

# Weekly Economic Update

## Inflation climbs even higher

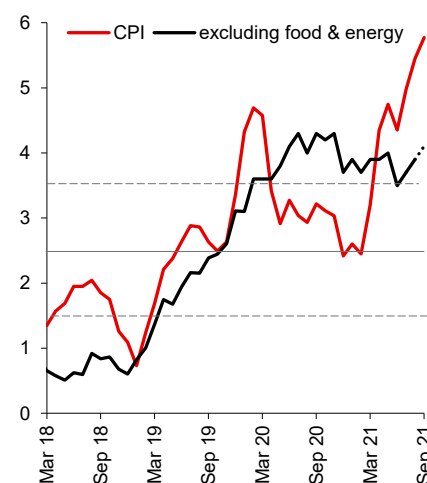
### Economy next week

- **The passing week was pretty interesting:** core market yields increased dynamically, the funding bill to prevent US government shutdown has been passed (has bought time till 3 December), Czech National Bank has surprised the markets with a 75bp hike to 1.50%, while **Polish September CPI inflation surprised strongly to the upside** (5.8% y/y vs expected 5.5% and previous 5.5%). The upcoming week might be similarly interesting;
- **Abroad, important data from the US labour market** will be published on Wednesday (September ADP report, expected 430k) and on Friday (September non-farm payrolls, expected 500k). In the US, factory orders are published on Monday, in Germany on Wednesday; while industrial production in Hungary on Wednesday, in both Czech Republic and Germany on Thursday. In the euro zone the retail sales are published on Wednesday, in Germany on Friday there is exports data. Hungarian September CPI is published also on Friday (previous print 4.9% y/y). A handful of countries is going to publish September services PMI, however only the Friday Chinese ones are a fresh piece of information for the markets, the euro zone, German and USA (ISM) ones are the final readings.
- **In Poland, there is MPC interest rate decision on Wednesday.** We expect the interest rates to remain unchanged (currently at 0.1%) even despite the elevated reading of the September CPI inflation, but one can expect that the discussion will be getting more heated. We suspect that the communique should remain roughly unchanged, while Mr. Glapiński during a press conference (likely to be scheduled for Thursday) should try to calm down interest rates increase expectations. It seems that among the more hawkish MPC members there is a growing feeling of the bank falling behind the curve, however they are in minority. We still expect that interest rate increases will start within the next few months. On Monday the GUS will publish a revision GDP reading for 2020, and on Friday the corporate earnings in 1H21. These data won't have much impact on the markets.
- **On Thursday 7 October, the Constitutional Court will resume its meeting** in order to rule on the supremacy of EU law over the Polish one. The event is potentially key for the recently tense EU - Polish relations. It is plausible that the meeting will not be concluded with a final decision.

### Markets next week

- EURPLN has become quite volatile of late. Most of the EM currencies have weakened amid rising core market bond yields. The zloty is no exception, in the passing week it reached 4.64 vs. the euro (it closed the month at c.4.61, some 2% higher than at the end of August). However some events, like the publication of September MPC minutes with a motion to hike the interest rate to 2.0% or the today's high reading of inflation caused a sudden, but short-lived decline of EURPLN by around 1%. Recently there were some weaker domestic macro data (C/A balance), the yields on core markets are still rising, and we do not expect the MPC to change its rhetoric anytime soon (albeit the market pricing of a November rate hike probability has gone up) despite real interest rate is heading to -6%. This makes us think that this month EURPLN is more likely to go up (with a 4.70 target for the end of October), but **in the coming week it may again test 4.60 ahead of the Wednesday MPC meeting.**
- On the core markets bond yields were rising dynamically (UST +20bp to 1.50%, Bund +10bp to -0.22%) after the Fed meeting and fuelled by inflation data, e.g. in Germany (4.1% y/y as compared to expectations at 4.0% and previous reading at 3.4%), which translated into POLGBs and IRS. Polish FRA, IRS and yields were additionally invigorated to rise further on Friday after inflation data. In the first half of the incoming week markets will be awaiting the Wednesday MPC meeting. **We are expecting the NBP not to send hawkish signals, so IRS and yields can fall somewhat in the first half of the next week, especially on the front end of the curve. Later on, the interest rate market volatility will be generated mostly by reaction of core markets to US labour market statistics.** In 4Q21 the Finance Ministry does not plan any regular auction, but five switching tenders, with the closest on Thursday 7 October. Given maturities in October and coupon payments totalling PLN12bn, it seems that asset swap spreads are likely to stay narrow. There are no BGK or NBP auctions scheduled for the upcoming week.

Inflation and core inflation in Poland, %y/y



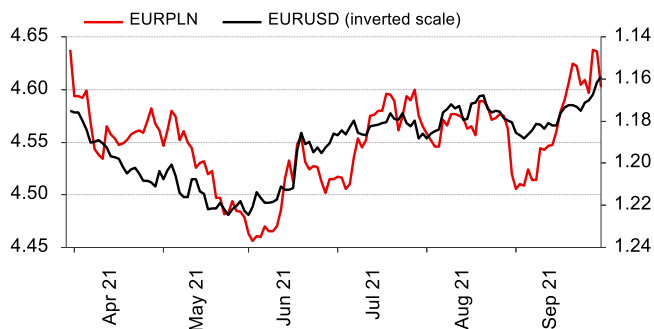
Source: GUS, NBP, Santander

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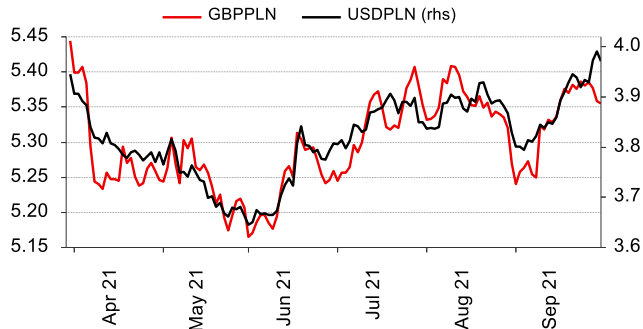
## FX and FI markets

### EURPLN and EURUSD



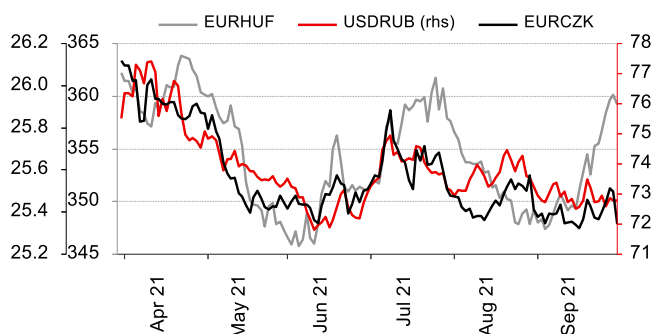
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



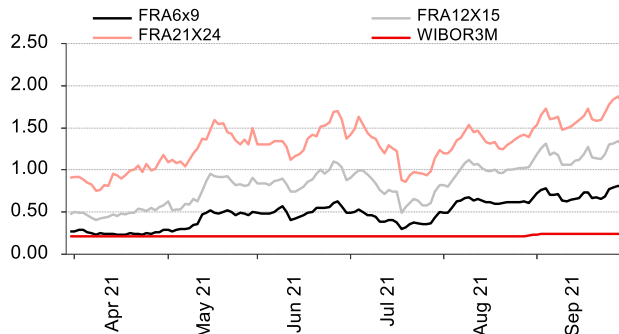
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



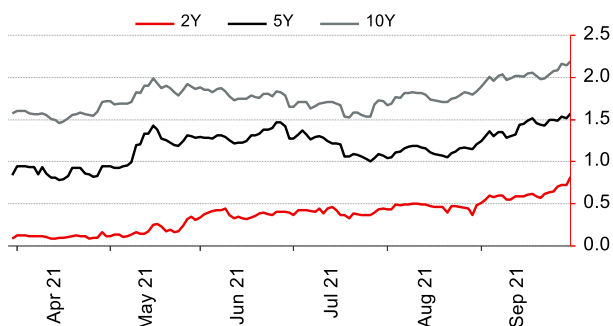
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



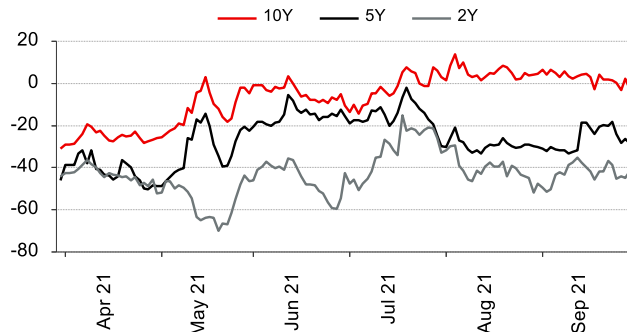
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



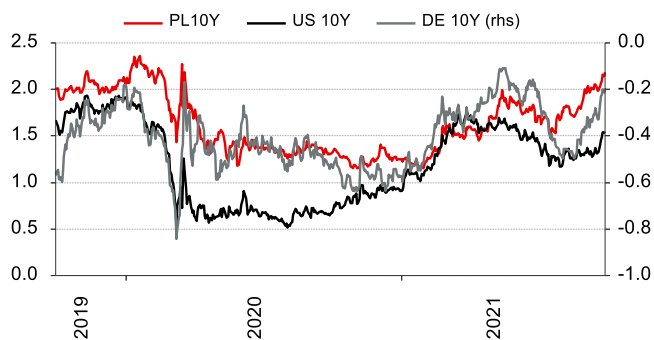
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



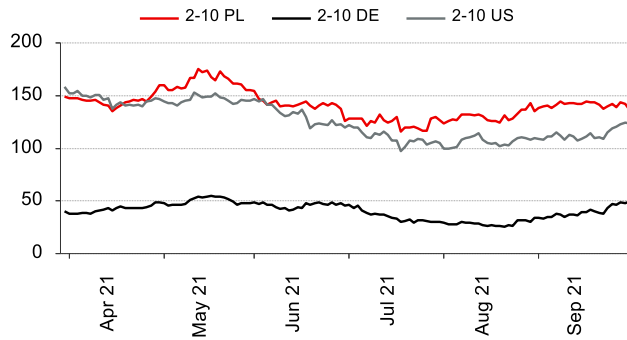
Source: Refinitiv Datastream, Santander Bank Polska

### 10Y bond yields



Source: Refinitiv Datastream, Santander

### Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (4 October)</b>						
16:00	US	Durable Goods Orders	Aug	% m/m	0.0	1.8
16:00	US	Factory Orders	Aug	% m/m	1.0	0.4
<b>TUESDAY (5 October)</b>						
09:55	DE	Markit Germany Services PMI	Sep	pts	56.0	56.0
10:00	EZ	Eurozone Services PMI	Sep	pts	56.3	56.3
16:00	US	ISM services	Sep	pts	59.8	61.7
<b>WEDNESDAY (6 October)</b>						
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.1</b>	<b>0.1</b>
08:00	DE	Factory Orders	Aug	% m/m	-1.5	3.4
09:00	HU	Industrial Production SA	Aug	% y/y	-	10.2
11:00	EZ	Retail Sales	Aug	% m/m	0.9	-2.3
14:15	US	ADP report	Sep	k	430.0	374.0
<b>THURSDAY (7 October)</b>						
08:00	DE	Industrial Production SA	Aug	% m/m	-0.1	1.0
09:00	CZ	Industrial Production	Aug	% y/y	6.9	1.1
14:30	US	Initial Jobless Claims		k		362.0
<b>FRIDAY (8 October)</b>						
03:45	CN	Caixin China PMI Services	Sep	pts	49.2	46.7
08:00	DE	Exports SA	Aug	% m/m	0.5	0.5
09:00	HU	CPI	Sep	% y/y	-	4.9
14:30	US	Change in Nonfarm Payrolls	Sep	k	500.0	235.0
14:30	US	Unemployment Rate	Sep	%	5.1	5.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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