

Weekly Economic Update

GDP growth will decelerate again

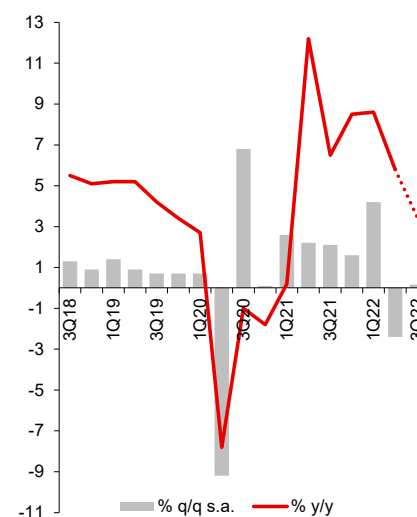
Economy next week

- The NBP president Adam Glapiński said at today's press conference that the MPC's decision to keep interest rates on hold was a fully conscious choice that inflation's return to the target should be gradual, not a rapid one, as the latter could trigger significant social and economic costs. The MPC is fully aware that inflation may rise further in the nearest months, but it expects a beginning of a steady decline since March, which should bring inflation towards the target in 2025. In the MPC's assessment the current level of interest rates is adequate. However the tightening cycle has been put on hold, not terminated, and the next decisions in monetary policy will depend on incoming information. Summing up, the central bank is clearly signalling that it is pretty much done with interest rate hikes in Poland, but at the same time is not closing the door for resuming the cycle if the scenario changes materially vs. current expectations. We think that **interest rates will remain on hold at least until March**. We do not rule out additional +50bp in March-April (in one or two steps) in the scenario when inflation jumps above 20% or PLN sells off significantly. Yet, the probability of this scenario seems to be diminishing, especially if inflation abroad stops surprising to the upside.
- After the weekend, the domestic calendar will see the publication of the new NBP Inflation Report, with details of the new projection, and the September balance of payments (Monday), preliminary 3Q GDP and final October inflation (Tuesday), core inflation (Wednesday). Abroad, quite a few countries will also publish GDP and inflation data, as well as industrial production.
- Our forecast points to a **slight narrowing of the current account deficit** (to -EUR2.9bn) with a declining, albeit still high, export and import growth. Unless the data cause a major surprise, it should not materially affect the exchange rate.
- The detailed inflation data are also unlikely to be a breakthrough for the market, unless the preliminary reading of 17.9% is revised - **another rise in CPI followed by core inflation of just over 11% y/y**, which did not trigger a reaction from the MPC, is already, it seems, priced in.
- The key domestic publication will be GDP growth. We estimate that after a marked decline in seasonally adjusted GDP in 2Q (-2.4% q/q - the worst performance in the EU), **3Q saw a slight upward rebound (+0.2% q/q), implying a deceleration of annual GDP growth to around 3.5% y/y**. This would imply that a technical recession (two consecutive quarters of declining GDP level) is still avoided, but it would not negate the scenario that we expect, in which the culmination of the economic downturn is still to come, at the beginning of next year (in 1Q23 annual GDP growth clearly below zero). In most of the EU countries which have already reported preliminary 3Q readings there was a mild q/q increase (Czechia and Austria being the exceptions). The consensus in the survey run by Parkiet (calculated before the revision of historical GDP data) pointed to a 3% y/y increase. If the GDP reading had turned out to be a disappointment, it would have strengthened the MPC's case for an end to the rate hike cycle (and vice versa - stronger growth means potentially greater difficulty in extinguishing inflation).

Markets next week

- The MPC's leaving interest rates unchanged gave impetus to the downward slide and steepening of the bond and swap curves and the plunge in the FRA market. This move was further reinforced after the surprise lower-than-forecast inflation in the US. The NBP's peak rate as priced by the market moved from around 8% at the beginning of the week to around 7%. Bond yields have already made a big move downwards, but this may not be the end of it and **after the weekend we still see room for 10Y to slide to 7% and 2Y even lower**.
- The zloty strengthened at the beginning of the week and then weakened in anticipation and then reaction to the MPC decision. However, this weakening was rather minor - EURPLN struggled to break through 4.72 even despite the strengthening of the dollar. On the other hand, the EURUSD surge and the improvement in global market sentiment this afternoon, following the publication of lower-than-forecast US inflation, did not support our currency. In the week ahead, **we assume that EURPLN may hover near 4.69**. Better global sentiment related to easing inflation concerns in the US may be neutralised by lower expectations of rate hikes by the MPC. The zloty's behaviour may be influenced by news on the government's attempts to reach an agreement with the EC on the unblocking of the recovery fund. Wednesday's visit to Brussels by the Minister for European Affairs did not yield tangible results, but talks are continuing, so the issue is open.

GDP growth in Poland

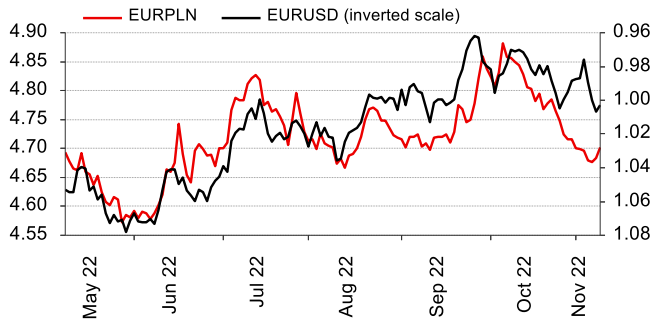


Source: GUS, Santander

Economic Analysis Department:

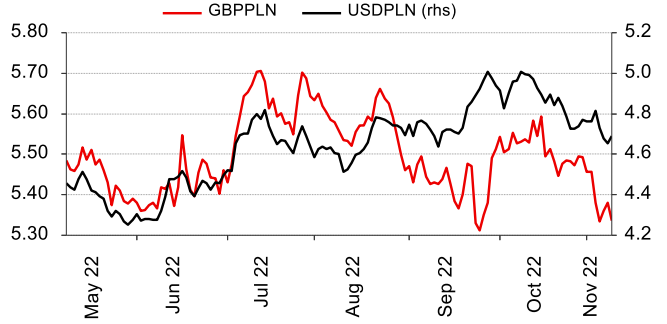
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EURPLN and EURUSD



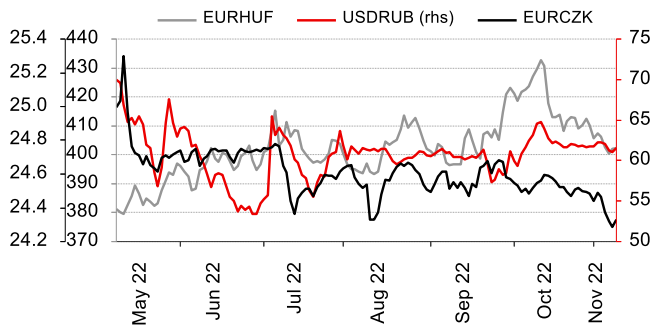
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



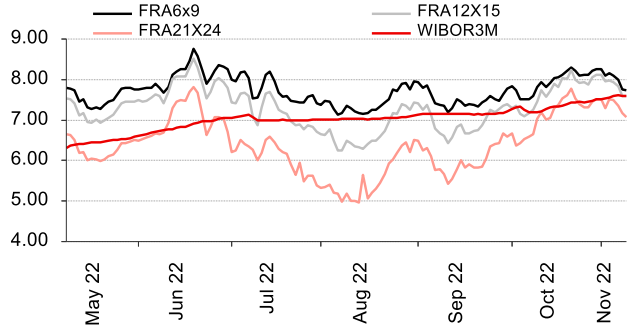
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



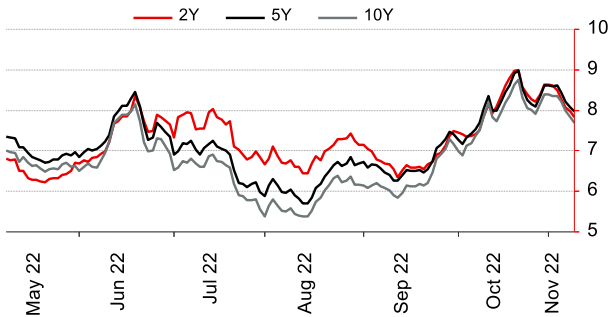
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



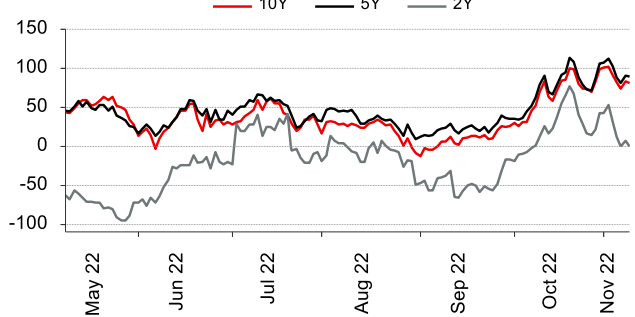
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



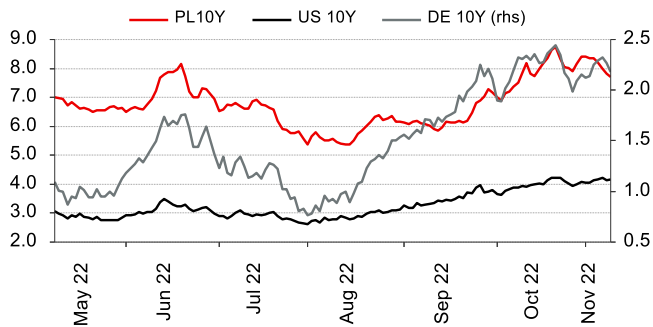
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



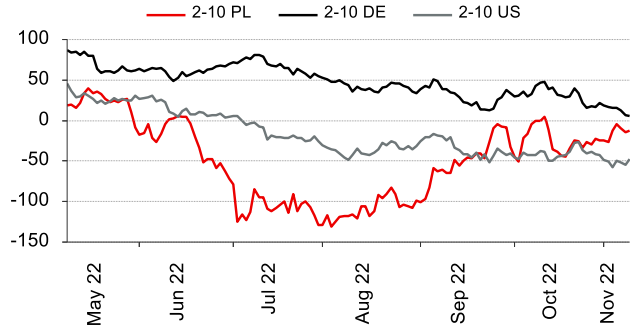
Source: Refinitiv Datastream, Santander Bank Polska

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		
FRIDAY (11 November)							
	PL	National holiday					
08:00	DE	HICP	Oct	% m/m	1.1	-	2.2
16:00	US	Michigan index	Nov	pts	59.5	-	59.9
MONDAY (14 November)							
11:00	EZ	Industrial Production SA	Sep	% m/m	-	-	1.5
14:00	PL	Current Account Balance	Sep	€mn	-2929	-2915	-3967
14:00	PL	Trade Balance	Sep	€mn	-1921	-2135	-2927
14:00	PL	Exports	Sep	€mn	27746	27422	25358
14:00	PL	Imports	Sep	€mn	29667	29557	28285
TUESDAY (15 November)							
09:00	HU	GDP	3Q	% y/y	-	-	6.5
10:00	PL	CPI	Oct	% y/y	17.9	17.9	17.2
10:00	PL	GDP	3Q	% y/y	3.0	3.5	5.8
11:00	EZ	GDP SA	3Q	% y/y	-	-	2.1
11:00	DE	ZEW Survey Current Situation	Nov	pts	-	-	-72.2
WEDNESDAY (16 November)							
14:00	PL	CPI Core	Oct	% y/y	11.2	11.1	10.7
14:30	US	Retail Sales Advance	Oct	% m/m	0.9	-	0.0
15:15	US	Industrial Production	Oct	% m/m	0.0	-	0.4
THURSDAY (17 November)							
11:00	EZ	HICP	Oct	% y/y	9.9	-	10.7
14:30	US	Housing Starts	Oct	% m/m	-1.0	-	-8.1
FRIDAY (18 November)							
16:00	US	Existing Home Sales	Oct	% m/m	-7.0	-	-1.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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