

4 October 2023

# Eyeopener

## MPC decision today, further US bond sell-off

Today Polish MPC decides on interest rates, services PMIs and ISM, ADP report  
CEE currencies under pressure of stronger US dollar, EURUSD stable below 1.05  
Domestic bonds stronger, other market rates up, US bond sell-off continues

**Today, the Monetary Policy Council will set the NBP interest rates.** We think a rate cut is likely, this time by 25 bps (main rate to 5.75%). The strong fall in CPI in September will probably be highlighted as a confirmation of the end of the high inflation period, giving an argument for further monetary policy easing. Due to recent statements by representatives of the government, and later also the NBP, indicating concerns about the zloty depreciation, we view a small rate cut as the most likely scenario for today. A larger cut would, in our opinion, be negative for the currency, and it would be difficult to count on this being neutralised by the hawkish tone of the communication: after two decisions in a row diverging from the MPC's forward guidance, it would make little sense to listen to further hints from the policymakers. We expect one more interest rate cut before the end of the year - in November, by 25 bps. The NBP president's conference following the Council's decision is scheduled for Thursday.

In addition to the MPC decision, we will see the **final September readings of the euro area and German services PMIs, as well as the US ISM services index.** In addition, there will be August retail sales (euro area), US August durable goods orders and September ADP employment report.

The **Polish household appliances industry is expected to end the year with at least a 10% drop** in production and a slightly smaller drop in sales value, according to the estimates of the industry's producer association APPLiA Poland. The president of the association said in a statement to PAP that in 2023 about 3-4mn fewer household appliances may be produced than in 2022 (during which production amounted to less than 30mn appliances), and in 2024 the downward trend in production is unlikely to be stopped, although it may be slowed down thanks to increased consumption in Western Europe. We believe that the expectation of a rebound in demand for household appliances in Europe is reasonable, as the rebound scenario is supported by receding inflation and rising ESI indicators measuring consumers' propensity for major purchases.

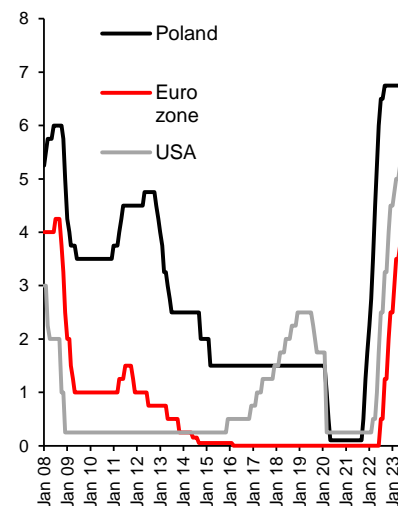
**The number of vacancies in the US rose to 9.6mn** in August, according to the JOLTS report. Thus, their number returned close to the level of May, reversing the declines recorded in June and July. Although the number of vacancies is clearly below the historical maximum reached in early 2022 (12.2mn), it is worth noting that before the pandemic it was 7.6mn. Latest figures indicate that the US labour market is still in good shape.

The **European Commission may soon unblock €13bn of EU funds for Hungary.** Cohesion and Recovery Fund funds for the country worth a total of around €35bn were blocked last year due to EC concerns over the rule of law. The disbursement may come as a response to changes in law Hungary introduced in May along with EU recommendations but also possibly due to an attempt to persuade Hungarians to accept next year's EU budget and aid for Ukraine.

**PLN weakening.** Yesterday's session was a tough one for EM currencies in the face of continued USD strength and rising US yields. The EURUSD remained close to 1.045 after a sizable drop in the last two months given the persistently rising disparity between US and German bond yields, concerns about Italy's fiscal situation or rising oil prices. The zloty slid from 4.61 to 4.63 against the euro, supported by fears of a larger rate cut at today's meeting. The CZK also lost on a similar scale, around 0.3%, continuing a slight depreciation trend. The forint, on the other hand, at first gained slightly on news of the possible unblocking of the EU funds and the MNB's hawkish remarks about focus kept on inflation targeting. In the second part of the day, the forint lost like other CEE FX.

**Bonds strengthen, other market rates rise.** Yesterday, FRA and IRS rates rose a few basis points and bond yields fell a few bps. The increases in IRS rates were supported by a corresponding movement in the core markets of around 2-4bp at the longer end of the German curve and 3-10bp at the US curve on better-than-expected data from the US labour market (JOLTS report). The US debt market sell-off is having a negative impact on global equity and bond markets, although domestic bonds behaved quite well yesterday. We think that the narrowing of asset swap spreads may prove to be temporary in view of the significant increase in fiscal deficit and Polish government bond issuance in the coming quarters with a relatively limited group of potential buyers. The situation could be changed by significant fiscal tightening after the elections. Today we see room for a further increase in market rates, especially at the short end should the MPC choose a more cautious 25bp cut.

Central bank rates, %



Source: Refinitiv, Santander

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## FX market

### Today's opening

EURPLN	4.6396	CZKPLN	0.1886
USDPLN	4.4374	HUFPLN*	1.1825
EURUSD	1.0454	RUBPLN	0.0447
CHFPLN	4.8076	NOKPLN	0.4033
GBPPLN	5.3491	DKKPLN	0.6220
USDCNY	7.3010	SEKPLN	0.3993

\*for 100HUF

### Last session in the FX market

03/10/2023

	min	max	open	close	fixing
EURPLN	4.6071	4.6326	4.6161	4.6323	4.6147
USDPLN	4.3970	4.4331	4.4119	4.4327	4.4012
EURUSD	1.0447	1.0493	1.0461	1.0452	-

## Interest rate market

03/10/2023

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

Benchmark (term)	%	Change (bps)
DS0725 (2Y)	4.99	-5
WS0428 (5Y)	5.21	-2
DS1033 (10Y)	5.88	-3

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	4.85	5.64	4.04
2L	4.51	5.34	3.83
3L	4.41	5.06	3.63
4L	4.44	4.87	3.53
5L	4.53	4.85	3.49
8L	4.80	4.78	3.49
10L	5.00	4.77	3.52

### WIRON rate

Term	%	Change (bps)
WIRON	5.32	125

### WIBOR rates

Term	%	Change (bps)
O/N	5.78	-4
T/N	5.89	-6
SW	5.92	-3
1M	5.97	-5
3M	5.73	-1
6M	5.61	0
1Y	5.56	-1

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

Term	%	Change (bps)
1x4	5.25	2
3x6	4.84	4
6x9	4.35	7
9x12	4.13	7
3x9	4.71	7
6x12	4.21	6

### CDS rates and 10Y yield spread vs. German Bund

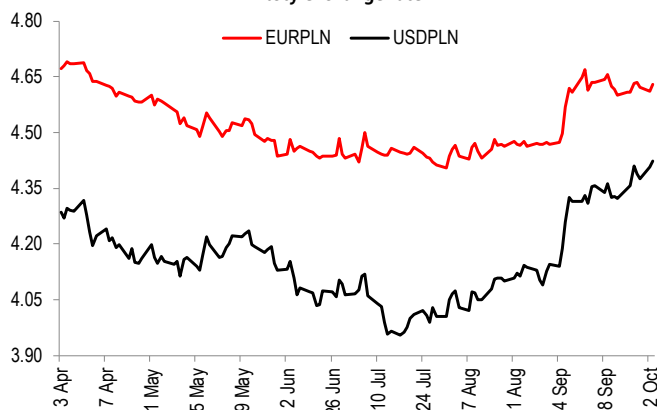
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	70	292
France	13	57
Hungary	154	463
Spain	53	110
Italy	45	197
Portugal	40	73
Ireland	18	43
Germany	15	-

\* 10Y treasury bonds over 10Y Bunds

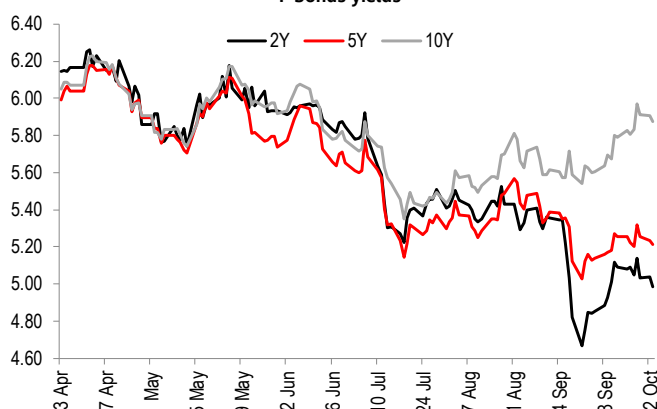
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

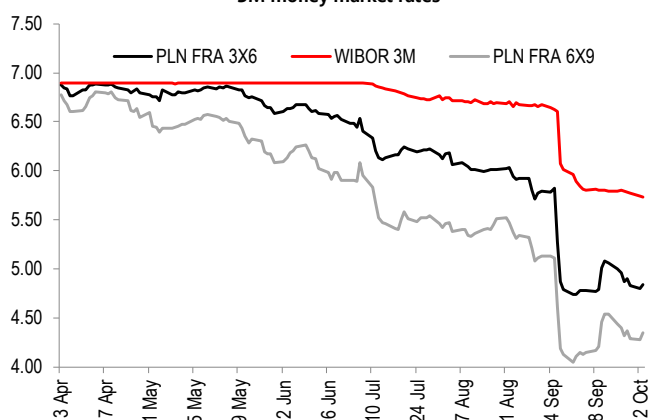
## Zloty exchange rate



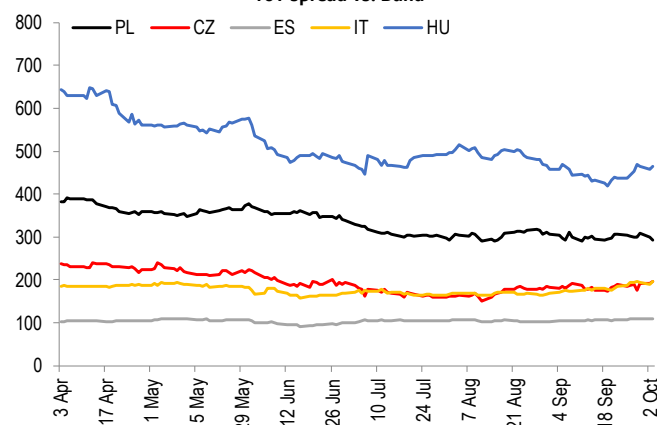
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (29 September)								
08:00	DE	Retail Sales	Aug	% m/m	0.5	-	-	-1.0
09:00	CZ	GDP SA	2Q	% y/y	-0.4	-	-	-0.4
10:00	PL	CPI	Sep	% y/y	8.5	8,7	8,2	10.1
11:00	EZ	Flash HICP	Sep	% y/y	4.5	-	-	5.3
14:30	US	Personal Spending	Aug	% m/m	0.5	-	-	0.8
14:30	US	Personal Income	Aug	% m/m	0.4	-	-	0.2
14:30	US	PCE Deflator SA	Aug	% m/m	0.5	-	-	0.2
16:00	US	Michigan index	Sep	pts	67.7	-	-	67.7
SUNDAY (1 October)								
03:45	CN	Caixin manufacturing PMI	Sep	pts	51.2	-	50.6	51.0
MONDAY (2 October)								
09:00	PL	Poland Manufacturing PMI	Sep	pts	43.3	44.0	43.9	43.1
09:55	DE	Germany Manufacturing PMI	Sep	pts	-	-	39.6	39.8
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	-	-	43.4	43.4
11:00	EZ	Unemployment Rate	Aug	%	-	-	6.4	6.4
16:00	US	ISM manufacturing	Sep	pts	47.8	-	49.0	47.6
TUESDAY (3 October)								
No important data releases								
WEDNESDAY (4 October)								
	PL	MPC decision	Oct	%	5.75	5.75	-	6.00
09:55	DE	Markit Germany Services PMI	Sep	pts	-	-	-	49.8
10:00	EZ	Eurozone Services PMI	Sep	pts	-	-	-	48.4
11:00	EZ	Retail Sales	Aug	% m/m	-	-	-	-0.2
14:15	US	ADP report	Sep	k	150	-	-	177
16:00	US	Durable Goods Orders	Aug	% m/m	-0.5	-	-	0.2
16:00	US	ISM services	Sep	pts	53.5	-	-	54.5
16:00	US	Factory Orders	Aug	% m/m	0.2	-	-	-2.1
THURSDAY (5 October)								
08:00	DE	Exports SA	Aug	% m/m	-	-	-	-1.6
14:30	US	Initial Jobless Claims		k	215	-	-	204
15:00	PL	The NBP president press conference	Sep					
FRIDAY (6 October)								
08:00	DE	Factory Orders	Aug	% m/m	2.5	-	-	-11.7
08:30	HU	Industrial Production SA	Aug	% y/y	-	-	-	-2.5
14:30	US	Change in Nonfarm Payrolls	Sep	k	168	-	-	187
14:30	US	Unemployment Rate	Sep	%	3.7	-	-	3.8

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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