 of this year are to be released. We know from the already published recalculation of annual data that shifts in the path of economic growth are large, by 0.9 percentage points for the whole year in 2021 alone, so quarterly readings will probably deviate even more from the old values. The revision could significantly affect the projected GDP path for the next quarters (for now, it's impossible to say which way). Perhaps the worrisome Q2 GDP growth slump, which was the most severe in the EU, will be mitigated.

**Polish manufacturing PMI** fell in October to 42.0 pts from 43.0 pts, close to our 42.1 pts call and below the market consensus (42.7). The decline did not go as far as the August low of 40.9 pts, but the current levels are already signalling a significant slowdown which is likely to send y/y GDP growth below zero in 1Q23. The PMI report mentions historically low sub-indexes of output and new orders (worsening demand from Germany was explicitly mentioned), leading to reduced purchasing activity. Downbeat expectations and further layoffs (employment index the lowest since May 2020) suggest that Polish companies doubt in a quick rebound from the economic downturn. According to the PMI report, cost inflation intensified (with energy, exchange rate and input shortages mentioned as its driving forces) but this time the output price index eased to the lowest level since the start of 2021, which suggests that the softer demand is already preventing a full pass-through of higher costs to clients.

**MPC's Ludwik Kotecki**, referring to reports on the possible cancellation of the anti-inflation shield at the end of this year, said that this would lead to an uptick in peak inflation in February 2023 to 24%. This is in line with our estimates that without the shield, the extension of which to 2023 has been widely written into economists' forecasts and, according to the NBP president, has been used as an assumption in the calculation of the new inflation projection, next year's CPI path should be raised by about 4pp (from the words of the PFR head, it appears that perhaps the reduced VAT on food will be maintained, which would reduce the CPI hike effect to 2.5-3pp). Kotecki also said that under the circumstances, the possibility, mentioned in recent days by NBP Vice President Marta Kightley, of bringing inflation below 10% y/y by the end of 2023 (allegedly highlighted in the new projection) should be considered as wishful thinking.

**Prime Minister Mateusz Morawiecki** said yesterday about efforts to reduce borrowing needs due to debt market turbulence. He said that some PLN10-15bn of savings have already been identified in the budget to show willingness to tighten fiscal policy. He also said that funding talks are underway with central banks and sovereign wealth funds.

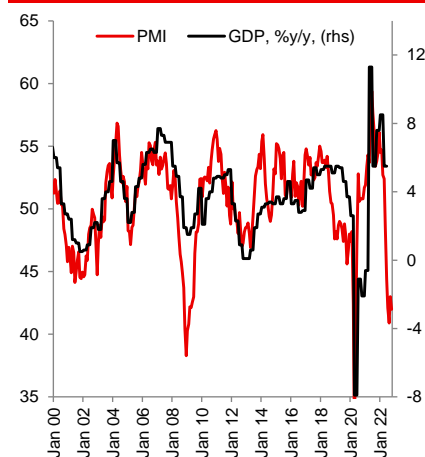
**FOMC raised rates by 75 bps** to a range of 3.75 - 4% but announced a slower pace of further rate hikes. However, this does not mean less restrictive monetary policy in the US, because as Jerome Powell pointed out, the terminal rate level the Fed will reach may be higher than the central bank's earlier projections. Because of the stubbornness of inflation, interest rates will rise more and remain at elevated levels for longer, which according to Powell means that it will be harder to avoid a recession. According to the Fed, however, even potentially too many rate hikes pose less risk to the economy than if the cycle were to end prematurely allowing inflation expectations to anchor.

**Moody's** commented on unchanged Poland's rating. The score is still appropriate despite the heightened geopolitical risk and its macroeconomic and market consequences and Moody's revision of Poland's GDP growth forecast to -0.2% in 2023. Room for rating upgrade would be provided by Poland's coming to terms with the EU and the potential swift return of the economy to good form in the coming years. Conversely, an escalation of the dispute with the EU (a prolonged funding freeze) and the economy's persistent inability to return to pre-pandemic growth rates would work against the rating. Moody's included a warning that in the event of an extension of armed conflict to Poland or a severe large-scale cyber-attack, there could be a multi-notch downgrade at once. A similar note on cyber-attacks (in general and not specifically against Poland) was also recently issued by Fitch.

**EURUSD** from around 0.99 went down to around 0.98 after the Fed ruled out the possibility of a faster end to the US rate hike cycle. **EURPLN** after attempts to cross the 4.69 level, eventually returned sharply above 4.70 again. **EURHUF** from around 404, returned to around 408. **EURCZK** from around 24.45, rose to around 24.52. CEE currencies began to weaken after a more hawkish-than-expected speech by the Fed chairman.

**Debt market:** Domestic yield curve rose in line with yields in the underlying markets.

#### Manufacturing PMI and Polish economic growth



Source: S&P Global, Santander

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**FX market**

Today's opening			
EURPLN	4,7067	CZKPLN	0,1921
USDPLN	4,8106	HUFPLN*	1,1527
EURUSD	0,9781	RUBPLN	0,0774
CHFPLN	4,7795	NOKPLN	0,4585
GBPPLN	5,4611	DKKPLN	0,6331
USDCNY	7,3108	SEKPLN	0,4309

\*for 100HUF

Last session in the FX market						02.11.2022
	min	max	open	close	fixing	
EURPLN	4,6960	4,7108	4,6966	4,6998	4,7039	
USDPLN	4,7412	4,7679	4,7519	4,7624	4,7485	
EURUSD	0,9857	0,9914	0,9886	0,9866	-	

**Interest rate market** 02.11.2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8,62	-3
DS0727 (5Y)	8,60	-1
DS0432 (10Y)	8,36	-4

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8,09	-15	5,17	4	2,62	0
2L	8,09	-14	5,01	9	2,91	2
3L	7,80	-10	4,72	7	2,93	2
4L	7,58	-8	4,52	7	2,90	-1
5L	7,48	-7	4,39	6	2,94	2
8L	7,35	-6	4,19	6	2,98	0
10L	7,34	-5	4,15	7	3,06	3

**WIBOR rates**

Term	%	Change (bps)
O/N	6,92	17
T/N	6,90	1
SW	6,97	2
2W	7,04	3
1M	7,14	-1
3M	7,53	2
6M	7,74	2
1Y	7,84	2

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

Term	%	Change (bps)
1x4	7,67	-3
3x6	7,88	-11
6x9	8,11	-15
9x12	8,09	-15
3x9	8,07	-10
6x12	8,27	-15

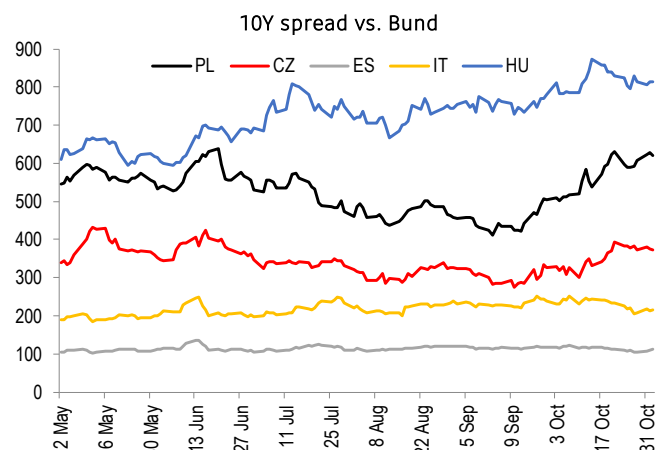
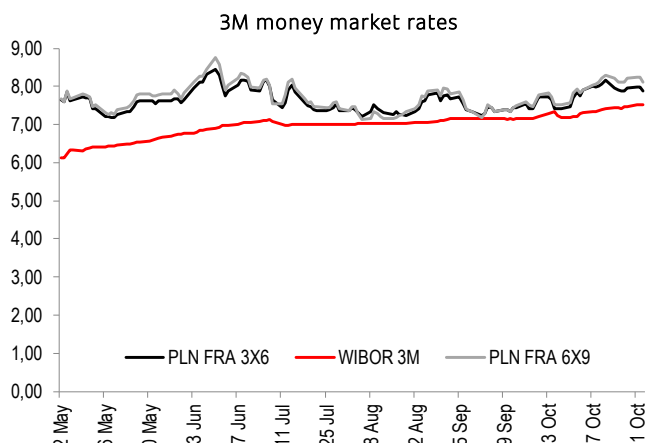
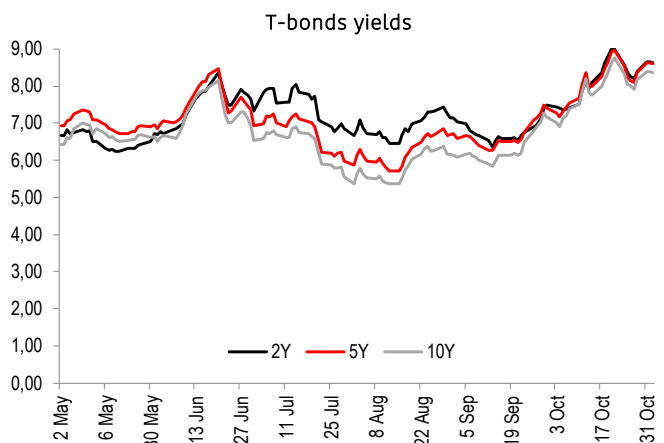
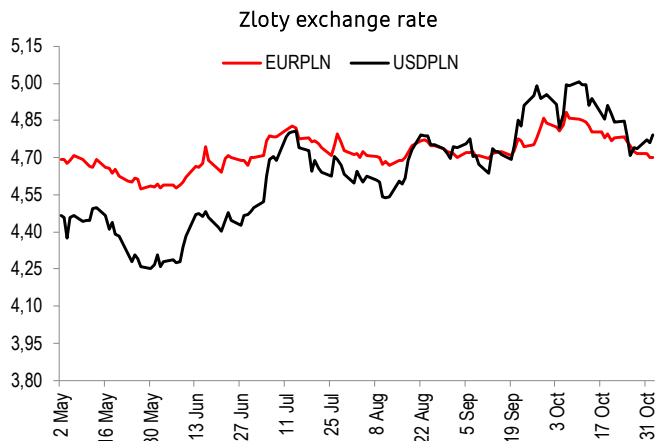
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	0	622	-6
France	20	0	54	0
Hungary	253	0	814	0
Spain	62	0	111	2
Italy	63	0	216	3
Portugal	46	0	102	1
Ireland	24	0	51	0
Germany	20	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 (28 October)</b>							
10:00	DE	GDP WDA	3Q	% y/y	0.7	1.1	1.7
11:00	EZ	ESI	Oct	pct.	92.4	92.5	93.7
14:00	DE	HICP	Oct	% m/m	0.5	1.1	2.2
14:30	US	Personal Spending	Sep	% m/m	0.4	0.6	0.6
14:30	US	Personal Income	Sep	% m/m	0.4	0.4	0.4
14:30	US	PCE Deflator SA	Sep	% m/m	0.3	0.3	0.3
16:00	US	Michigan index	Oct	pts	59.6	59.9	59.8
16:00	US	Pending Home Sales	Sep	% m/m	-4.0	-10.2	-1.9
<b>MONDAY (31 October)</b>							
08:00	DE	Retail Sales	Sep	% m/m	-0.6	0.9	-1.4
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Oct</b>	<b>% y/y</b>	<b>17.8</b>	<b>18.3</b>	<b>17.9</b>
11:00	EZ	Flash HICP	Oct	% y/y	10.3	10.7	10.0
11:00	EZ	GDP SA	3Q	% y/y	2.1	2.1	4.1
<b>TUESDAY (1 November)</b>							
	<b>PL</b>	<b>National holiday</b>					
09:00	CZ	GDP SA	3Q	% y/y	1.6	1.6	3.7
15:00	US	ISM manufacturing	Oct	pts	50.0	50.2	50.9
<b>WEDNESDAY (2 November)</b>							
08:00	DE	Exports SA	Sep	% m/m	0.6	-0.5	2.9
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Oct</b>	<b>pts</b>	<b>42.7</b>	<b>42.1</b>	<b>42.0</b>
09:55	DE	Germany Manufacturing PMI	Oct	pts	45.7	45.1	47.8
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	46.6	46.4	48.4
13:15	US	ADP report	Oct	k	185	239	192
19:00	US	FOMC decision	Nov.22		4.00	-	3.25
<b>THURSDAY (3 November)</b>							
02:45	CN	Caixin China PMI Services	Oct	pts	49.2	48.4	49.3
<b>10:00</b>	<b>PL</b>	<b>Quarterly GDP data review</b>					
11:00	EZ	Unemployment Rate	Sep	%	6.6	-	6.6
14:30	CZ	Central Bank Rate Decision	Nov.22		7.0	-	7.0
15:00	US	Durable Goods Orders	Sep	% m/m	0.6	-	0.4
15:00	US	ISM services	Oct	pts	55.5	-	56.7
15:00	US	Factory Orders	Sep	% m/m	0.4	-	0.0
<b>FRIDAY (4 November)</b>							
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	-2.4
09:55	DE	Markit Germany Services PMI	Oct	pts	44.9	-	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	48.2	-	48.8
13:30	US	Change in Nonfarm Payrolls	Oct	k	200.0	-	263.0
13:30	US	Unemployment Rate	Oct	%	3.6	-	3.5

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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