

Weekly Economic Update

Zloty calm despite bond selloff

Economy next week

- Another week of high volatility in the domestic debt market and a good portion of domestic data publications is behind us. In contrast to the ending week, the coming week will be much more sparse in domestic publications. On Monday, we will only learn about the M3 money supply (we expect a slight acceleration to 7.7% y/y), and on Friday, Moody's rating agency will review Poland's rating. We expect the rating to be maintained at the current A2/P1 level, but we think the most interesting thing in the announcement will be a possible reference to recent signals from the EC regarding the possible suspension of EU cohesion fund payments to Poland.
- Abroad, on Monday we will learn the October PMI readings from Germany and the Eurozone, on Tuesday the German industrial sentiment index and the US consumer sentiment index. On Thursday, the main event will be the ECB meeting at which there will be another rate hike (we expect +75 bps). We expect the central bank to maintain its previous hawkish rhetoric aimed at prioritizing the fight against inflation even at the expense of economic growth. On Friday, we will learn the Fed's favourite inflation indicator for September - core PCE inflation, and in Europe, the first GDP estimates for Q3 for selected countries (including Germany, France, Spain).

Markets next week

- EURPLN went down to around 4.78. This was helped by rising expectations of a dynamic continuation of the NBP's rate hike cycle, as if against the MPC's stance, and relatively stable dollar-euro quotes, which allowed the zloty to improve on the basis of local factors. In our opinion, however, the current relative strength of the zloty is based on (a) the market assumption that the freezing of EU funds is not very likely, and (b) expectations of dynamic rate hikes, which, in light of the MPC's dovish stance, have, in our opinion, little chance of materializing. Since the verification of these expectations is likely to take place only on the occasion of the next MPC meeting, hence until then the zloty may continue to remain relatively stable, fluctuating in a limited way only to the rhythm of changes in sentiment on global markets. In the perspective of next week, the latter should not fluctuate significantly, which should also have a stabilizing effect on the zloty. In the longer term, we continue to expect the zloty to weaken. In addition to the markets' disappointment with the MPC's continued dovish stance, in our opinion, Poland's growing credit risk associated with the expected sharp increase in budget spending in 2023 and the danger of a freeze on EU cohesion funds for Poland will work against the domestic currency. These factors, together with further aggressive rate hikes in the main markets (primarily the US), should put increasing pressure on the zloty later this year.
- Another week of strong sell-off in the domestic debt market is behind us. The domestic curve across the board rose by more than 100bp setting new annual records for yields. With the arrival of further strong data from the country, undermining the NBP's narrative of an "inflation plateau", the market stopped believing that inflation could be brought under control soon. Also, the subsequent voices coming from dominating dovish wing of the MPC that the rate hike cycle is nearing its end, or even its de facto end, were ignored by the market. Having in mind the situation from about a year ago, when the MPC first assured that rate hikes would not take place before the end of 2021, and eventually had to change its mind, the markets have evidently started discounting a similar scenario this year, only that this time they assume that the cycle of hikes will have to continue. The strengthening of domestic debt, in addition to recent macroeconomic data (e.g., wages, retail sales), is also not helped by voices coming from the government side announcing further additional budget expenditures in 2023 (e.g., 13th and 14th pensions, gas price freeze), signals from the EC about a possible suspension of cohesion fund payments to Poland from the new budget, and the uncertain geopolitical situation in the region. Therefore, although domestic yields have already risen very strongly, there is still little basis for a possible reversal of this trend - especially looking ahead to the coming week. The domestic data calendar is quite thin, and the expected ECB rate hike and Christine Lagarde's hawkish rhetoric are unlikely to help either. Only the next MPC meeting could provide an opportunity to do so, but that too is still a long way off. As a result, although we consider the current levels of domestic yields to be exaggerated, we expect that by force of inertia in the coming week they will continue to follow the main markets, which, in our opinion, still have the potential for continued increases.

EURPLN and 10Y bond yield

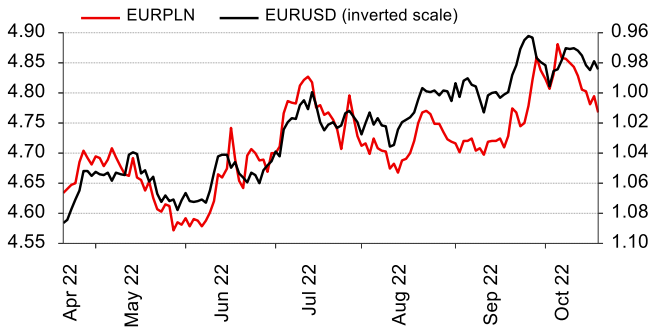


Source: Refinitiv, Santander

Economic Analysis Department:

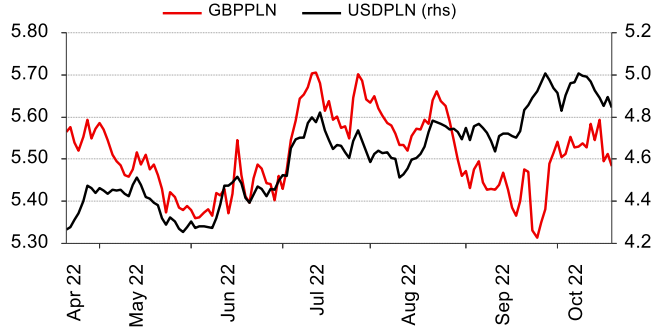
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EURPLN and EURUSD



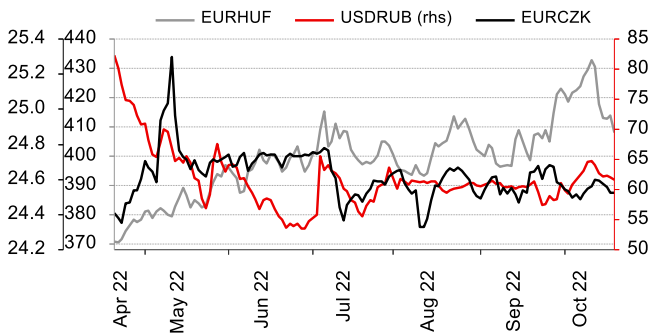
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



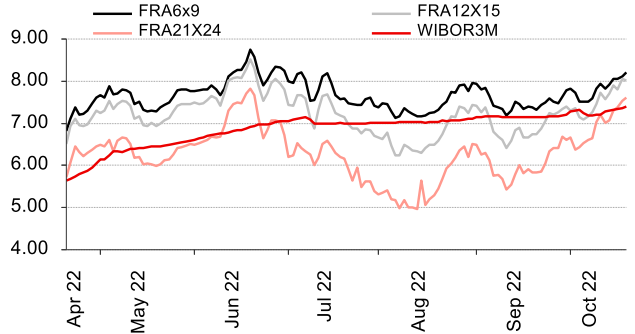
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



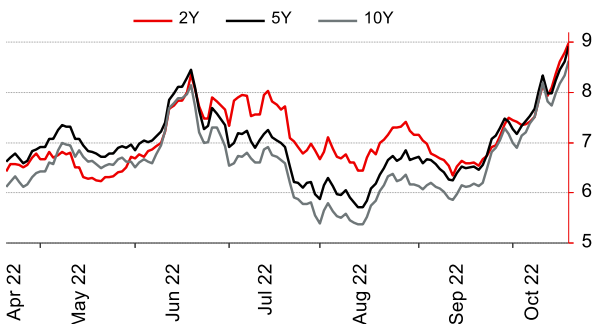
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



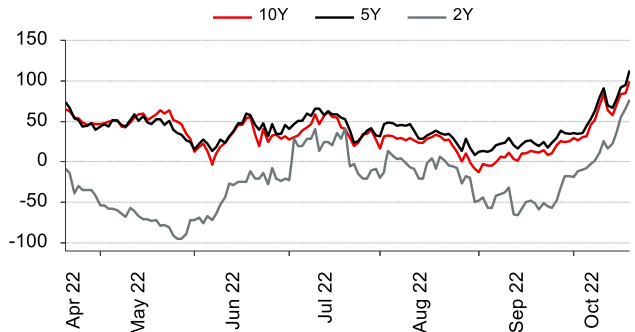
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



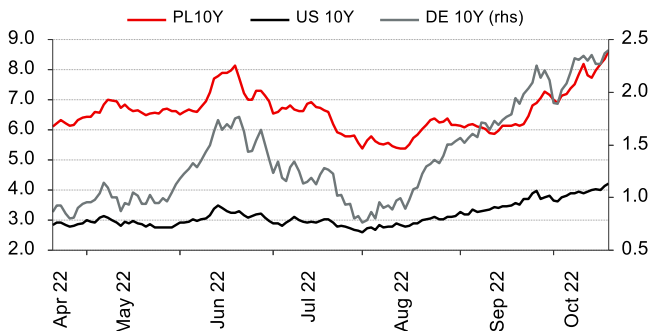
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



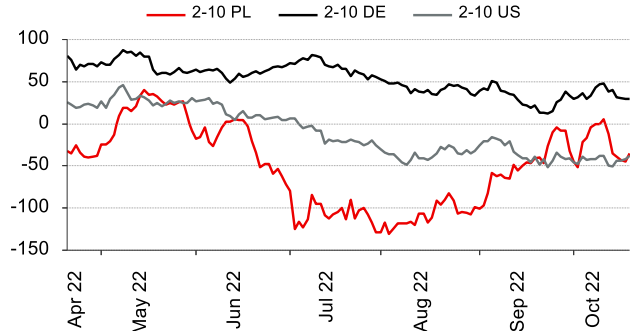
Source: Refinitiv Datastream, Santander Bank Polska

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 (24 October)							
09:30	DE	Germany Manufacturing PMI	Oct	pts	47.0		47.8
09:30	DE	Markit Germany Services PMI	Oct	pts	45.0		45.0
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	48.0		48.4
10:00	EZ	Eurozone Services PMI	Oct	pts	48.3		48.8
14:00	PL	Money Supply M3	Sep	% y/y	7.7	7.7	7.4
TUESDAY (25 October)							
10:00	DE	IFO Business Climate	Oct	pts	83.8		84.3
10:00	PL	Unemployment Rate	Sep	%	4.8	4.8	4.8
14:00	HU	Central Bank Rate Decision	Oct.22	%	13.00		13.00
16:00	US	Consumer Conference Board	Oct	pts	105.5		108.0
WEDNESDAY (26 October)							
16:00	US	New Home Sales	Sep	% m/m	-15.3		28.8
THURSDAY (27 October)							
14:15	EZ	ECB Main Refinancing Rate	Oct.22	%	0.6		-0.2
14:30	US	Durable Goods Orders	Sep	% m/m	2.3		-0.6
14:30	US	GDP Annualized	3Q	% Q/Q	233		214
14:30	US	Initial Jobless Claims		k	2.00		1.25
FRIDAY (28 October)							
10:00	DE	GDP WDA	3Q	% y/y	0.8		1.7
11:00	EZ	ESI	Oct	pct.	92.5		93.7
14:00	DE	HICP	Oct	% m/m	0.4		2.2
14:30	US	Personal Spending	Sep	% m/m	0.4		0.4
14:30	US	Personal Income	Sep	% m/m	0.3		0.3
14:30	US	PCE Deflator SA	Sep	% m/m	0.3		0.3
16:00	US	Michigan index	Oct	pts	59.6		59.8
16:00	US	Pending Home Sales	Sep	% m/m	-5.3		-2.0
	PL	Possible Poland's rating review by Moody's					

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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