

7 November 2022

## Eyeopener

### Another change in fiscal expenditure rule?

Today, no major data in Poland, industrial output in Germany and Czechia  
US employment exceeded forecast, but so did the unemployment rate  
Polish bond yields lower, zloty stronger vs dollar and euro

**Today**, we will learn about Czech industrial production in September, the growth of which is likely to have slowed compared to August, and which may affect the EURCZK. German manufacturing output data published this morning showed growth in September of 0.6% m/m, above expectations.

**US non-farm payrolls rose by 216k in October** against a consensus of 195k and 315k in September. Unemployment rate rose from 3.5% to 3.7% against expectations at 3.6% with a minimal drop in the participation rate from 62.3% to 62.2%. The participation rate remains at levels below those prior to the outbreak of the COVID-19 pandemic, a factor that makes it difficult to reduce wage pressures while labour demand remains high. Nevertheless, some signs of waning wage pressure have already been noticeable. Average wage growth in October slowed from 5% y/y to 4.7% y/y. However, the data still point, in our view, to the need for further tightening of monetary conditions in the USA to reduce inflationary pressures.

**The government wants to exclude funds earmarked for gas and energy price cuts from the Stabilising Spending Rule, as well as to exclude BGK and PFR bonds and repo transactions from the bank tax base**, according to information published in the legislative plans on Friday. According to the draft, in 2022 the spending limit would exclude expenditure on: the support of entities affected by the energy crisis, energy security, support of benefit recipients, in particular pensioners, due to inflation increase, and financing the armed forces. The amount of these expenses is, according to the draft, currently impossible to determine. It is worth recalling that the bill on freezing energy price for households, already signed into law by the president, excludes from the limit of the spending rule in 2022 and 2023 the expenditure of state special purpose funds, funds managed by BGK and the environment protection fund. The appearance of the new proposal indicates, in our view, that the Ministry of Finance is preparing the ground for a marked increase in the public finance deficit still this year, which could be a way to lessen the fiscal burden in a potentially difficult 2023. After two quarters of this year, the general government balance was only -1.5% of GDP, but the second half of the year is likely to see an increase in the deficit, mainly outside the central budget. By exempting bonds guaranteed by the Treasury (BGK, PFR) and assets resulting from repo transactions from the bank levy, the government may make the financing of the deficit easier and cheaper.

**The government plans to submit a request for disbursement of recovery fund money in November**, said government spokesman Piotr Mueller. One should not get too excited about deadlines presented by the government, in our view, as all previous declarations in this regard (July, September, October) failed to materialise. Nevertheless, press reports in recent week indicated that a compromise with the EC on the rule of law is being considered in the ruling party to unblock the recovery fund and cohesion funds.

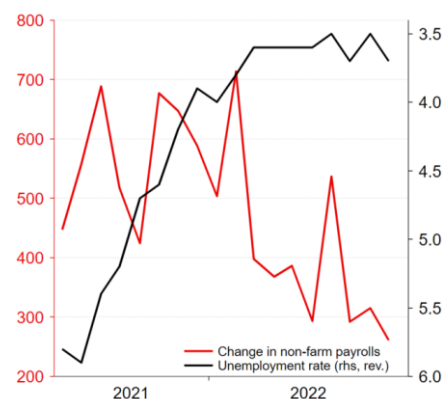
**EURUSD** rose around two figures to 0.995 from around 0.975. The strong rise in the rate was a reaction to the US labour market report. Although new job growth rose above expectations, the market pointed to a decline in y/y wage growth, which was interpreted as a signal of gradual fading of wage pressures in the US and a rationale supporting a slower pace of Fed monetary tightening.

**EURPLN** fell from around 4.69 to around 4.68. The zloty was helped by the weakening of the dollar on global markets. This week, in addition to changes in global sentiment, the MPC decision on Wednesday and its justification by the NBP president on Thursday will be important for the exchange rate.

**Other CEE currencies:** EURHUF fell from around 404 to around 401. In addition to the weakening dollar, the forint was helped by solid Q3 results from state-owned energy company MOL, which supported gains on the Budapest stock exchange. EURCZK fell to around 24.39 from around 24.45, with CNB Vice Chair Eva Zamrazilova saying that the central bank cannot ignore the risks posed by budget deficits.

**Debt market:** Domestic yield curve fell by about 18 bps on average. The declines followed statements by NBP Deputy Governor Marta Kightley, who expressed the view that the strong economic slowdown forecast for 2023 may be enough to bring domestic inflation down at current interest rate levels, which could be read as signalling that the central bank does not intend to raise interest rates any more. German yields continued to rise, while US yields gave back some of their gains late Friday after labour market data showed some signs of weakening wage pressures in the US.

#### US labour market statistics



Source: Refinitiv Datastream, Santander

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### FX market

#### Today's opening

EURPLN	4.6866	CZKPLN	0.1916
USDPLN	4.7176	HUFPLN*	1.1542
EURUSD	0.9933	RUBPLN	0.0766
CHFPLN	4.7344	NOKPLN	0.4585
GBPPLN	5.3447	DKKPLN	0.6291
USDCNY	7.2381	SEKPLN	0.4306

\*for 100HUF

#### Last session in the FX market 04/11/2022

	min	max	open	close	fixing
EURPLN	4.6747	4.6958	4.6867	4.6821	4.6898
USDPLN	4.7133	4.8071	4.7950	4.7226	4.7975
EURUSD	0.9754	0.9940	0.9775	0.9913	-

### Interest rate market 04/11/2022

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8.26	-22
DS0727 (5Y)	8.44	-18
DS0432 (10Y)	8.22	-14

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.17	-2	5.21	-3	2.70	-2
2L	8.15	-3	5.03	-6	3.06	5
3L	7.89	-2	4.74	-4	3.07	4
4L	7.67	-1	4.54	-4	3.07	3
5L	7.56	-3	4.41	-4	3.07	3
8L	7.42	-5	4.22	-1	3.11	3
10L	7.40	-5	4.19	0	3.15	3

#### WIBOR rates

Term	%	Change (bps)
O/N	6.92	0
T/N	6.92	1
SW	7.02	3
2W	7.04	1
1M	7.16	1
3M	7.59	3
6M	7.80	2
1Y	7.88	2

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

Term	%	Change (bps)
1x4	7.63	-6
3x6	7.90	-3
6x9	8.10	-6
9x12	8.07	-5
3x9	8.09	-1
6x12	8.26	-5

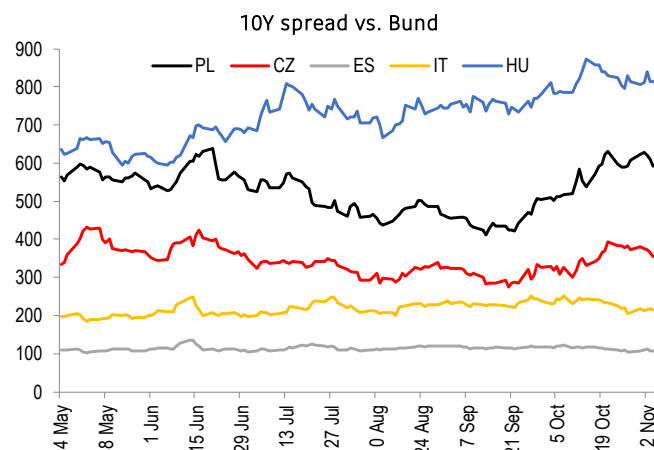
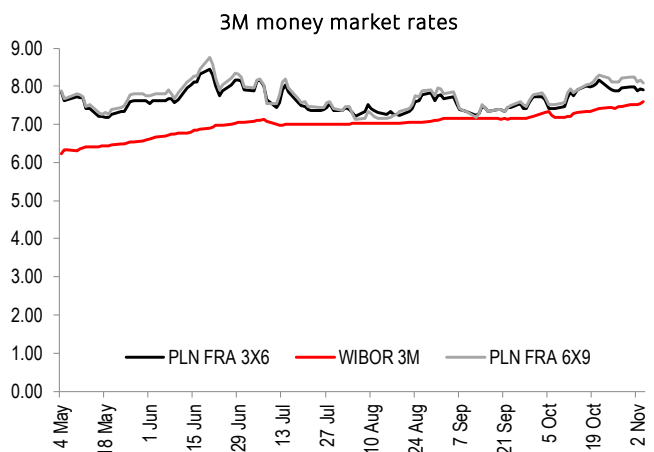
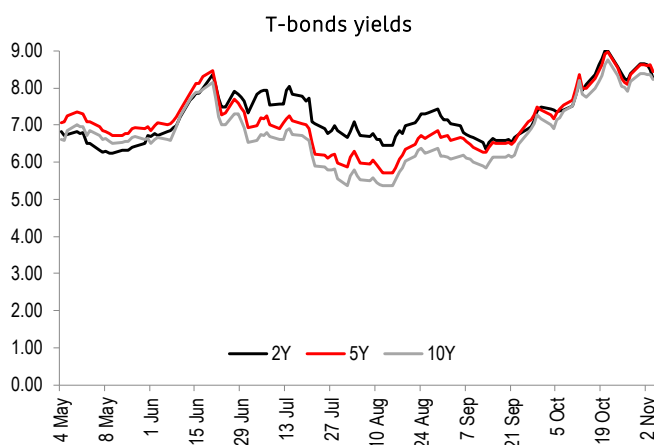
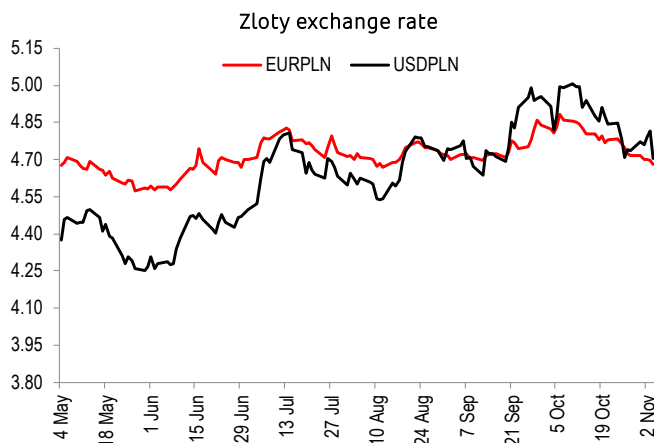
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	0	593	-19
France	20	0	54	-1
Hungary	253	0	814	0
Spain	62	0	106	-2
Italy	63	0	217	-1
Portugal	47	0	100	0
Ireland	24	0	52	1
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		
FRIDAY (4 November)								
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	-4.0	-2.0
09:55	DE	Markit Germany Services PMI	Oct	pts	44.9	-	46.5	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	48.2	-	48.6	48.8
13:30	US	Change in Nonfarm Payrolls	Oct	k	195.0	-	261.0	315.0
13:30	US	Unemployment Rate	Oct	%	3.6	-	3.7	3.5
MONDAY (7 November)								
08:00	DE	Industrial Production SA	Sep	% m/m	0.2	-	0.6	-0.8
09:00	CZ	Industrial Production	Sep	% y/y	7.2	-	-	10.3
TUESDAY (8 November)								
09:00	HU	Industrial Production SA	Sep	% y/y	8.5	-	-	9.3
11:00	EZ	Retail Sales	Sep	% m/m	0.4	-	-	-0.3
WEDNESDAY (9 November)								
	PL	<b>MPC decision</b>	<b>Nov</b>	<b>%</b>	<b>7.00</b>	<b>6.75</b>	-	<b>6.75</b>
09:00	HU	CPI	Oct	% y/y	21.0	-	-	20.1
THURSDAY (10 November)								
09:00	CZ	CPI	Oct	% y/y	18.0	-	-	18.0
13:30	US	Initial Jobless Claims		k	220.0	-	-	217.0
<b>14:00</b>	<b>PL</b>	<b>MPC minutes</b>	<b>Oct</b>					
14:30	US	CPI	Oct	% m/m	0.7	-	-	0.4
FRIDAY (11 November)								
08:00	DE	HICP	Oct	% m/m	1.1	-	-	2.2
16:00	US	Michigan index	Nov	pts	59.6	-	-	59.9

Source: Santander Bank Polska. Bloomberg. Parkiet

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

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