

Weekly Economic Update

Inflation remains in focus

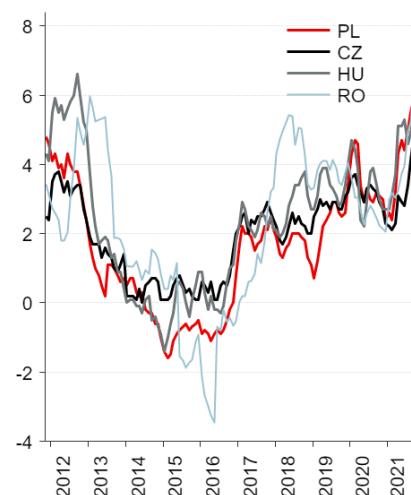
Economy next week

- On Friday (12 Nov) the flash GDP data will be released. **Our estimate for 3Q GDP growth is 3.8% y/y, which corresponds to 1.2% q/q s.a.** – still a decent result, albeit weaker than in the previous two quarters. Market consensus is c.1pp higher. We think that market expectations are a bit overdone, as the high-frequency data suggested that real activity in manufacturing and construction has stalled, even though retail trade kept expanding. Also, the trade balance has deteriorated sharply in 3Q and so the net exports' impact on GDP is going to be significantly negative, in our view. In theory, GDP reading below market consensus and quickly rising new Covid-19 wave could weaken market expectations for rate hike in December. But we think that even if it happens, it would be very short-lived as just after the weekend the attention will focus again on rising inflation.
- **On Monday the final CPI will be released, and on Tuesday the core inflation data.** Flash CPI jumped in October to 6.8% y/y, well above market expectations. The final data for August and September were revised up from the flash levels and it cannot be ruled out that this time the story will repeat. Inflation keeps surprising to the upside not only in the CEE region, but also in other markets. **Core inflation excluding food and energy rose to 4.6% y/y**, according to our estimate, from 4.2% in September, which confirms that the price impulse is strong and broad-based.
- The balance of payments data (also on Monday) is likely to show another current account deficit (our forecast -€1.2bn, market consensus €-1.3bn) despite continuing export expansion. On Friday (19 Nov) the labour market data will be released, most likely confirming a continuation of positive trends – moderate employment rise and elevated wage growth.
- Abroad, we will see data on industrial output, inflation and GDP in the euro zone. The Hungarian central bank holds a meeting and another rate hike is expected.
- **The middle of November is the informal deadline for the agreement between Poland and the European Commission as regards the Polish recovery and resilience plan.** EC president suggested earlier the Commission is ready to approve the plan if only Polish government agrees to include in the document the pledge to change the judiciary system (eliminate Disciplinary Chamber, reform disciplinary system, reappoint removed judges). If next week we see the confirmation of the compromise, it would mean big chance for the formal approval of the plan before year-end (it has to go through the European Council) and the resulting upfront payment of the 13% pre-financing (€4.7bn). Only the following payments will be conditioned on meeting the required changes in judicial system. Lack of such information would imply growing risk of freezing the recovery funds.
- Two risk factors are in the background: rising new wave of pandemic, plus the situation at the border with Belarus.

Markets next week

- Further this week and in the following week **EURPLN, similarly as other EM currencies, could stay under pressure of strengthening dollar and rising US yields** in response to higher-than-expected US CPI in October (6.2% y/y, 30-year high). Also local factors will be unfavourable: 3Q GDP below consensus, current account in deficit, continuing problems at the border with Belarus accompanied by growing Covid numbers (usually PLN-negative). **However, the zloty can gain if the National Recover Plan is affirmed by the European Commission.**
- The FRA market is anticipating 75bp rate hike in December. We see CPI inflation above 7% y/y in November and this means that December hike is probable. Still, markets are worried about a potential impact of such a fast tightening on economic growth (IRS curve is now slightly reversed in 2x10y and 5x10y segments). These worries could get an additional justification if our call for GDP proves right (below market consensus) and thus **the curve reversal could continue next week.** In a positive case, if the Recovery Plan is affirmed, asset swap spreads could narrow a bit, pricing-in lower risk premium. On Wednesday 17 November the NBP is to conduct the sole purchasing auction this month. There are no MF or BGK auctions next week (MF's switching tender on 25 November, BGK auction on 29 November).

Inflation rates in CEE, % y/y



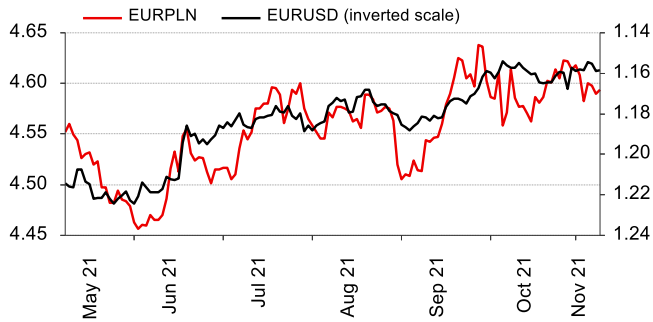
Source: Refinitiv Datastream, Santander

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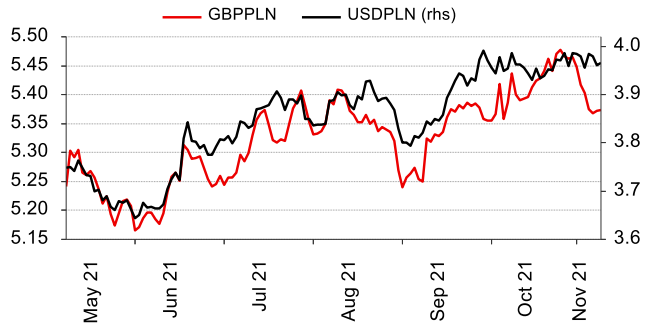
FX and FI markets

EURPLN and EURUSD



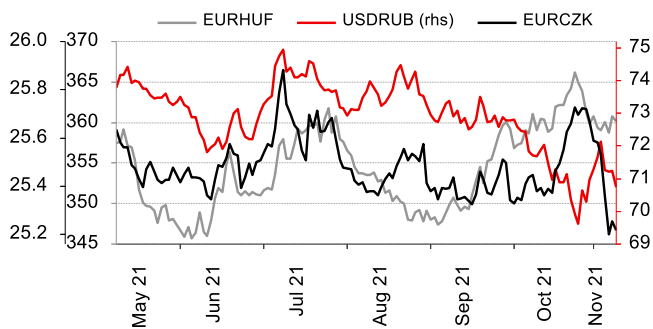
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



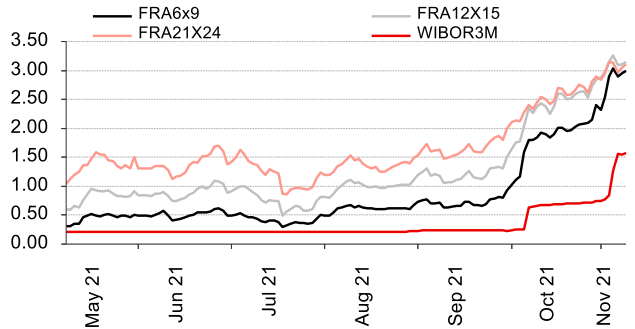
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



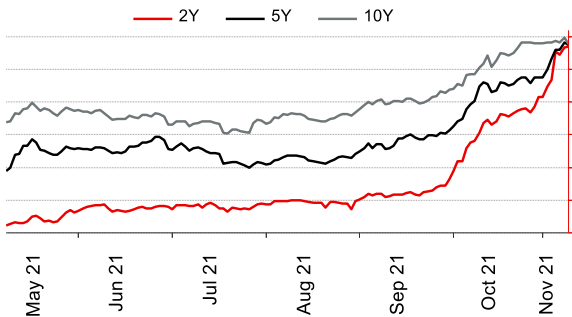
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PLN FRA and WIBOR3M



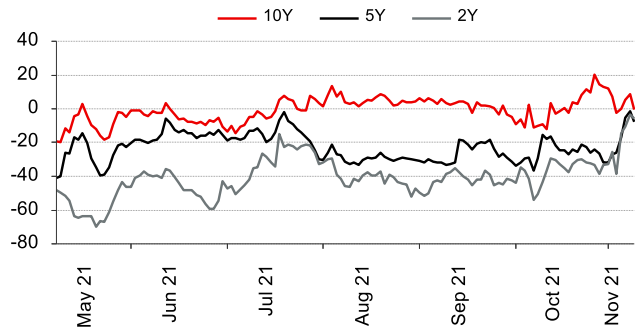
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



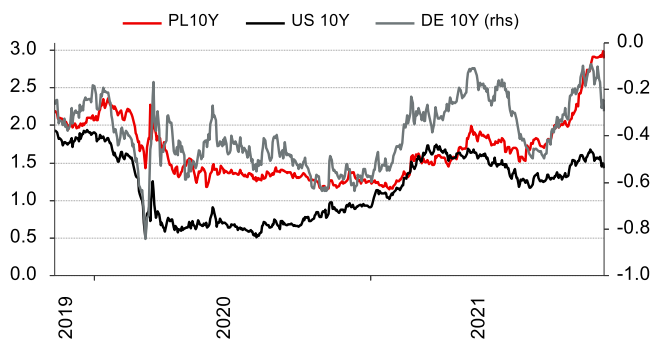
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



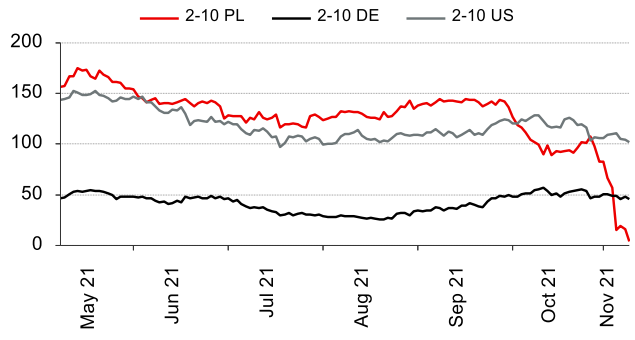
Source: Refinitiv Datastream, Santander Bank Polska

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 (15 November)						
10:00	PL	CPI	Oct	% y/y	6.8	6.8
14:00	PL	Current Account Balance	Sep	€mn	-	-1686
14:00	PL	Trade Balance	Sep	€mn	-	-1413
14:00	PL	Exports	Sep	€mn	-	25104
14:00	PL	Imports	Sep	€mn	-	25425
TUESDAY (16 November)						
09:00	HU	GDP	3Q	% y/y	-	17.8
11:00	EZ	GDP SA	3Q	% y/y	-	3.7
14:00	HU	Central Bank Rate Decision	Nov/21	%	-	1.8
14:00	PL	CPI Core	Oct	% y/y	-	4.6
14:30	US	Retail Sales Advance	Oct	% m/m	0.75	0.7
15:15	US	Industrial Production	Oct	% m/m	0.75	-1.29
WEDNESDAY (17 November)						
11:00	EZ	HICP	Oct	% y/y	-	4.1
14:30	US	Housing Starts	Oct	% m/m	1.61	-1.6
THURSDAY (18 November)						
14:30	US	Initial Jobless Claims		k	260.0	269.0
14:30	US	Index Philly Fed	Nov		20.95	23.8
FRIDAY (19 November)						
10:00	PL	Employment in corporate sector	Oct	% y/y	-	0.5
10:00	PL	Average Gross Wages	Oct	% y/y	-	8.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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