

# Weekly Economic Update

## Rates will go up, the question is how much

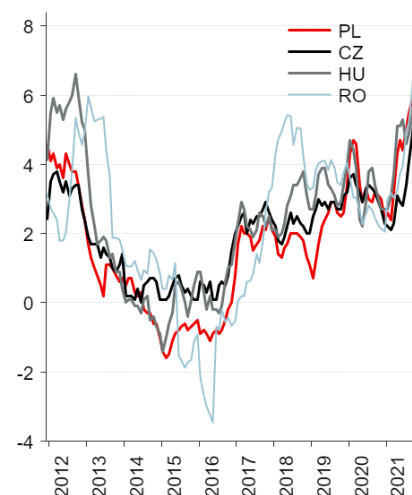
### Economy next week

- The key event of the next week is the **Monetary Policy Council meeting on Wednesday**. After strong data (GDP, CPI, PMI) and comments of NBP governor signalling that he saw room for rate hikes and changed opinion on inflation (no longer transitory, but burdensome), market started pricing-in rate hikes more aggressively: even 100bp in December (FRA1x4 at 2.83%) and target NBP rate at c.3.5% in 2-3 quarters. We have no doubts that the NBP will hike interest rates on Wednesday, just the scale is not so certain, as the signals from the central bank are (still) mixed. It is worth noting that all Glapiński's comments about possible tightening are accompanied by statements that rate hikes cannot be excessive, not to harm economic growth and unemployment. The new Omicron variant, fall in crude oil price, the government "anti-inflation" shield could be the arguments for the MPC against strong policy adjustment. Even one of the most "hawkish" MPC members E.Gatnar said recently that rates should be lifted by 50bp in December. Still, **we expect a 75bp rate hike**, and a possible suggestion of pause in the cycle.
- It is not clear when the post-meeting press conference will take place. In November it was in the afternoon just after the MPC meeting, which suggested a return to the pre-pandemic rule (decision and communication on the same day). But Mr.Glapiński said in one of recent speeches that it will take place on December 9th or 10th. We have no official confirmation yet.
- Apart from the MPC meeting, there are no important events in the domestic agenda. Abroad, new data on inflation will be in focus (US, DE, CZ, HU), production data (DE, CZ, HU), and Michigan index of consumer confidence at the end of the week.
- **The time for approval of Polish recovery and resilience plan is running out.** Few days ago the FT published article "[EU gets closer to unlocking Poland recovery plan](#)", but despite the optimistic tone of title there is hardly any evidence that the deal is nearing. If there is no green light from the EC in the nearest few days then chances for the 13% pre-payment would go practically to zero. The 2022 payments will be conditional on meeting certain obligations regarding the rule of law (in the case of the pre-payment a promise to deliver these was the sufficient condition).
- **Covid-19:** the wave of new cases seems to be close to the peak, while hospitalisations and deaths may still be rising according to models. The impact of the new Omicron variant on future pandemic developments remains uncertain.
- **Situation at Poland's eastern border:** the risk of an escalation of the conflict is still present – the USA keep warning about a possible Russian aggression on Ukraine. This is a potential risk factor.

### Markets next week

- Zloty has noticeably recovered from its earlier weakening, which was a function of three factors: 1) weaker USD and improvement in the global sentiment (other EM currencies also gained), 2) NBP Glapinski's comments which boosted expectations for quicker and faster interest rate hikes, 3) positive FT headline regarding the chances of approving of EU Recovery fund for Poland. Each of those factors might turn around in the coming week, we think. The upcoming FOMC meeting is the one during which it is likely that the tapering process would be accelerated. The US CPI inflation data will increase the probability of this happening. The size of the MPC interest rate hike will become clear on Wednesday. We think it is quite unlikely that it will match market expectations. The chances for the unlocking of EU recovery funds for Poland are diminishing day by day and the last-minute breakthrough does not look very probable. As a result, **we expect zloty weakening in the coming week, EURPLN might again start moving up, with 4.65 as the first important target.**
- On the fixed income market the elevated volatility remains. The yield curves both in Poland and on the core markets have been flattening recently due to e.g. fears regarding the Covid-19 strain (Omicron). This process could slow if the MPC interest rate increase turns out to be smaller than expected. Higher US inflation and loss of investors' faith in approval of EU recovery fund for Poland could favour higher domestic yields.

CPI inflation in the CEE region, %/y



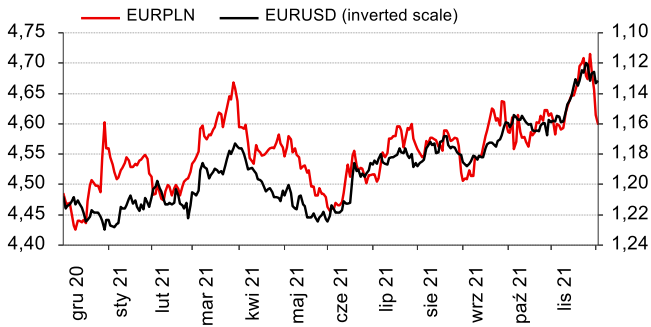
Source: Refinitiv Datastream, Santander

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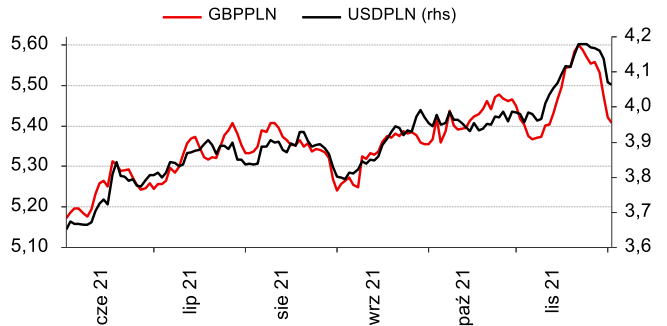
## FX and FI markets

### EURPLN and EURUSD



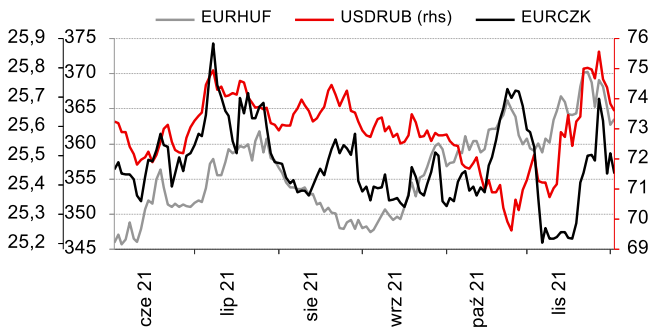
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



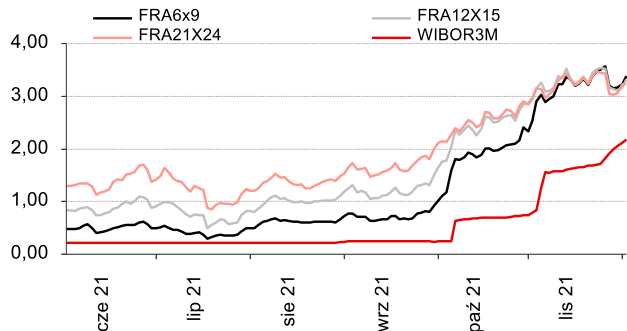
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



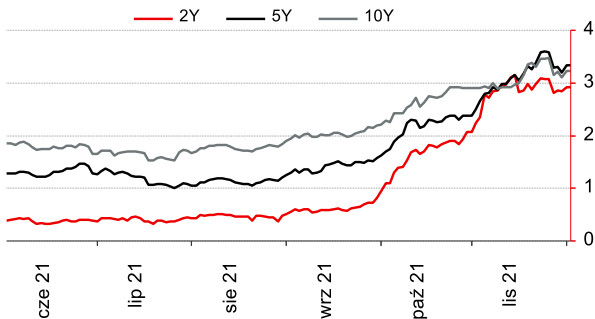
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



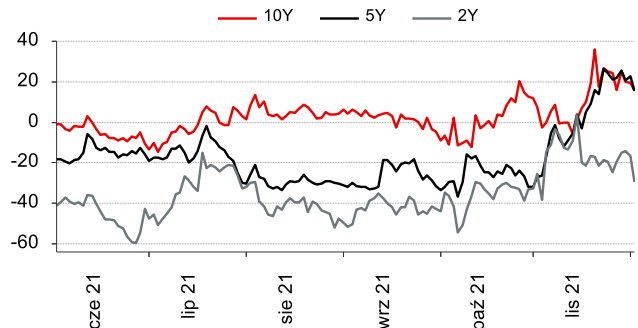
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



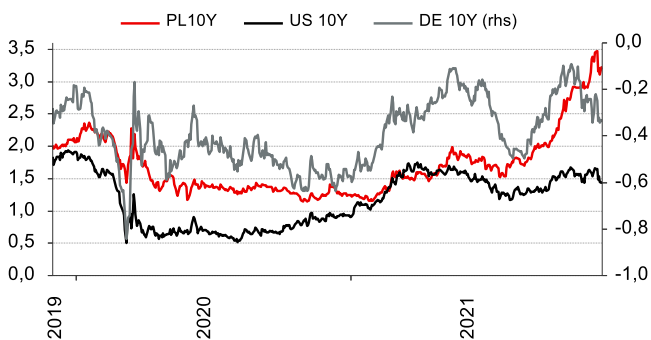
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



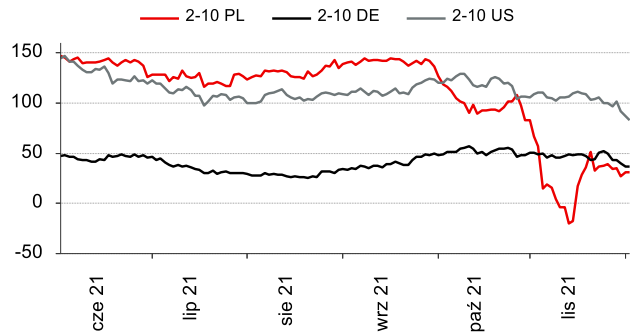
Source: Refinitiv Datastream, Santander Bank Polska

### 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 (6 December)</b>						
08:00	DE	Factory Orders	Oct	% m/m	-0.2	1.3
<b>TUESDAY (7 December)</b>						
08:00	DE	Industrial Production SA	Oct	% m/m	1.0	-1.1
09:00	CZ	Industrial Production	Oct	% y/y	-6.3	-4.0
09:00	HU	Industrial Production SA	Oct	% y/y		-1.7
11:00	EZ	GDP SA	3Q	% y/y	3.7	3.7
11:00	DE	ZEW Survey Current Situation	Dec	pts		12.5
<b>WEDNESDAY (8 December)</b>						
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>1.75</b>	<b>2.00</b>
09:00	HU	CPI	Nov	% y/y	7.2	6.5
<b>THURSDAY (9 December)</b>						
08:00	DE	Exports SA	Oct	% m/m		-0.7
14:30	US	Initial Jobless Claims		k		222.0
<b>FRIDAY (10 December)</b>						
08:00	DE	HICP	Nov	% m/m		0.3
09:00	CZ	CPI	Nov	% y/y	5.9	5.8
14:30	US	CPI	Nov	% m/m	0.7	0.9
16:00	US	Michigan index	Dec	pts	68.0	67.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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