

Eyeopener

Inflation surprised to the downside this time

Today PMI indices, including the Polish one

Powell suggesting a slower pace of rate hikes

Inflation finally down in November, major slowdown in consumption and investment in 3Q

Zloty stronger vs euro, domestic data helped bring yields lower

Today we will get to know the PMI and ISM surveys describing industrial sentiment in many economies, including Poland. In our opinion, the PMI for Polish manufacturing may rebound slightly from October's level of 42 points, similarly to what the preliminary indices for other European countries or the GUS business climate index did. But this will not fundamentally change the picture for the industry, which is clearly in the process of reducing production. US consumer income and spending data will also be important for the markets. Yesterday, Fed chairman **Jerome Powell** stressed that the fight against inflation is not over and that interest rates will have to rise higher than FOMC members predicted back in September, but at the same time he indicated that slowing the pace of rate hikes makes sense and could happen as early as at the December meeting, as significant progress has already been made towards a 'sufficiently restrictive' policy. These words had a positive impact on market sentiment and supported expectations of a 50bp hike instead of 75 at the upcoming meeting. In addition to this, news from China on the local easing of covid restrictions following the recent protests by residents may also influence markets.

Polish GDP growth in 3Q22 reached 3.6% y/y (revised up from the flash reading of 3.5%), slowing from 5.8% y/y in 2Q. The breakdown of growth looks worse than we had expected: both private consumption and investments decelerated sharply. We think that the Polish economy will keep slowing in the coming quarters, amid deteriorating sentiment, high interest rate environment, potential energy shortages. We expect 4Q22 and 1Q23 to show negative q/q growth. In 1Q23 a clearly negative y/y print is also possible. A gradual economic recovery should be felt in 2H23, but 2023 full-year GDP growth may be close to zero. **CPI inflation eased to 17.4% y/y** in November from 17.9% y/y in October, as compared to our and market forecasts of a slight increase to 18.0% y/y. The annual CPI declined for the first time since February. We believe that inflation will remain close to November levels in December, with a possible rebound in early 2023 linked to the withdrawal of the 'Anti-Inflation Shield'. We do not yet know all the details of the 'Shield' cancellation and of the possible new measures, but in our view inflation could break 20% in February before embarking on a downward trend and sliding to around 10% at the end of 2023. The data support the MPC's stance to stabilise rates now. Read more in [Economic Comment](#).

MPC's Iwona Duda assessed that in the light of the available data and forecasts, including NBP projections, the current level of interest rates is appropriate, but the impact of the implemented rate hikes still has to be seen. In turn, **Henryk Wnorowski** expressed the opinion that 3Q GDP data are quite good, economic growth is likely to slow further, but there is no threat of recession in Poland. In our opinion, the GDP data may be hard to interpret due to the again large contribution of inventories to economic growth, while the sheer scale of the slowdown in private consumption, more than a percentage point below the NBP projection, is a clear disinflationary signal. It seems to us that the risk of falling into a technical recession is greater than avoiding it and that real GDP growth (y/y) will fall below zero in 1Q23.

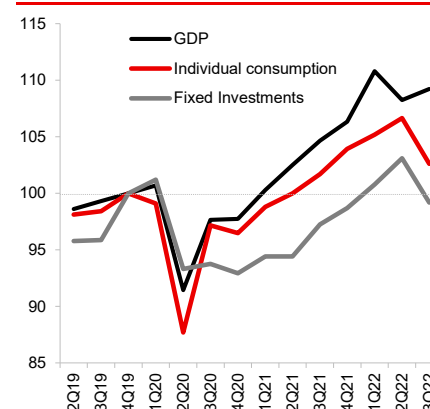
EURUSD rose to 1.04 from near 1.03. The dollar weakened after Fed chief Jerome Powell's speech.

EURPLN declined to 4.66 from around 4.67 as expectations for further interest rate increases in Poland fell following the domestic inflation reading for November.

Other CEE currencies: EURCZK held around 24.33. EURHUF rose to around 408 from 405. The European Commission has approved Hungary's National Recovery Plan, but makes the release of funds conditional on the implementation of anti-corruption reforms and enhancing the independence of the judiciary. The EU side expects Hungary to withdraw its veto on EU aid to Ukraine and the minimum corporate tax previously approved within the OECD.

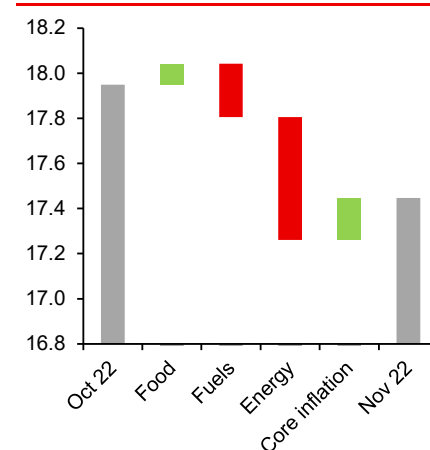
Debt market: The domestic yield curve fell by around 11bp on average. Rate hike expectations in the FRA market also fell markedly. Yields fell under the influence of the domestic inflation reading. This was the first CPI reading from Poland which was part of the disinflationary trends seen earlier on the main markets. The German yield curve rose slightly, the US yield curve fell by around 16bp on average. The declines in yields abroad were the result of the remarks of Fed chief Jerome Powell.

Level of GDP and main components, seasonally adjusted



Source: GUS, Santander

Breakdown of change in CPI, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.6693	CZKPLN	0.1914
USDPLN	4.4659	HUFPLN*	1.1402
EURUSD	1.0450	RUBPLN	0.0733
CHFPLN	4.7354	NOKPLN	0.4550
GBPPLN	5.3994	DKKPLN	0.6273
USDCNY	7.0597	SEKPLN	0.4268

*for 100HUF

Last session in the FX market 29/11/2022

	min	max	open	close	fixing
EURPLN	4.6672	4.6857	4.6707	4.6798	4.6684
USDPLN	4.4961	4.5326	4.4993	4.5186	4.5066
EURUSD	1.0323	1.0393	1.0385	1.0353	-

Interest rate market 29/11/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.95	-12
DS0727 (5Y)	6.88	-12
DS0432 (10Y)	6.62	-12

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.26	-17	5.11	-6	2.72	-3
2L	6.79	-26	4.64	-13	2.82	-6
3L	6.34	-24	4.21	-14	2.70	-9
4L	6.04	-22	3.94	-16	2.64	-8
5L	5.89	-20	3.79	-16	2.66	-1
8L	5.76	-15	3.61	-14	2.63	-1
10L	5.77	-14	3.58	-12	2.60	-7

WIBOR rates

Term	%	Change (bps)
O/N	6.76	-6
T/N	6.82	-1
SW	6.89	0
2W	6.91	-2
1M	6.94	-3
3M	7.28	-3
6M	7.46	-3
1Y	7.63	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.22	-8
3x6	7.18	-15
6x9	7.09	-22
9x12	6.75	-25
3x9	7.31	-17
6x12	7.18	-24

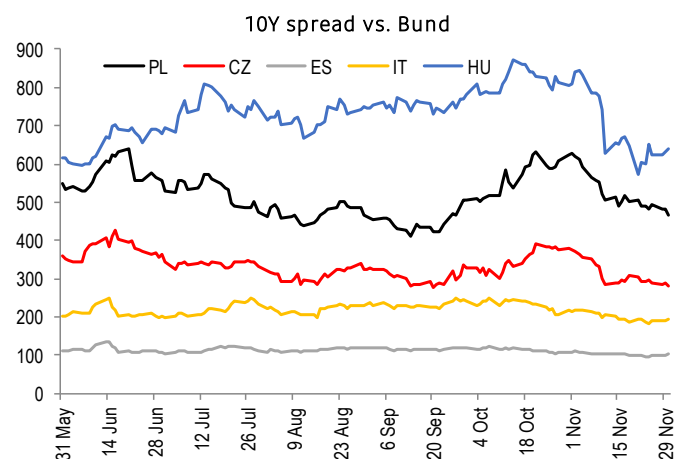
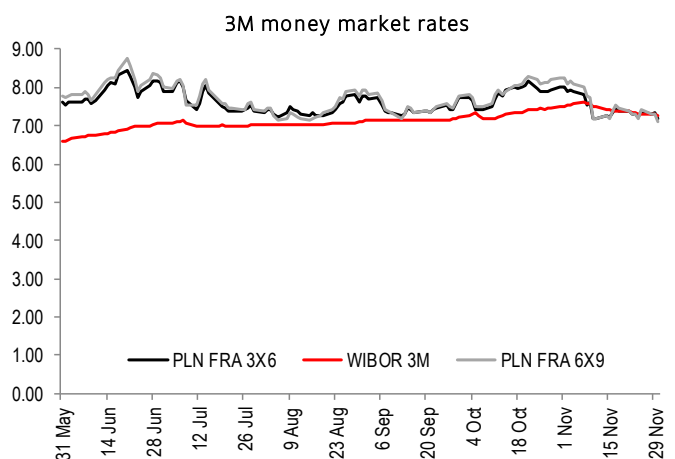
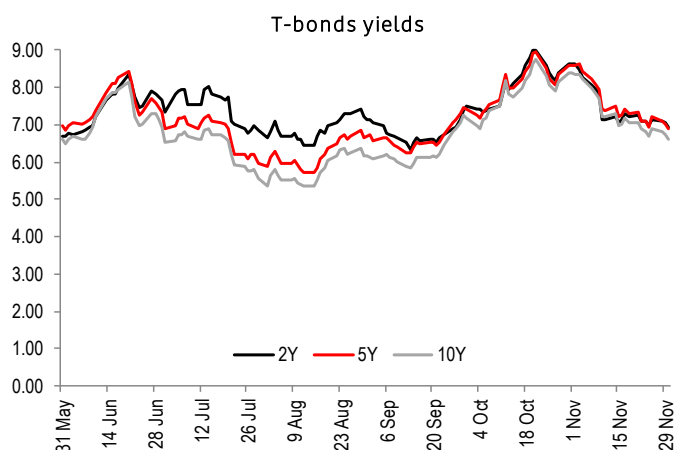
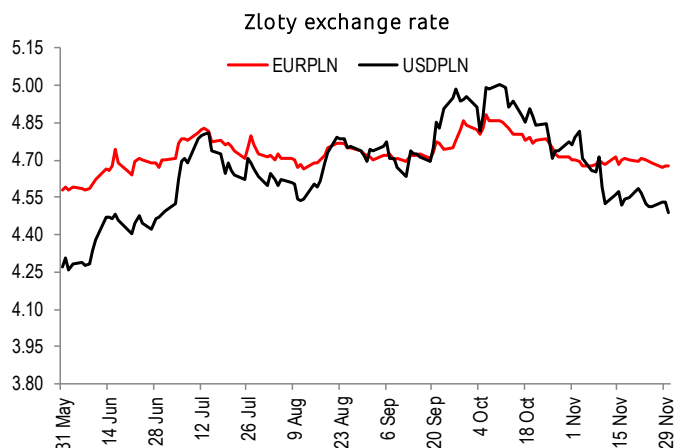
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	0	467	-16
France	15	0	47	-16
Hungary	216	0	638	7
Spain	55	0	102	2
Italy	55	0	194	3
Portugal	40	0	96	2
Ireland	20	0	44	-2
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (25 November)							
08:00	DE	GDP WDA	3Q	% y/y	1.2	1.3	1.2
10:00	PL	Unemployment Rate	Oct	%	5.1	5.1	5.1
MONDAY (28 November)							
No key events							
TUESDAY (29 November)							
11:00	EZ	ESI	Nov	pct.	93.5	93.7	92.7
14:00	DE	HICP	Nov	% m/m	0.1	0.0	1.1
16:00	US	Consumer Conference Board	Nov	pts	100.0	100.2	102.2
WEDNESDAY (30 November)							
10:00	PL	CPI	Nov	% y/y	18.0	18.0	17.4
10:00	PL	GDP	3Q	% y/y	3.5	3.5	3.6
11:00	EZ	Flash HICP	Nov	% y/y	11.2	10.0	10.7
14:15	US	ADP report	Nov	k	195	127	239
14:30	US	GDP Annualized	3Q	% Q/Q	2.7	2.9	2.6
16:00	US	Pending Home Sales	Oct	% m/m	-5.2	-4.6	-8.7
THURSDAY (1 December)							
09:00	PL	Poland Manufacturing PMI	Nov	pts	-	43.0	-
09:00	HU	GDP	3Q	% y/y	-	-	4.0
09:55	DE	Germany Manufacturing PMI	Nov	pts	46.7	-	45.1
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	47.3	-	46.4
11:00	EZ	Unemployment Rate	Oct	%	6.6	-	6.6
14:30	US	Initial Jobless Claims	Nov.22	k	225.0	-	240.0
14:30	US	Personal Spending	Oct	% m/m	0.8	-	0.6
14:30	US	Personal Income	Oct	% m/m	0.4	-	0.4
14:30	US	PCE Deflator SA	Oct	% m/m	0.4	-	0.3
16:00	US	ISM manufacturing	Nov	pts	49.8	-	50.2
FRIDAY (2 December)							
08:00	DE	Exports SA	Oct	% m/m	0.0	-	-0.6
09:00	CZ	GDP SA	3Q	% y/y	-	-	1.6
14:30	US	Change in Nonfarm Payrolls	Nov	k	200.0	-	261.0
14:30	US	Unemployment Rate	Nov	%	3.7	-	3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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