

Weekly Economic Update

MPC will keep rates on hold for the third time

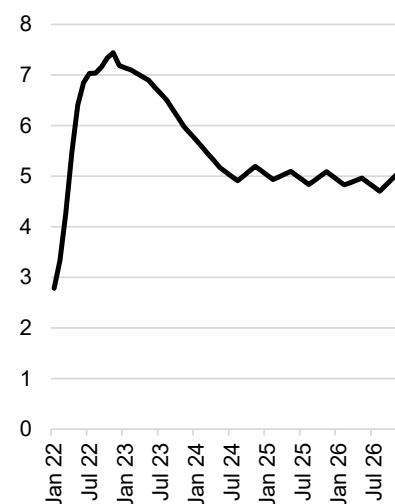
Economy next week

- The local event of the next week will be the last MPC meeting this year (on Wednesday). But mainly because there are no other key events or data releases on the calendar. The decision itself will not come as a surprise to anyone: **interest rates will remain unchanged**, just as they were in October and November. Since the Council did not raise rates in the previous two months, it will not move them now, after there were some positive signals for the inflation outlook in domestic and foreign data (CPI below forecasts, decelerating domestic demand and wages), and expectations of a central banks' dovish turn growing in global markets strengthened. At the post-meeting conference, the NBP President will most likely emphasise that the pause in rate hikes he has signalled since July and implemented in October was justified in light of the most recent data. The most interesting thing from the market's point of view will be the President's possible forward-looking statements. Firstly, whether there will be any firmer suggestion that the door to further rate hikes is closing (so far, Glapinski has been saying that this is a pause, not the end of the cycle), and secondly, whether suggestions on the possible start of rate cuts before the end of 2023 will be revived (recently, signals of this kind have appeared, for example, from MPC member Ireneusz Dąbrowski, whom we consider close to the views of the NBP President). The market has already started to price-in such a scenario quite strongly.
- Abroad, final PMIs in services, industrial orders in the US and Europe, industrial production and retail sales in Europe.
- The Polish government has made **intensive efforts in recent weeks to unblock the recovery fund** and we will follow the progress of talks on this topic in the coming days. Poland has not yet made a formal request for payment, but this could happen soon as well. In order to unblock the funds, not only talks but also concrete legislative actions are needed. Signals that the so-called milestones for the disbursement of funds are getting closer would be positive for domestic assets. The next session of the parliament is scheduled on December 13th.

Markets next week

- Statements by Fed Chairman J.Powell have triggered positive market moods ahead of the upcoming Fed meeting and we still see potential for dollar weakness before the end of the year. Today's US labour market report poured a bucket of cold water on enthusiasm for an imminent turnaround in Fed policy, but expectations of global disinflation remain strong, it seems. This, plus a general increase in optimism on global markets, plus news on the government's efforts to unblock the recovery fund, plus speculation on a possible loosening (at least locally) of pandemic restrictions in China, are all factors in favour of the zloty, despite rapidly rising expectations of NBP rate cuts. **We assume EURPLN to descend to 4.65-4.66 in the coming week.**
- Domestic and foreign data supporting hopes of imminent disinflation triggered a strong slide in yields and a correction in market expectations for future interest rates. FRAs and IRS instruments are already pricing NBP rate cuts starting in H2 2023, and totalling c. -200bp over a two-year horizon. This is a lot (too much, in our opinion), but it is difficult to fight with a strong global trend. Until global sentiment clearly changes, the downward cycle in yields is not over yet. The dovish MPC statement and the similar tone of Mr. Glapinski's conference on Thursday may even reinforce the move and 10Y bond yield could slide to 6.0-6.1% before they start to rebound.

WIBOR 3M as priced-in by FRA/IRS markets, %

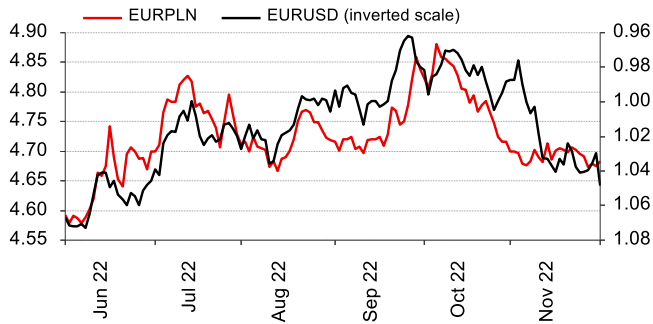


Source: Refinitiv, Santander

Economic Analysis Department:

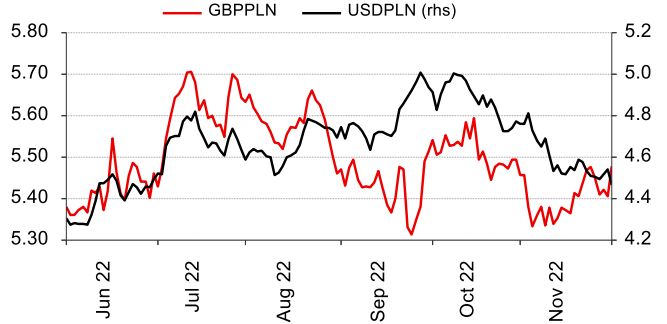
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EURPLN and EURUSD



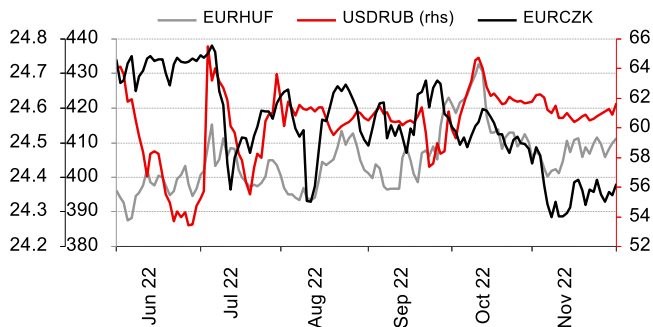
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



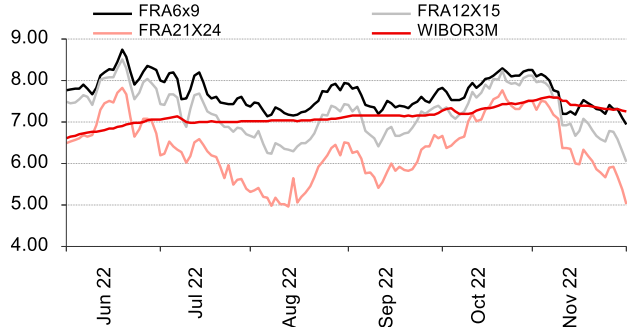
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



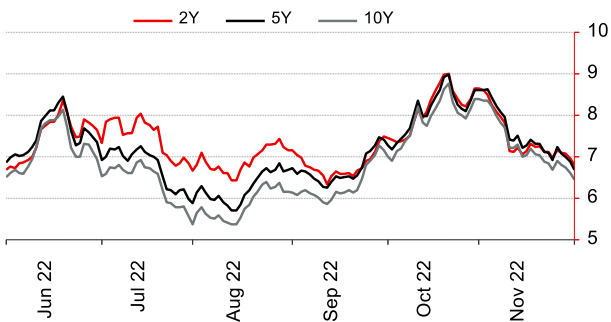
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



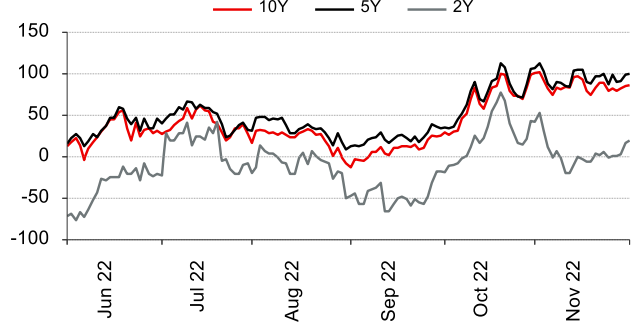
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



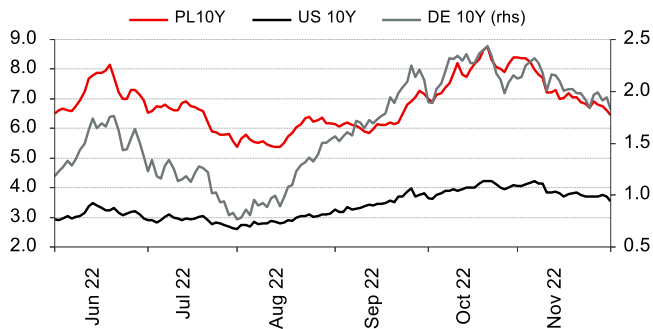
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



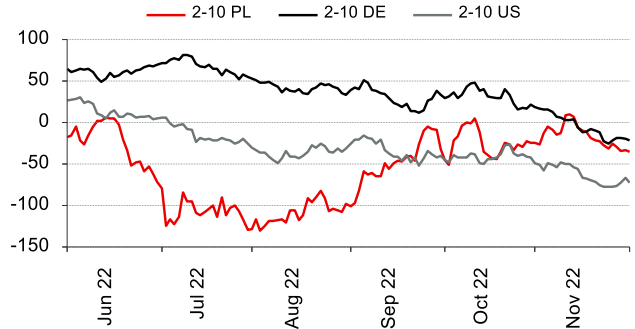
Source: Refinitiv Datastream, Santander Bank Polska

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 (5 December)						
02:45	CN	Caixin China PMI Services	Nov	pts	48.0	48.4
09:55	DE	Markit Germany Services PMI	Nov	pts	46.4	46.5
10:00	EZ	Eurozone Services PMI	Nov	pts	48.6	48.6
11:00	EZ	Retail Sales	Oct	% m/m	-	0.4
16:00	US	Durable Goods Orders	Oct	% m/m	0.0	1.0
16:00	US	ISM services	Nov	pts	53.7	54.4
16:00	US	Factory Orders	Oct	% m/m	0.7	0.3
TUESDAY (6 December)						
08:00	DE	Factory Orders	Oct	% m/m	0.0	-4.0
WEDNESDAY (7 December)						
	PL	MPC decision		%	6.75	6.75
08:00	DE	Industrial Production SA	Oct	% m/m	;-	0.6
09:00	CZ	Industrial Production	Oct	% y/y	-	8.3
09:00	HU	Industrial Production SA	Oct	% y/y	0.0	11.6
11:00	EZ	GDP SA	3Q	% y/y	-	2.1
THURSDAY (8 December)						
09:00	HU	CPI	Nov	% y/y	0.0	21.1
14:30	US	Initial Jobless Claims		k	235.0	225.0
15:00	PL	NBP Governor's conference				
FRIDAY (9 December)						
14:00	PL	MPC minutes	XI			
16:00	US	Michigan index	Dec	pts	0.0	56.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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