

24 September 2021

Weekly Economic Update

Inflation not letting go

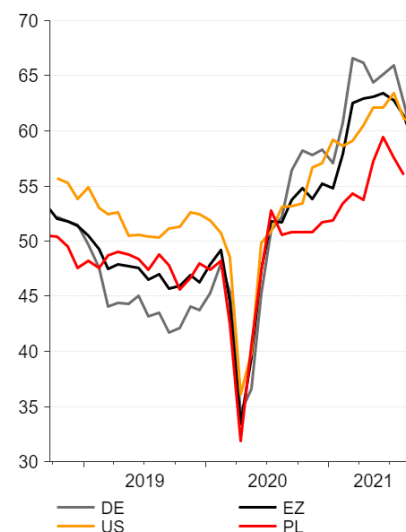
Economy next week

- After a volatile week, full of important events, the next days are not going to be boring. The week will start with the digestion the German election results and their implication for political outlook, for the economy and for markets.
- We have two key data releases in Poland, both on Friday: September manufacturing PMI and flash CPI inflation. **We expect to see the third PMI drop in a row, to 54.5**, reflecting activity slowdown in Polish industry, caused by problems with supplies, rising costs and stalling external demand (flash European PMIs disappointed). However, the gauge is likely to remain well above the neutral 50.0 level, confirming the sector is still in expansion. **Our CPI forecast and market consensus predict stable inflation rate at 5.5% y/y in September**. After the previous months surprised with higher than expected inflation prints we think the risk is still asymmetric to the upside. In the next months inflation is likely to resume its upward trend, rising towards 6% y/y by the end of this year, we think, with the high probability of exceeding 6% mark in 1Q22.
- Calendar abroad includes several business climate indicators (US consumer confidence, European Commission's ESI, final PMIs) but also inflation data (DE, Eurozone) and the decision of Czech National Bank (another rate hike, this time probably by 50bp).
- Unexpectedly, an extra **one-day indecisive MPC meeting** was planned on September 28 (Tuesday). We think the reason behind could be the discussion about MPC's opinion to the 2022 budget draft, but it is not clear as the central bank did not explain. On Wednesday the MPC enters another blackout period before the next meeting, which means there should be no member's comments, maybe except Adam Glapiński in the NBP president's shoes. The opportunity for the latter will be on Friday at the conference of NBP and MNB held in Warsaw. On Thursday the MPC minutes from the August meeting will be released, revealing if the Council voted on the rate hike motion (seems very likely).
- The **Constitutional Tribunal resumes the meeting** on September 30 to rule about the supremacy of the EU law over the Polish law. The even could be key for future relations between Poland and EU, which have already got very tense.

Markets next week

- EURPLN, after having breached 4.63, retraced a bit but remains above 4.60, which in our view is now an important level and going below will be difficult, especially in the quite unsupportive environment (volatile global moods, dovish NBP tone amid high inflation, political risk). **We expect the zloty to keep weakening towards 4.70 per euro**. The key event ahead will be the Constitutional Tribunal decision (unless it is postponed again). At the same time, it is worth remembering that EURPLN fixing on September 30 is used for conversion of EU subsidies for farmers into local currency, and usually the government was preferring stronger zloty at this point (lower costs for the budget).
- The tone of the Fed meeting proved hawkish and core yields reacted (with small delay) with a clear rise. **We think the direction for yields in the coming week will be still up**. In case of lack of negative surprise from CPI or Constitutional Tribunal, it would be a rather slow move, but both events are potential catalysts for bigger volatility.

PMI manufacturing



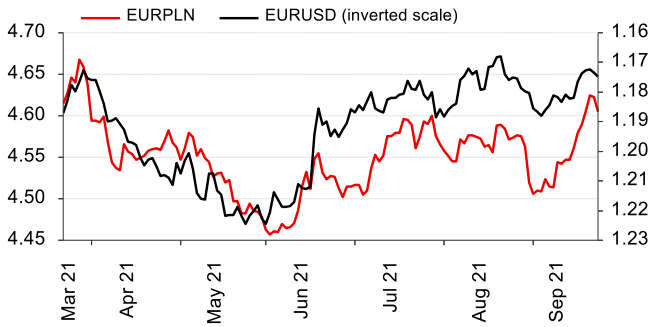
Source: Refinitiv Datastream, Santander

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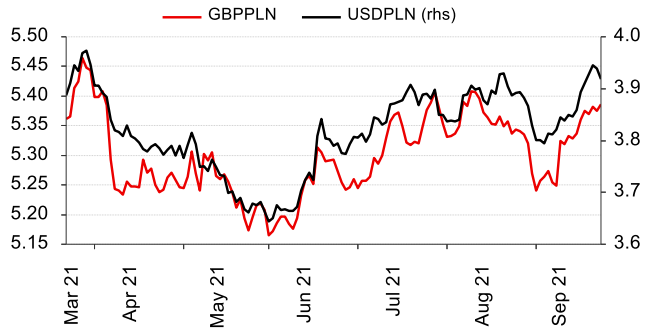
FX and FI markets

EURPLN and EURUSD



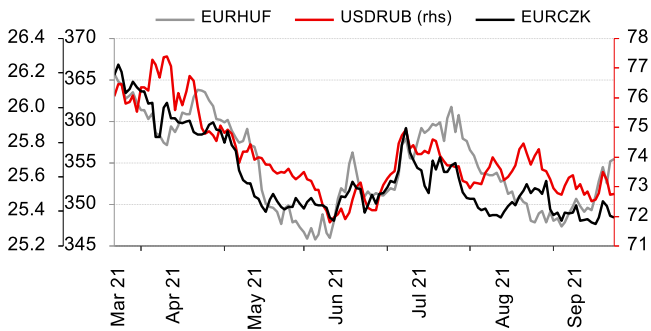
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



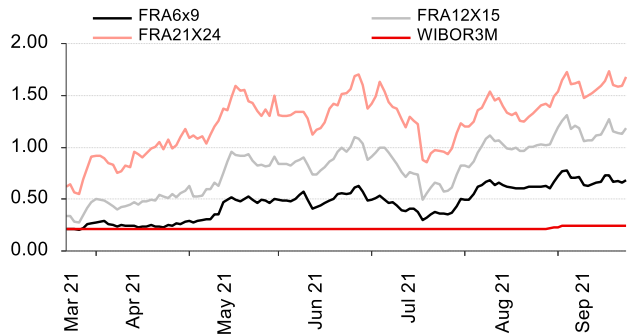
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



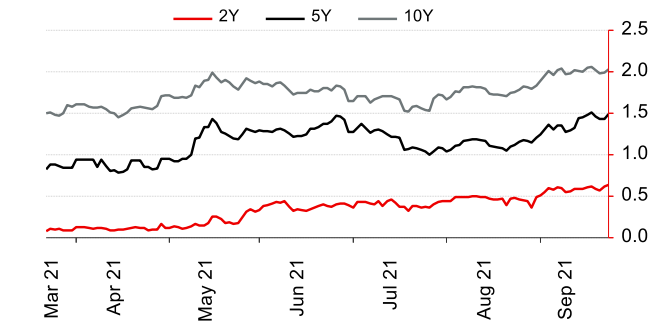
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



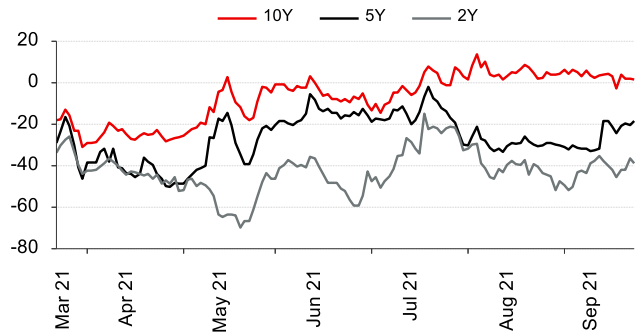
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



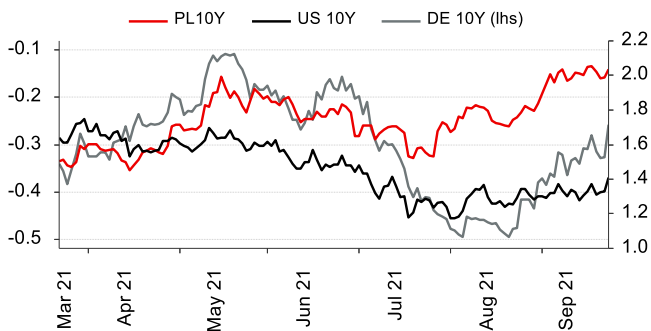
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



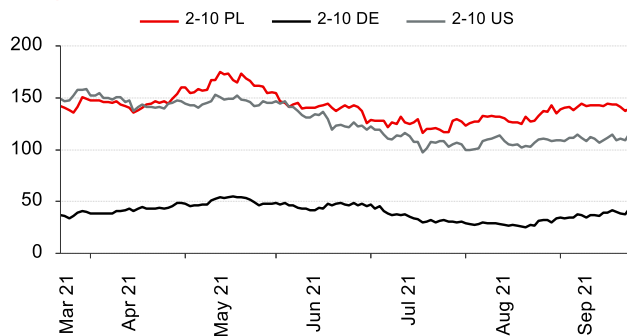
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (27 September)						
	DE	Retail Sales	Aug	% m/m	1.0	-4.5
14:30	US	Durable Goods Orders	Aug	% m/m	0.6	-0.1
TUESDAY (28 September)						
16:00	US	Consumer Conference Board	Sep	pts	114.6	113.8
WEDNESDAY (29 September)						
11:00	EZ	ESI	Sep	pct.	116.9	117.5
16:00	US	Pending Home Sales	Aug	% m/m	1.0	-1.8
THURSDAY (30 September)						
09:00	CZ	GDP SA	2Q	% y/y	8.2	8.2
11:00	EZ	Unemployment Rate	Aug	%	7.6	7.6
14:00	PL	Current account balance	2Q	€ bn		2.04
14:00	PL	MPC minutes	Aug			2.95
14:00	DE	HICP	Sep	% m/m	0.0	0.1
14:30	US	GDP Annualized	2Q	% Q/Q	6.7	6.6
14:30	US	Initial Jobless Claims		k		351.0
14:30	CZ	Central Bank Rate Decision	Sep/21		1.25	0.75
FRIDAY (1 October)						
09:00	PL	Poland Manufacturing PMI	Sep	pts	54.9	54.5
09:30	DE	Germany Manufacturing PMI		pts	58.5	58.5
10:00	EZ	Eurozone Manufacturing PMI		pts	58.7	58.7
10:00	PL	CPI	Sep	% y/y	5.5	5.5
11:00	EZ	Flash HICP	Sep	% y/y	3.3	3.0
14:30	US	Personal Spending	Aug	% m/m	0.7	0.3
14:30	US	Personal Income	Aug	% m/m	0.2	1.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.3	0.4
16:00	US	Michigan index	Sep	pts	71.0	71.0
16:00	US	ISM manufacturing	Sep	pts	59.5	59.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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