

9 November 2022

Eyeopener

MPC makes interest rate decision today

Today, MPC decision in Poland, inflation data in Hungary
 Polish bond yields declined in anticipation of MPC decision, zloty stable
 Finance Ministry sold dollar bonds worth USD3bn

Today, the MPC's decision on interest rates. We expect rates to be kept on hold again, despite the lack of signs that inflationary pressures in the country are abating. The MPC's justification for such a decision, in our view, will be the new NBP projection assuming a significant economic slowdown in 2023, which is expected to allow inflation to decline without the need to raise interest rates further. Investors are also awaiting the results of the US mid-term elections. Preliminary results coming in so far indicate that predictions of a "Republican wave" may not materialise.

ECB vice-president Luis de Guindos and Bundesbank chief Joahim Nagel said that the central bank would raise rates even if it negatively affected the eurozone economy, as leaving inflation at high levels would be more damaging.

Capital inflows to emerging markets in October totalled \$9.2 billion, the Institute of International Finance (IIF) reported. Debt markets received \$1.7 billion in inflows.

According to the Ministry of Family and Social Policy, the **unemployment rate remained at 5.1%** in October, in line with market expectations. The number of unemployed changed by -4.2 thousand, which is the highest figure for this particular month of the year since 2012. Yet, it is a relatively small adjustment to the labor market in view of the scale of the deterioration in business sentiment. We can see, however, that demand for labor is falling - the number of job openings fell 28.7% y/y in October, compared to -19.9% y/y in September. The unemployment rate, in our opinion, will not go any lower from the current level, and it will head towards 6% next year.

Government has passed the bill we wrote about on Monday: assuming the exclusion of BGK and PFR bonds and repo transactions from the bank tax, and excluding in 2022 from the spending rule the expenditures related to the global energy crisis, the war in Ukraine - particularly those related to the financing of the Polish armed forces. The amount of expenditures not subject to restrictions under the stabilizing spending rule in 2022 will be stated in the report on the implementation of the Budget Law for 2022. The solution is agreed with the European Commission.

Government spokesman said the bill, which will **freeze gas prices** "in certain areas" by introducing fixed tariffs, is expected to be ready next week.

PFR Chairman Paweł Borys said that the main risk to lowering inflation to the target is a strong labour market, i.e. high wage dynamics, as about 50% of their growth is directly translated into prices. In his opinion, the peak of inflation should be reached around March 2023, which is expected to be followed by a rapid decline in inflation below 10%. In addition, he noted that a risk factor for the Polish economy is the growing current account deficit, as it puts pressure on the weakening of the zloty. In his opinion, efforts should be made to balance C/A.

EURUSD rose from near parity to near 1.01. The exchange rate was helped by better-than-expected Eurozone retail sales data for September and hawkish statements from ECB members. The dollar was also not supported by concerns about the outcome of the US congressional by-election.

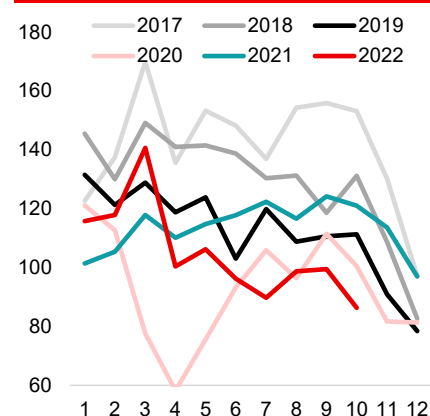
EURPLN rose from around 4.67 to near 4.69, with the rate rising despite a weakening dollar on global markets in anticipation of today's MPC decision. If the MPC decides to leave rates unchanged, we expect the rate to rise further towards 4.75.

Other CEE currencies: EURHUF rose from levels just below 400 to near 402. EURCZK rose from near 24.25 to near 24.29. the region's currencies lost ground on concerns about the economic impact of further continuation of China's zeroCOVID policy.

Debt market: Domestic yield curve fell by about 13 bps on average, the IRS curve fell by about 21 bps on average. FRA contracts also fell strongly in anticipation of today's MPC decision.

Finance Ministry priced **5-year and 10-year benchmark bonds in USD**. The total value of the new issue was USD3 billion (USD1.5 billion each). The 5L bonds were priced at 130 bps above US bond yields and the yield was 5.619%. The 10L bonds were priced at 175 bps above US yields, implying a yield of 5.890%.

Job offers at Polish labour offices (k)



Source: Ministry of Family and Social Policy, GUS, Santander

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FX market

Today's opening

EURPLN	4.6919	CZKPLN	0.1927
USDPLN	4.6608	HUFPLN*	1.1572
EURUSD	1.0070	RUBPLN	0.0764
CHFPLN	4.7264	NOKPLN	0.4548
GBPPLN	5.3790	DKKPLN	0.6308
USDCNY	7.2444	SEKPLN	0.4330

*for 100HUF

Last session in the FX market 08/11/2022

	min	max	open	close	fixing
EURPLN	4.6686	4.6952	4.6691	4.6837	4.6912
USDPLN	4.6396	4.7040	4.6725	4.6450	4.6893
EURUSD	0.9971	1.0094	0.9995	1.0086	-

Interest rate market 08/11/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7.97	-10
DS0727 (5Y)	8.07	-14
DS0432 (10Y)	7.82	-16

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.94	-15	5.21	-1	2.78	4
2L	7.90	-18	5.01	-5	3.05	-3
3L	7.57	-21	4.71	-6	3.03	-5
4L	7.31	-22	4.50	-7	3.01	-6
5L	7.17	-23	4.36	-9	3.01	-8
8L	7.02	-24	4.18	-10	3.02	-9
10L	6.99	-26	4.14	-9	3.06	-9

WIBOR rates

Term	%	Change (bps)
O/N	6.93	-1
T/N	6.94	1
SW	7.06	2
2W	7.07	-1
1M	7.14	-2
3M	7.59	-2
6M	7.80	-2
1Y	7.91	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.52	-8
3x6	7.56	-27
6x9	7.76	-25
9x12	7.72	-25
3x9	7.75	-26
6x12	7.92	-24

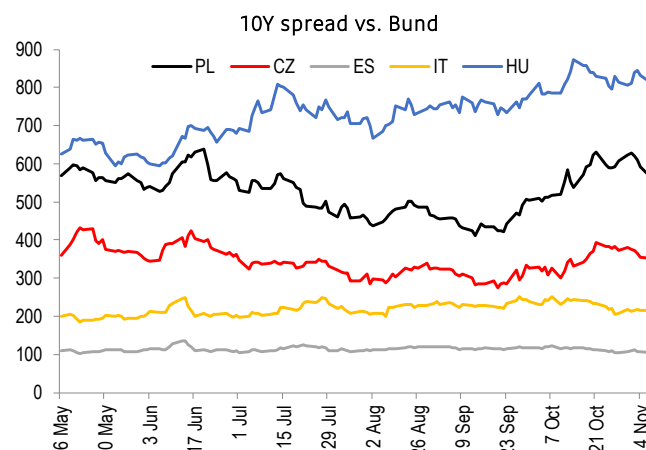
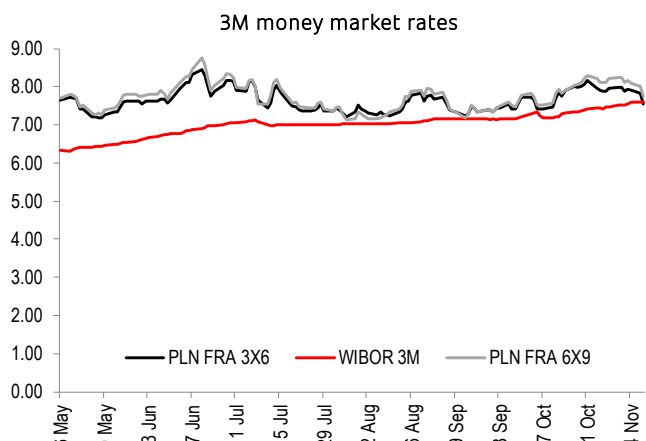
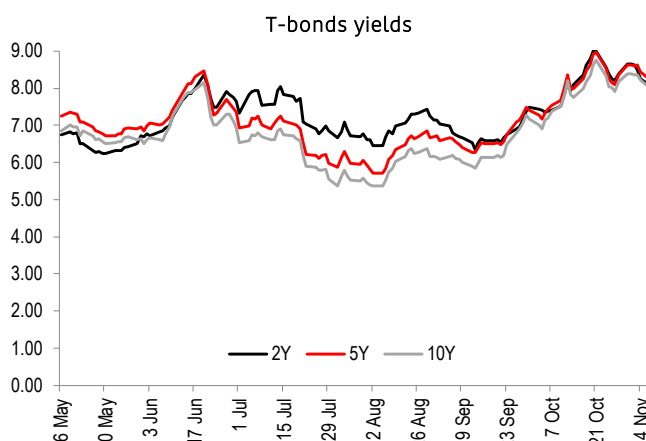
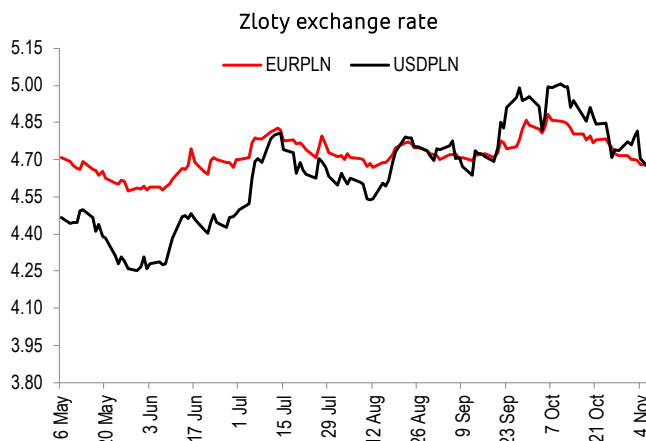
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	0	555	-11
France	20	0	52	-1
Hungary	246	0	815	1
Spain	58	-4	104	-1
Italy	60	-2	211	-4
Portugal	43	-4	97	-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		
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	-	8.3	10.3
TUESDAY (8 November)								
09:00	HU	Industrial Production SA	Sep	% y/y	8.5	-	11.3	14.2
11:00	EZ	Retail Sales	Sep	% m/m	0.4	-	0.4	0.0
WEDNESDAY (9 November)								
	PL	MPC decision	Nov	%	7.00	6.75	-	6.75
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
14:00	PL	MPC minutes	Oct					
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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