

5 December 2022

Eyeopener

Growing surplus in local governments

Today, services PMIs, US factory orders, no data in Poland
 US labour market data clearly better than expected
 Dollar weaker, which should support the zloty; bond yields lower despite strong US data

Today, publication of final services PMIs, US industrial orders, retail sales in Europe. China's services PMI, published in the morning, fell more than forecast in November, from 48.4 to 46.7 points. The event of the week in Poland will be the last Monetary Policy Council meeting this year (on Wednesday). The decision itself will not come as a surprise to anyone: interest rates will remain unchanged, as they were in October and November. More important will be the tone of the NBP president's conference and his possible suggestions for future action.

November's **US labour market data** showed a much higher-than-expected number of new jobs and wage growth. The data indicate that the US labour market remained in good shape.

After 3Q2022, Polish **local governments recorded a surplus of PLN14.9 billion**, slightly more than we assumed. In 3Q alone, local government revenues increased by 6.0% y/y and expenditures by 6.8% y/y. Investment spending was as much as 30.3% y/y higher than a year earlier (vs. 13% for the whole economy in nominal terms), and EU-funded investment spending was 11.7% y/y lower than a year earlier. The performance of local governments supports our expectation of only a slight increase in the public finance deficit this year; we believe it could be below 3% of GDP. We believe that local government investment will look much weaker in 2023 due to (at least) delays in Recovery Fund disbursements.

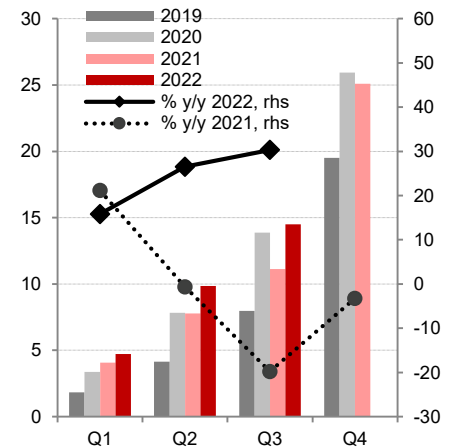
EURUSD, following the release of better-than-expected data from the US labour market, tried to descend from just above 1.05 to the vicinity of 1.04, but by the end of Friday's session the rate had returned to baseline levels. Although the data surprised positively, it still fits in with the Fed's narrative of the need to continue raising interest rates in any variant of monetary policy implemented (even a dovish one), although probably, as announced by the Fed, at a slightly slower pace than 75 bps every session. The EURUSD started the new week even above the Friday's close, rising overnight to around 1.058, helped in part by news of further local easing of Covid restrictions in China.

EURPLN, from the area of 4.69, went below 4.68 on Friday. After a marked weakening of the zloty following the release of Polish PMI reading for November, the zloty began to strengthen again, and everything indicates that this trend will continue in the coming days. Admittedly, this morning EURPLN bounced slightly upward again, but it seems that positive global sentiment, a weaker dollar and growing hopes for approaching unblocking of Recovery Funds should favour the domestic currency in the near term.

Other CEE currencies: EURCZK fell marginally to 24.37 from around 24.38. Czech Q3 GDP fell slightly less than market expectations on a q/q basis. According to the CNB, the data roughly matched the main elements of the central bank's forecasts: private consumption and government spending fell more sharply than forecast, while net exports came in higher than expected. EURHUF fell below 410 from around 411. The ECB declared its willingness to extend temporary swap and repo lines with non-Eurozone EU central banks, which is important from the point of view of the MNB, which with an increase in euro liquidity is trying to reduce pressure on the forint's depreciation from Hungary's high current account deficit.

Debt market: Domestic yield curve fell by an average of about 3 bps on Friday. The downward movement during the day reached 10 bps but was corrected by the end of the European session by better-than-expected data from the US labour market. The German curve had a similar reaction, while the US curve, which had attempted a dynamic upward bounce in response to the labour market data, negated the entire upward movement as soon as the European session ended, returning, like the EURUSD, to the levels of the beginning of the day.

Investment in local governments, PLNbn



Source: Finance Ministry, Santander

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FX market

Today's opening

EURPLN	4.6765	CZKPLN	0.1916
USDPLN	4.4306	HUFPLN*	1.1450
EURUSD	1.0557	RUBPLN	0.0715
CHFPLN	4.7317	NOKPLN	0.4549
GBPPLN	5.4510	DKKPLN	0.6287
USDCNY	6.9576	SEKPLN	0.4300

*for 100HUF

Last session in the FX market 02/12/2022

	min	max	open	close	fixing
EURPLN	4.6747	4.6899	4.6865	4.6807	4.685
USDPLN	4.4398	4.4967	4.4532	4.4492	4.4492
EURUSD	1.0426	1.0544	1.0521	1.0518	-

Interest rate market 02/12/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.79	-2
DS0727 (5Y)	6.65	-3
DS0432 (10Y)	6.41	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.18	2	5.06	0	2.73	3
2L	6.52	-9	4.57	1	2.83	6
3L	6.03	-10	4.08	0	2.73	7
4L	5.77	-8	3.82	0	2.65	7
5L	5.61	-8	3.66	-2	2.61	7
8L	5.51	-4	3.47	-1	2.56	5
10L	5.54	-4	3.43	-2	2.57	2

WIBOR rates

Term	%	Change (bps)
O/N	6.73	-5
T/N	6.82	6
SW	6.88	-1
2W	6.92	0
1M	6.96	-7
3M	7.24	-1
6M	7.42	-4
1Y	7.59	-3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.22	5
3x6	7.16	4
6x9	6.99	4
9x12	6.60	3
3x9	7.29	6
6x12	7.04	2

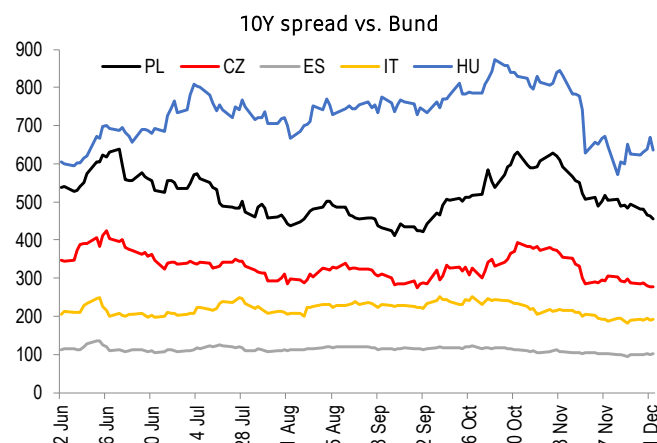
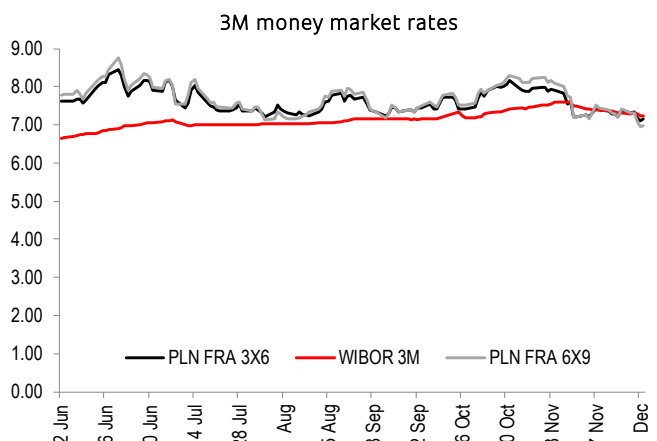
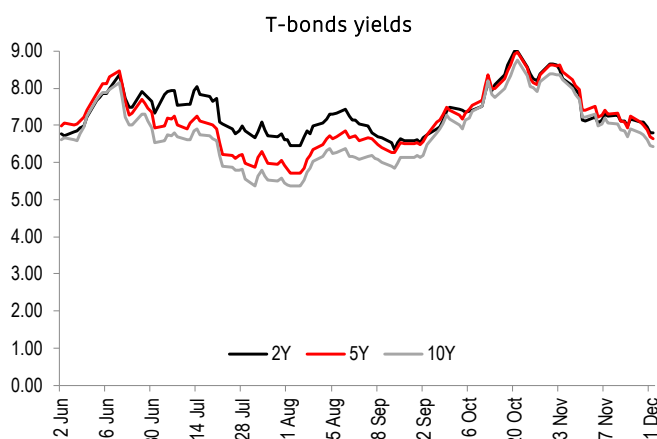
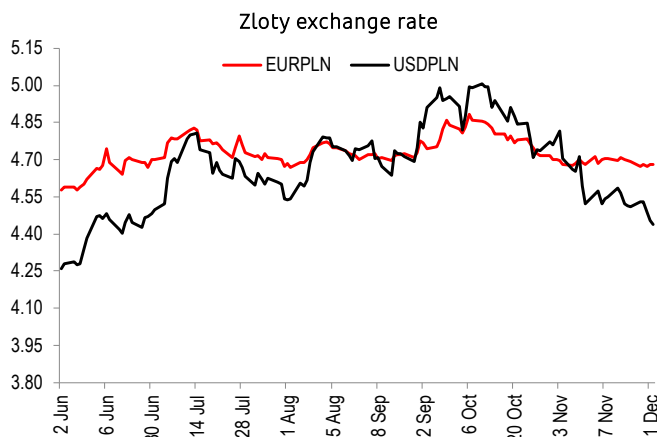
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	125	-5	456	-7
France	15	0	46	0
Hungary	214	0	637	-32
Spain	53	0	101	1
Italy	53	0	191	1
Portugal	38	0	94	1
Ireland	18	0	45	2
Germany	14	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 (2 December)								
08:00	DE	Exports SA	Oct	% m/m	-0.2	-0.6	-0.7	
09:00	CZ	GDP SA	3Q	% y/y	1.6	1.7	1.6	
14:30	US	Change in Nonfarm Payrolls	Nov	k	200	263	284	
14:30	US	Unemployment Rate	Nov	%	3.7	3.7	3.7	
MONDAY (5 December)								
02:45	CN	Caixin China PMI Services	Nov	pts	48.0	46.7	48.4	
09:55	DE	Markit Germany Services PMI	Nov	pts	46.4	-	46.5	
10:00	EZ	Eurozone Services PMI	Nov	pts	48.6	-	48.6	
11:00	EZ	Retail Sales	Oct	% m/m	-	-	0.4	
16:00	US	Durable Goods Orders	Oct	% m/m	0.0	-	1.0	
16:00	US	ISM services	Nov	pts	53.7	-	54.4	
16:00	US	Factory Orders	Oct	% m/m	0.7	-	0.3	
TUESDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	0.0	-	-4.0	
WEDNESDAY (7 December)								
	PL	MPC decision		%	6.75	6.8	-	6.75
08:00	DE	Industrial Production SA	Oct	% m/m	-	-	0.6	
09:00	CZ	Industrial Production	Oct	% y/y	-	-	8.3	
09:00	HU	Industrial Production SA	Oct	% y/y	0.0	-	11.6	
11:00	EZ	GDP SA	3Q	% y/y	-	-	2.1	
THURSDAY (8 December)								
09:00	HU	CPI	Nov	% y/y	0.0	-	21.1	
14:30	US	Initial Jobless Claims		k	235	-	225	
FRIDAY (9 December)								
14:00	PL	MPC minutes	Nov					
16:00	US	Michigan index	Dec	pts		-	56.8	

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

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