

08 October 2021

Weekly Economic Update

Hard time for the zloty

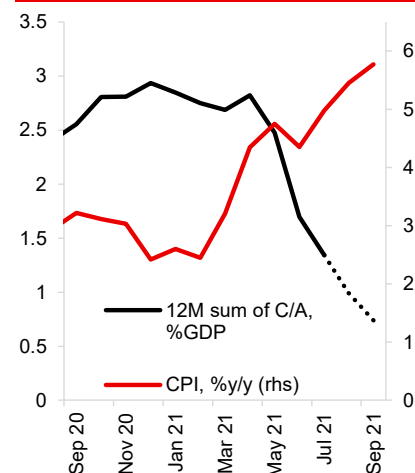
Economy next week

- This was an unusually interesting and turbulent week, due to the **unexpected rate hike by the MPC** (reference rate up 40bp to 0.50%), **Constitutional Tribunal verdict on inconsistency of EU law with the Polish Constitution**, surprisingly poor data on German output and on US employment. The NBP decision triggered the market to expect even more tightening and FRA contracts are now pricing a rise of WIBOR 3M to more than 2% in 9 months. At the same time, it is not easy to guess what does the MPC have in mind. We think that the hike was just the beginning of a cycle and the reference rate may end 2022 at 1.50%. The next rate hike could come next month (flash October CPI may come above 6%, new NBP staff projection of inflation will be much higher than the last one and the zloty may be under selling pressure due to the Constitutional Tribunal verdict). On the other hand, the verdict is pushing up the risk of a freeze of payments from the EU recovery fund, possibly also of the cohesion funds, which would greatly worsen the economic outlook and reduce the need for more rate hikes.
- In the coming week abroad there will be releases on, i.a. **German and US inflation, Eurozone industrial output as well as the minutes from the September FOMC meeting**. The recent data from German industry were disappointing so the reading for the whole Eurozone may also be weak and the European industry is suffering due to the supply chain disruptions. FOMC minutes will be under scrutiny for hints on the date of QE tapering in the USA, albeit the inflation data may tell more on this.
- In Poland, on Thursday we will get to see data on **the balance of payments**, on Friday there will be **final reading of CPI**. We expect a further erosion of C/A surplus in Poland, amid ongoing normalisation in services trade balance and strong growth of exports and imports. As for inflation, we will get the detailed data, casting more light on its September stronger-than-expected acceleration. In our view inflation will keep growing in the coming months and will approach 7% y/y. Remarks of government officials and the European Commission about the conflict regarding the judiciary will also be important market-wise, with focus on the risk of EU funds freeze.

Markets next week

- In the passing week EURPLN significantly declined (towards the 200 day moving average) as a result of the unexpected NBP interest rate hike and higher interest rate expectations. The level itself has not been breached for good (EURPLN fell briefly to 4.5400). During NBP Glapiński's press conference EURPLN started to increase and closed the week at 4.6160, by 0.9% higher than on the previous Friday. After the Constitutional Tribunal verdict the risk premium inherent in Polish assets should start to increase, in our opinion. In the coming week **we expect EURPLN to return to the upward trend** and test the recent high at 4.6400. After breaking the level EURPLN should move towards 4.7000 at the end of the month.
- We deem the dynamic POLGB sell-off and increases of FRA and IRS contracts which took place in the passing week as slightly overreacting: the current market pricing of interest rate path is too steep in the nearest months in our opinion (we only expect 1x 25bp hike in November this year) and also reaches too high (we expect NBP reference rate at 1.50% next year, not higher). As a result, after the markets will calm down after the sell-off and liquidity returns to market, **we expect a slight correction lower (in bond yields, FRA, IRS)**. The move, if happens, should be muted due to the increasing political risk premium, in other words not too sizeable. On Monday there is BGK auction scheduled while on Thursday NBP QE purchase auction is scheduled.

Polish inflation and C/A balance



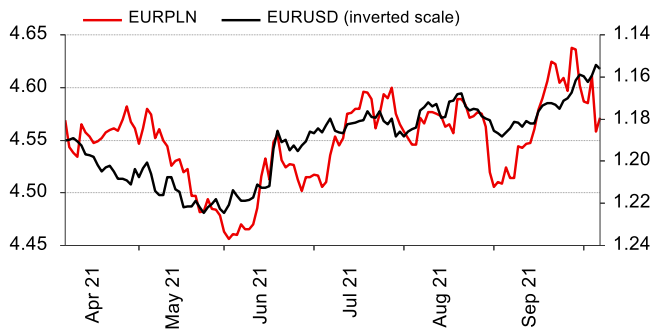
Source: GUS, NBP, Santander

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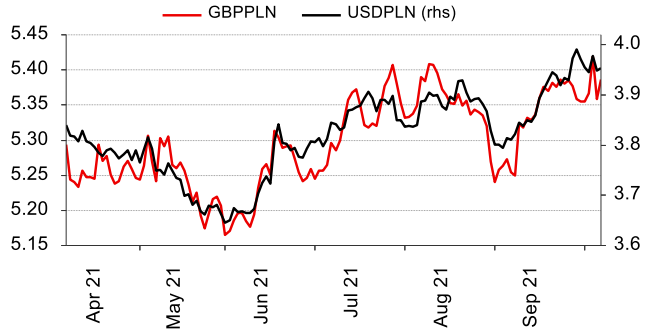
FX and FI markets

EURPLN and EURUSD



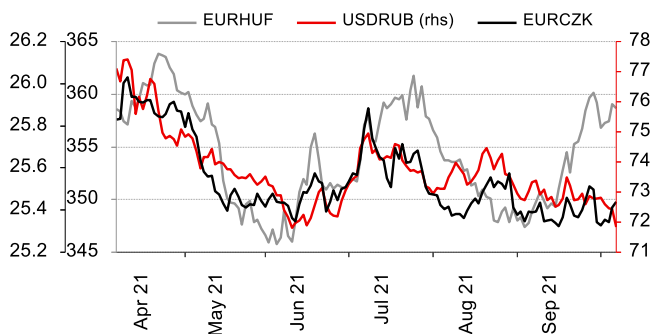
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



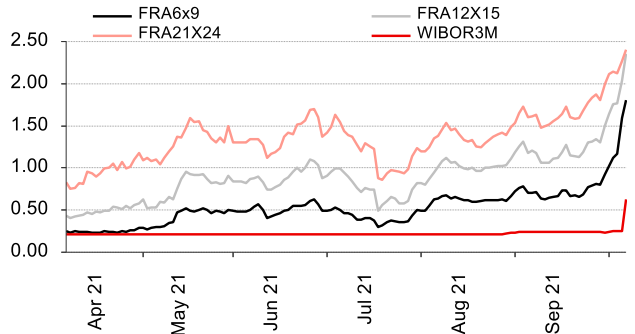
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



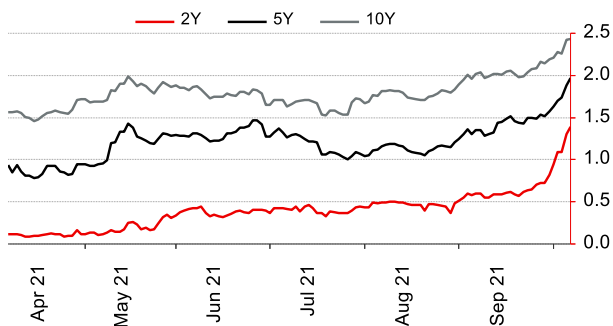
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



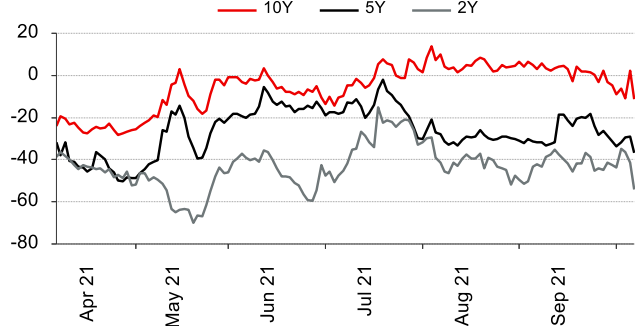
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



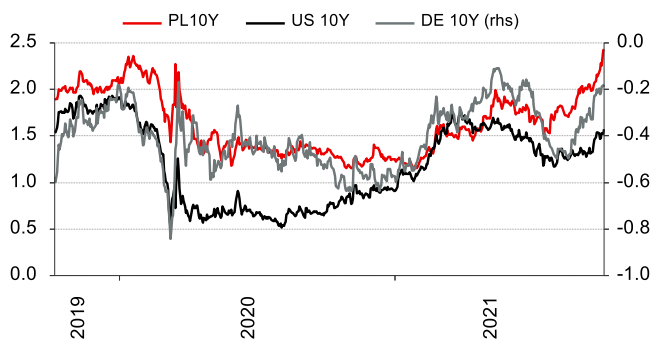
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



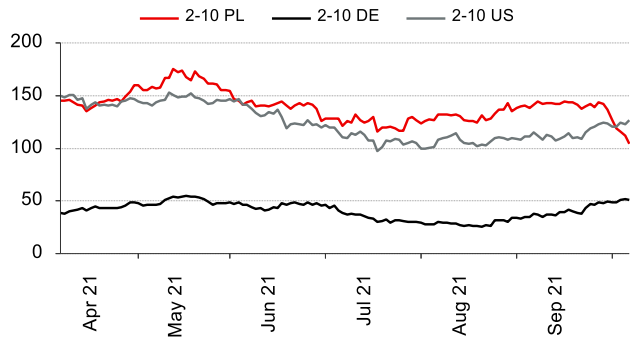
Source: Refinitiv Datastream, Santander Bank Polska

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	
MONDAY (11 October)						
09:00	CZ	CPI	Sep	% y/y	4.5	4.1
TUESDAY (12 October)						
11:00	DE	ZEW Survey Current Situation	Oct	pts	29.0	31.9
WEDNESDAY (13 October)						
08:00	DE	HICP	Sep	% m/m	0.3	0.3
11:00	EZ	Industrial Production SA	Aug	% m/m	-1.5	1.5
14:30	US	CPI	Sep	% m/m	0.3	0.3
20:00	US	FOMC Meeting Minutes	Sep/21			
THURSDAY (14 October)						
14:00	PL	Current Account Balance	Aug	€mn	-747	-896
14:00	PL	Trade Balance	Aug	€mn	-850	-289
14:00	PL	Exports	Aug	€mn	21147	21600
14:00	PL	Imports	Aug	€mn	22016	21889
14:30	US	Initial Jobless Claims		k		326.0
FRIDAY (15 October)						
10:00	PL	CPI	Sep	% y/y	5.8	5.8
14:30	US	Retail Sales Advance	Sep	% m/m	-0.3	0.7
16:00	US	Michigan index	Oct	pts	73.5	72.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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