

# Weekly Economic Update

## Polish economy enters 4Q

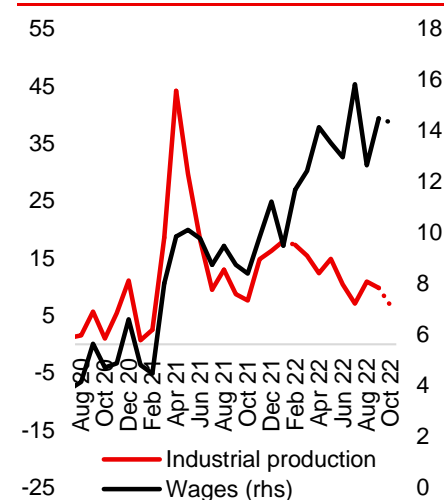
### Economy next week

- A week filled with monthly data from Poland lies ahead. We see a risk that the **numbers describing current economic activity in Poland** in October (industrial and construction production, and to some extent also retail sales) will be weaker than the market assumes. This week we saw that the Polish economy decelerated at a moderate pace in 3Q (GDP growth of 3.5% y/y did not deviate down from expectations), but the culmination of negative factors is still ahead of us and the numbers from the beginning of 4Q may already indicate this. On the other hand, we do not think that the October readings already show a negative adjustment of the labour market to the weakened economy - both we and the market consensus expect the continuation of a high (though not as high as CPI) rate of wage growth and only a marginal reduction in the rate of employment growth. The calendar also includes business and consumer sentiment indicators - likely to go deeper, PPI inflation - most likely with another significant decline, and money supply data.
- We are also awaiting data from the GUS on corporate earnings in 3Q. The 2Q report already pointed to softness in the results due to rapidly rising costs and a decline in average margins suggesting that the demand barrier has begun to interfere with the full pass-through of higher costs to own prices and thus to CPI. A marked decline in margins in 3Q would give hope for a faster pullback in inflation in Poland.
- Abroad, the focal point will be the **preliminary PMIs**. Previous readings for Europe have surprised by the scale of the deterioration in industrial sentiment (preliminary readings were already surprisingly bad and the final prints further exacerbated the scale of the decline), while services indicators managed to surprise on the upside. If the latter had again resisted large declines it could undermine the widespread feeling that the Eurozone economy is headed for a recession.

### Markets next week

- Following the sharp declines in yields in recent weeks and the marked weakening of the dollar, Fed officials attempted to tone down markets' expectations of a "dovish pivot" in the central bank's monetary policy. They made remarks that lower pace of tightening does not automatically imply lower terminal rate. These remarks had little impact on the markets, causing only very limited upward adjustments in yields in both global markets and the domestic market. Given the clear decline in US CPI inflation, seen for several months now, the return of core inflation to declines, and lower PPI inflation readings, it seems that investors are no longer likely to consider that the Fed may again accelerate the pace of monetary policy tightening. Hence, market expectations for the target level of US interest rates remained around 5%. If weakness comes out in the Polish data published in the coming week regarding activity and PPI prices, not to mention a clear downward deviation of wages from expectations, domestic yields will find no support in local data for further increases. Nevertheless, looking ahead to the coming week, we expect that the upward correction in yields that has begun this week may continue. The pretext for this could be the relatively stable economic readings from the Eurozone and the US, the subdued tone of Wednesday's FOMC minutes, in line with the narrative presented by Fed members in the past week, and the Ministry of Finance's bond sale auction. In our view, however, **the extent of such a possible upward movement on Polish yields should not clearly exceed the 7.50% level at any point in the local curve.**
- On the foreign exchange market, after a sudden anxiety caused by the impact of a stray missile on Polish territory and a spike in the weakening of the zloty, the situation calmed down with the quick clarification of the situation. The zloty's quotations returned to the starting levels around 4.70 vs. the euro. In our opinion, the EUR/PLN rate may, however, try to rise again in the coming week, but the reason for this may come mainly from global markets - primarily from the possible recovery of the dollar after the publication of the FOMC minutes. However, **the EUR/PLN rate should not exceed the level of 4.75.**

Poland: industrial output and corporate wages, %y/y + our forecast

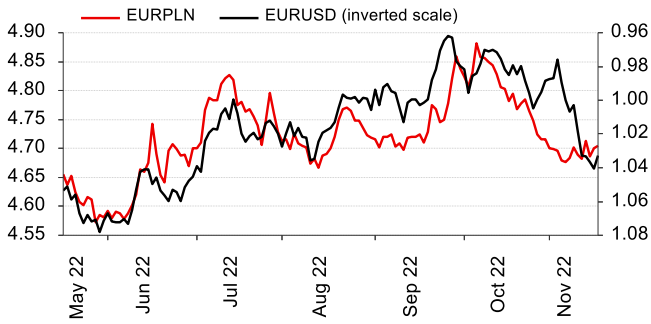


Source: GUS, Santander

### Economic Analysis Department:

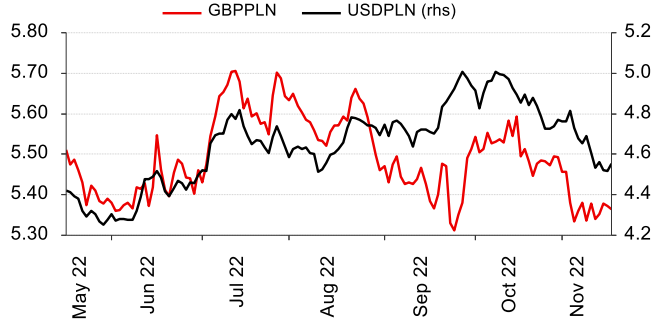
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**EURPLN and EURUSD**



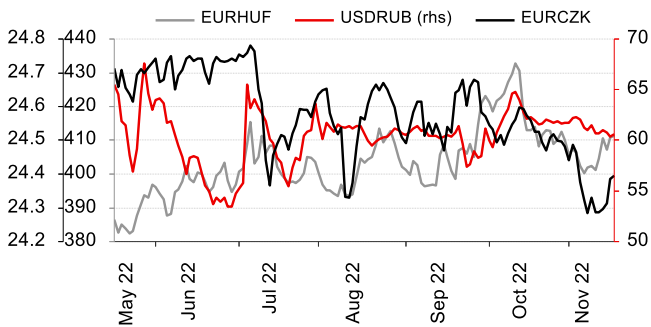
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



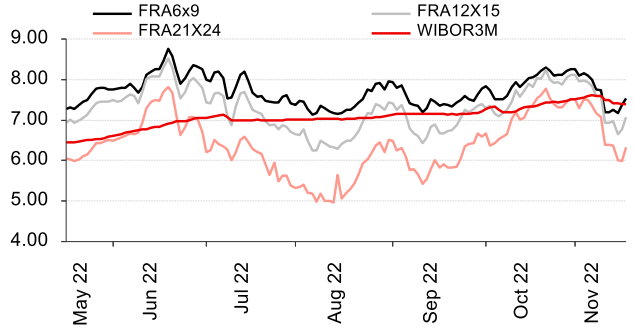
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



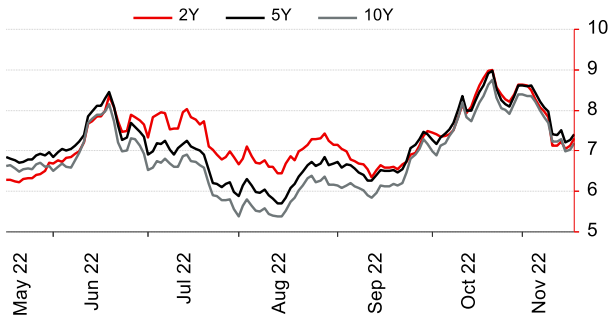
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



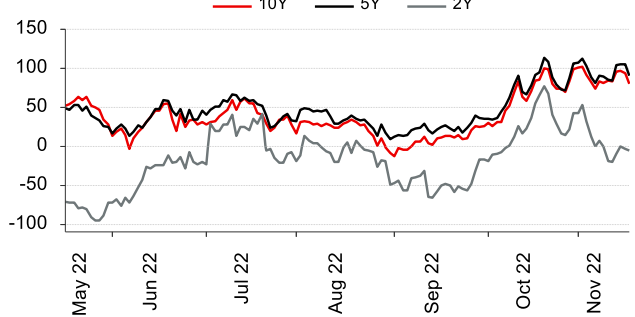
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



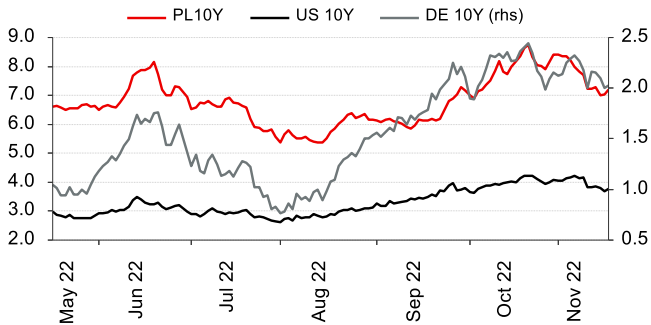
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



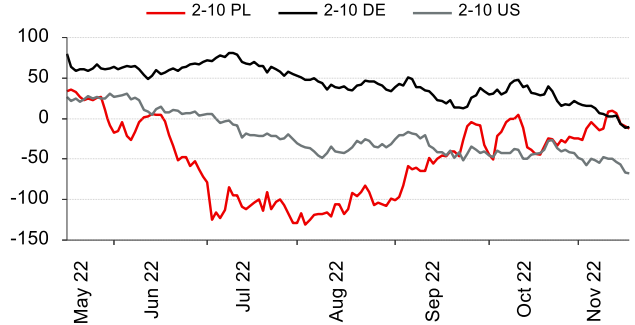
Source: Refinitiv Datastream, Santander Bank Polska

**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		
MONDAY (21 November)							
No key events							
TUESDAY (22 November)							
10:00	PL	Employment in corporate sector	Oct	% y/y	2.2	2.2	2.3
10:00	PL	Sold Industrial Output	Oct	% y/y	7.8	6.7	9.8
10:00	PL	PPI	Oct	% y/y	23.5	23.5	24.6
10:00	PL	Average Gross Wages	Oct	% y/y	13.9	14.3	14.5
14:00	HU	Central Bank Rate Decision	Nov.22	%	13.0		13.0
WEDNESDAY (23 November)							
09:30	DE	Germany Manufacturing PMI	Nov	pts	45.0		45.1
09:30	DE	Markit Germany Services PMI	Nov	pts	46.2		46.5
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	46.0		46.4
10:00	EZ	Eurozone Services PMI	Nov	pts	48.0		48.6
10:00	PL	Construction Output	Oct	% y/y	-0.8	-2.1	0.3
10:00	PL	Retail Sales Real	Oct	% y/y	3.1	2.9	4.1
14:30	US	Durable Goods Orders	Oct	% m/m	0.5		0.4
14:30	US	Initial Jobless Claims	Nov.22	k	225		222.0
16:00	US	Michigan index	Nov	pts	55.5		54.7
16:00	US	New Home Sales	Oct	% m/m	-4.6		-10.9
20:00	US	FOMC minutes					
THURSDAY (24 November)							
10:00	DE	IFO Business Climate	Nov	pts	85.0		84.3
13:30	EZ	ECB minutes					
14:00	PL	Money Supply M3	Oct	% y/y	7.5	7.3	7.7
FRIDAY (25 November)							
08:00	DE	GDP WDA	3Q	% y/y	1.2		1.2
10:00	PL	Unemployment Rate	Oct	%	5.1	5.1	5.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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