

04 November 2022

Weekly Economic Update

The MPC's another clash with inflation

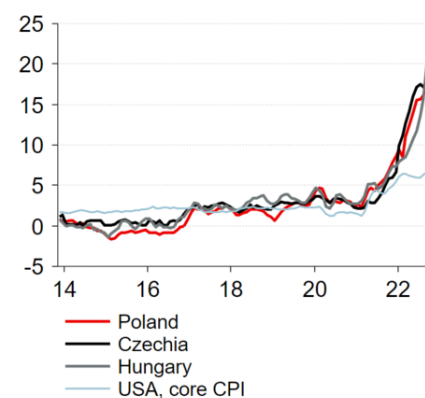
Economy next week

- After another big increase in inflation and, as we see it, quite good data from the real economy, the **time has come for the MPC to translate it all into an interest rate decision**. It is possible, however, that the current data will turn out to be irrelevant (we had a similar feeling after the October decision), as at the Wednesday meeting the Council will focus on the new NBP projection. Somewhat unfortunate, according to NBP Governor Adam Glapiński's remark a month ago, the inflation path was probably calculated under the assumption that the government anti-inflation shield would be maintained throughout next year (which seemed a natural assumption at the time). However, **the days of the shield may already be numbered** and at least the energy part of it will not be extended. This means that if the new projection shows CPI going below 10% y/y at the end of 2023, and this is what NBP Deputy Governor Marta Kightley said, then after correcting for the removal of the shield (according to us +4pp for the whole shield, +2.5-3ppt if the food part is maintained), this will no longer be the case. Because of the delay in full impact of rate hikes on CPI, for the MPC, it may be more important to see how fast inflation will come down in 2024.
- **We also know from the NBP deputy governor** that GDP growth in 2023 looks very weak in the new projection. Her view is that this, together with the monetary tightening already done, is enough to get inflation back under control and forget about further rate hikes. We agree that **a rate hike is unlikely at this meeting** – if the NBP Board sees no room for further tightening after reviewing the new projection, the majority of the MPC will probably come to the same conclusion. In our view, rates may also remain unchanged in December. The day after the MPC meeting, we expect a press conference by Adam Glapiński.
- The government is expected to address in the coming week the capping of gas prices for households and selected public institutions in 2023.
- Overseas, the key publication will be **US CPI inflation**. Together with a number of planned speeches from FOMC members, it will help markets determine whether the Fed is already thinking about relaxing its stance (this was hinted at by the post-meeting statement) or is consistently focused on fighting inflation (as the Fed chairman said after the meeting). In China, PPI inflation may fall below zero y/y for the first time since late 2020. CPI inflation will be shown by Czechia and Hungary, among others. Midterm elections will be held in the US covering all House of Representatives seats and 1/3 of the Senate seats.
- At the end of the week, the European Commission will publish its autumn forecasts, including the outlook for the fiscal situation of individual EU countries.

Markets next week

- The outgoing week brought an upward rebound in domestic yields and a strengthening of the zloty. Contributing to this were a high CPI inflation reading and signals on a possible reduction in the scope of the anti-inflationary shield in 2023 which supported market expectations for higher terminal NBP interest rate. However, the increases in domestic yields towards the end of the week were reduced under the influence of dovish comments by NBP Deputy Governor Marta Kightley, who said that the scale of the projected economic slowdown next year is large enough that it is unlikely to require further rate hikes to bring down inflation in Poland.
- For markets, the key event will be the MPC's decision and the NBP governor's view on the monetary policy outlook. In our view, expectations for a rate hike, which have been building since the last meeting on the back of rising inflation and assurances that the cycle of rate hikes is not over, but only on hold, possibly until the publication of the November projection, will be markedly reduced. No matter if the MPC ultimately holds off on further hikes or raises rates by 25 bp, we assume that the previously dovish rhetoric will not change significantly, which could be a bit of a disappointment for markets. As a result, **we expect domestic yields to fall close or slightly below 8%**. Even a minimal decline in the US y/y core CPI for October could further support a reduction in expectations for rate hikes not only in the US, but also in Poland, Helping POLGBs strengthen.
- **We expect a reduction in expectations of rate hikes in the country will lift EURPLN to about 4.75**. The potential for a more significant weakening in the near term seems limited both by the liquidity situation in the domestic FX market (the high cost of playing against the zloty) and by the policies of the ECB and the Fed. Although they are not giving up the fight against inflation, they are evidently trying to shift into a "lower gear" in the process of fighting it, or seem to be close to such decisions due to the expected stronger economic slowdown. However, since it is not yet a reality, but only appears on the horizon, this, at least temporarily, creates a slightly better climate in global markets for the PLN and other CEE FX. Thus, the scale of potential depreciation of the zloty as a result of the decline in expectations of a rate hike in the country should not be very large.

CPI inflation in CE3, core inflation in the USA, %y/y

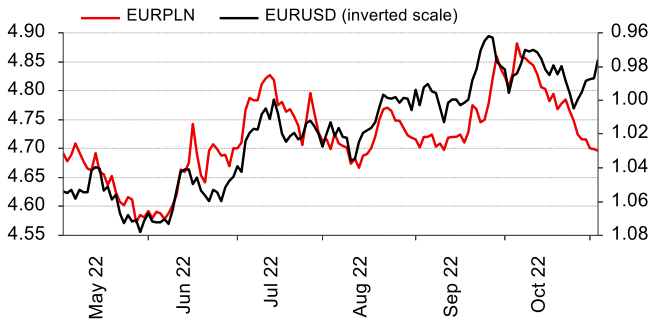


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

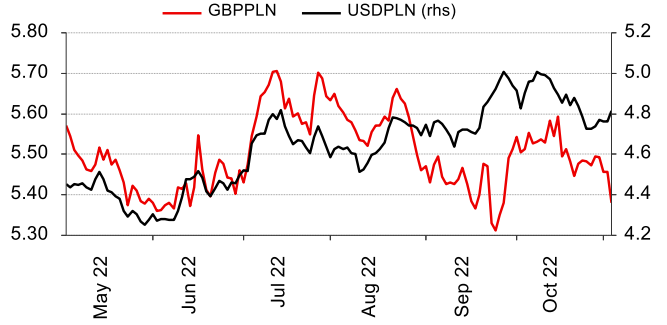
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EURPLN and EURUSD



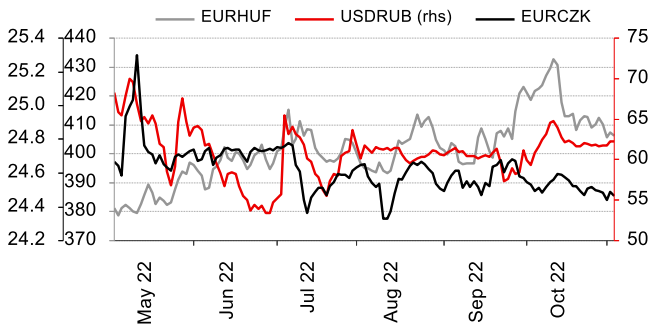
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



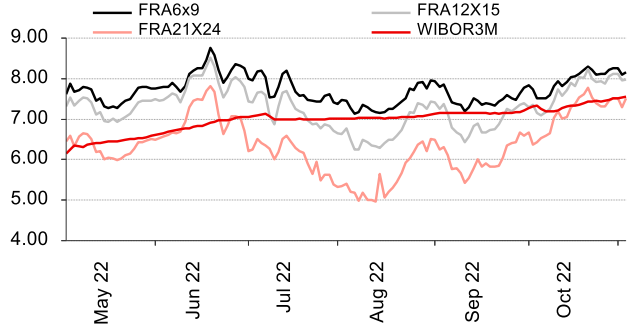
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



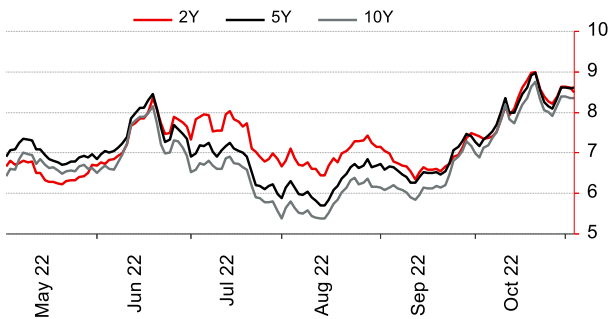
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



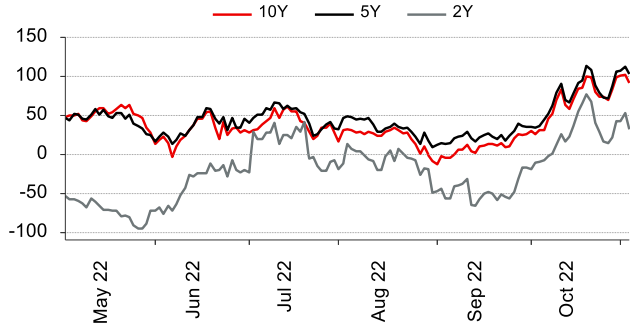
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



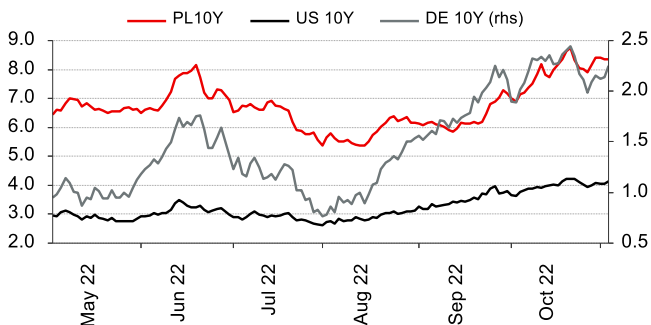
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



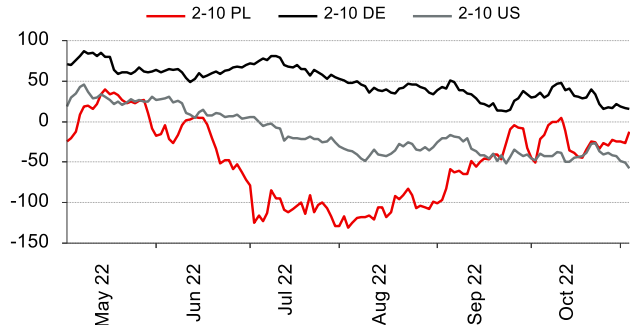
Source: Refinitiv Datastream, Santander Bank Polska

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 (7 November) | | | | | | | |
| 08:00 | DE | Industrial Production SA | Sep | % m/m | 0.2 | - | -0.8 |
| 09:00 | CZ | Industrial Production | Sep | % y/y | 7.2 | - | 10.3 |
| TUESDAY (8 November) | | | | | | | |
| 09:00 | HU | Industrial Production SA | Sep | % y/y | 8.5 | - | 9.3 |
| 11:00 | EZ | Retail Sales | Sep | % m/m | 0.4 | - | -0.3 |
| WEDNESDAY (9 November) | | | | | | | |
| | PL | MPC decision | | % | 7.0 | 6.75 | 6.75 |
| 09:00 | HU | CPI | Oct | % y/y | 21.0 | - | 20.1 |
| THURSDAY (10 November) | | | | | | | |
| 09:00 | CZ | CPI | Oct | % y/y | 18.0 | - | 18.0 |
| 13:30 | US | Initial Jobless Claims | | k | 220.0 | - | 217.0 |
| 14:00 | PL | MPC minutes | Oct | | | | |
| 14:30 | US | CPI | Oct | % m/m | 0.7 | - | 0.4 |
| FRIDAY (11 November) | | | | | | | |
| 08:00 | DE | HICP | Oct | % m/m | 1.1 | - | 2.2 |
| 16:00 | US | Michigan index | Nov | pts | 59.6 | - | 59.9 |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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