

Weekly Economic Update

Will inflation spook markets on Halloween?

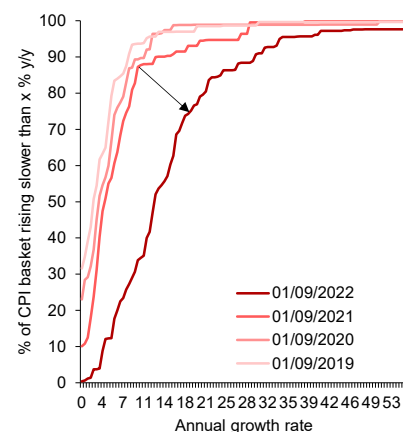
Economy next week

- The next week will start with a long weekend in Poland, in the middle of which the flash inflation data for October will be released (Monday 10:00CET). **Our CPI forecast is 18.3% y/y** (vs. 17.2% in September) **and 2% m/m** (the highest since April). The median according to Bloomberg survey is much lower: 17.7% y/y at the moment. If we are right, this would mean a renewed strong increase in inflation momentum, only partly driven by food and energy price rises, but increasingly spilling over into other categories. According to our estimates, food rose by around 2% m/m in October - clearly above the seasonal pattern, and fuels rose by as much as 9% m/m. However, other goods and services were also likely to go up rapidly. In our view, core inflation excluding food and energy accelerated to 11.3% y/y (a new record, vs. 10.7% in September), implying an increase in core prices of 1.2% m/m (still very high).
- Wednesday will see the **manufacturing PMI index** for Poland. We predict that the index will fall – following indicators in the eurozone and Germany – decreasing to 42.1, up from 43.0 in September; it will be still above the August local low (40.9).
- The GUS calendar still does not include the publication of **revised quarterly GDP data**, which, according to information from the beginning of the month (when the annual figures were revised), were due "in the second half of October". However, these data are expected any day now. The revision may significantly change the projected GDP path for the next quarters (but for now, it is impossible to say in which direction).
- Abroad, there will be a lot of data, the most important of which will be: October **HICP inflation in the euro area** (data from Italy, Germany and France suggest that it will rise strongly!), preliminary Q3 GDP in European countries, PMIs for industry and services, and, at the end of the week, the monthly US labour market report (NFP).
- Also central bank meetings are in the agenda, the most important of which will be **the FOMC decision** (Tuesday evening). Another 75bp rate hike is expected, but, as with the ECB, President Powell's rhetoric and the tone of communication on the policy outlook may be more important than the rate change. During the week, rate decisions will also be taken by the Czech National Bank (expected rates unchanged), the Bank of England (+75bp), the Bank of Australia (+25bp).

Markets next week

- High volatility reigns in financial markets and it is safe to assume that this will not change soon. Over the past week, there has been a gradual increase in investors' conviction that the Fed and ECB may be leaning towards a pivot, and reducing the pace of rate hikes in the coming months, mainly due to the growing risk of recession. This belief was reinforced after the ECB meeting, where higher recession fear was palpable in Christine Lagarde's tone. But this was immediately followed by new inflation data from France, Germany and Italy, which again surprised strongly upwards, foreshadowing a strong rise in HICP inflation for the euro area after the weekend. New data releases and information from central banks in the coming days may continue to cause sharp swings in investor sentiment and, with it, fluctuations in market quotations.
- After a fairly significant downward slide in bond yields from a local peak of around 9%, **we see the potential for an upward correction in yields** triggered by the release of CPI data, which we believe will rise strongly again. Low liquidity over the long weekend may further reinforce the scale of the correction. However, the extent to which this will be a sustained move will be determined by the trend in the core markets. If investors do not lose confidence in the imminent deceleration of Fed and ECB hikes, it is possible that the global trend of debt appreciation will continue until December.
- The zloty has strengthened markedly in the last three weeks, discounting a lot of potential positives (including market-priced rate hikes, increased global risk appetite, recent rumours of possible talks with the EC on the unblocking of EU funds), so for the coming **week we see potential for an upward rebound of EURPLN towards 4.75**, helped by the strengthening of the dollar after the Fed and probably strong NFP data. In the following week, the zloty will be influenced by, among other things, the MPC's decision on interest rates.

CPI breakdown by categories – distribution functions

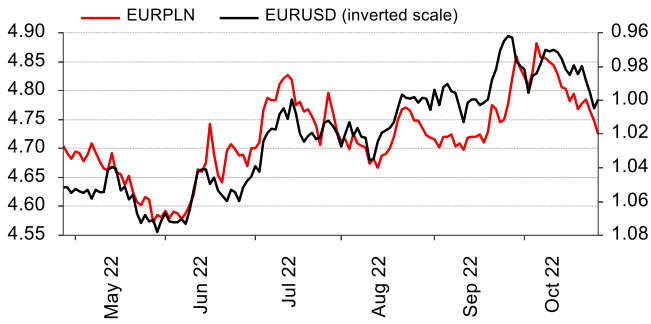


Source: GUS, Santander

Economic Analysis Department:

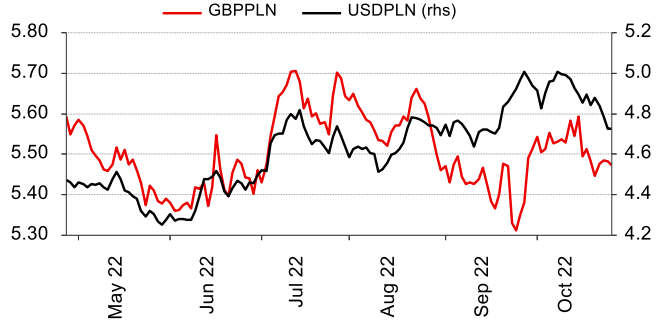
a.l. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarosław Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



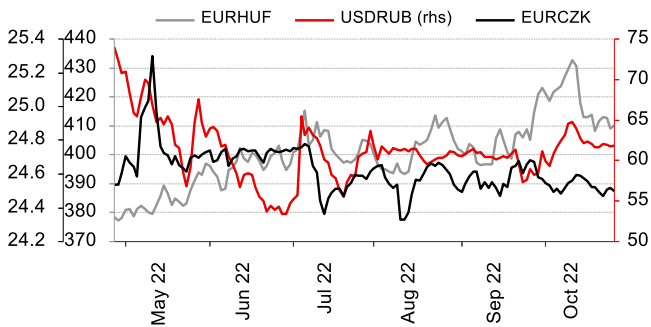
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



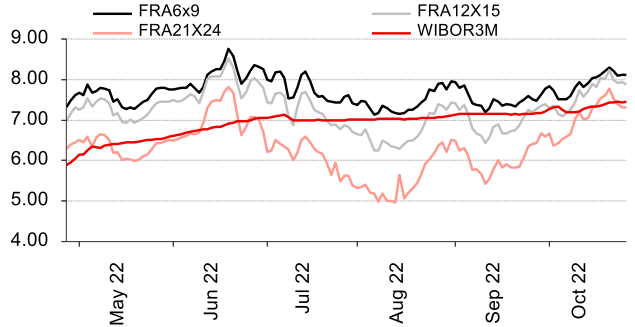
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



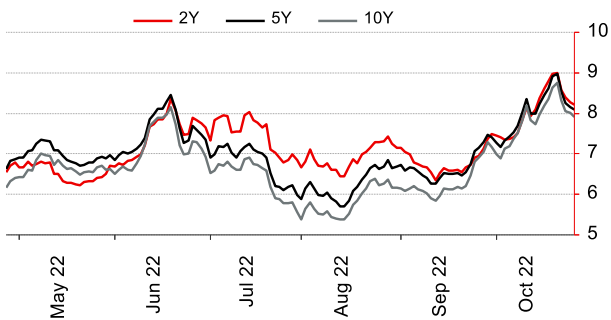
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



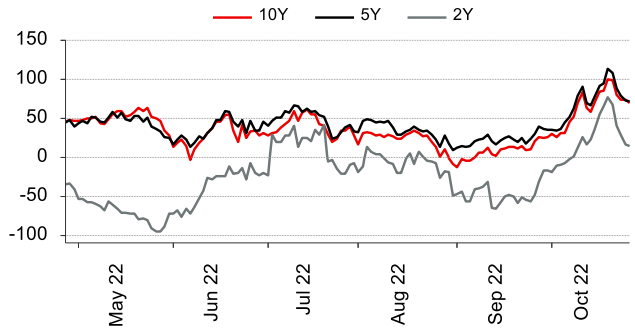
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



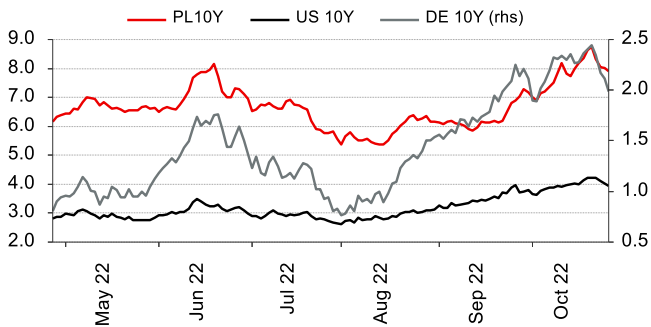
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



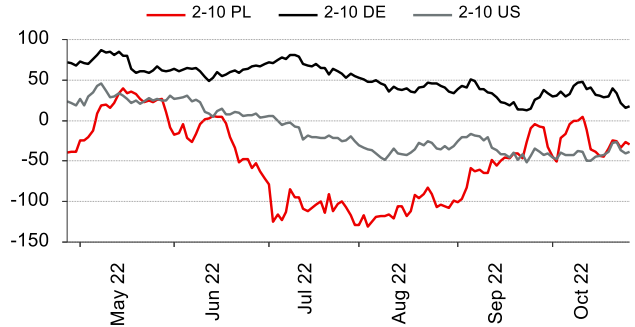
Source: Refinitiv Datastream, Santander Bank Polska

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 (31 October)						
08:00	DE	Retail Sales	Sep	% m/m	-0.6	-1.8
10:00	PL	CPI	Oct	% y/y	17.7	17.2
11:00	EZ	Flash HICP	Oct	% y/y	9.8	10.0
11:00	EZ	GDP SA	3Q	% y/y	2,1	4.1
TUESDAY (1 November)						
	PL	National holiday				
09:00	CZ	GDP SA	3Q	% y/y	1.6	3.7
15:00	US	ISM manufacturing	Oct	pts	50.0	50.9
WEDNESDAY (2 November)						
08:00	DE	Exports SA	Sep	% m/m	0.6	3.2
09:00	PL	Poland Manufacturing PMI	Oct	pts	42.7	42.1
09:55	DE	Germany Manufacturing PMI	Oct	pts	45.7	47.8
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	46.6	48.4
13:15	US	ADP report	Oct	k	200.0	208.0
19:00	US	FOMC decision	Nov.22		4.00	3.25
THURSDAY (3 November)						
02:45	CN	Caixin China PMI Services	Oct	pts	49.2	49.3
11:00	EZ	Unemployment Rate	Sep	%	6.6	6.6
13:30	US	Initial Jobless Claims	Oct.22	k	220.0	217.0
14:30	CZ	Central Bank Rate Decision	Nov.22		7.0	7.0
15:00	US	Durable Goods Orders	Sep	% m/m	0.6	0.4
15:00	US	ISM services	Oct	pts	55.5	56.7
15:00	US	Factory Orders	Sep	% m/m	0.4	0.0
FRIDAY (4 November)						
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-2.4
09:55	DE	Markit Germany Services PMI	Oct	pts	44.9	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	48.2	48.8
13:30	US	Change in Nonfarm Payrolls	Oct	k	200.0	263.0
13:30	US	Unemployment Rate	Oct	%	3.6	3.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.