

# Weekly Economic Update

## Smaller rate hikes from Fed and ECB

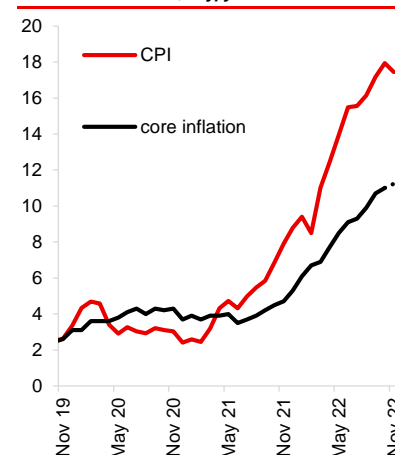
### Economy next week

- Another interesting week lies ahead. On the domestic front, few publications are scheduled: **balance of payments for October (Wednesday), CPI (Thursday) and core inflation (Friday) for November**, but these are unlikely to be in focus. We expect a current account deficit at a similar level as in September (-EUR1.6bn), which is markedly different from the median market forecast (-EUR0.8bn). Inflation - as we already know from the preliminary reading - retreated to 17.4% y/y in November and the detailed data will probably confirm that this was mainly due to cheaper fuel and coal, while core inflation continued to rise (to 11.2% y/y, in our view), albeit at a slightly slower pace.
- Market sentiment is likely to be determined by events abroad, including **the last FOMC (Wednesday) and ECB (Thursday) meetings of the year**. Both banks are expected to raise interest rates by 50bp, both showing a smaller scale of the hike than in previous months. As important as the decisions themselves will be the communiqués, updated economic forecasts and the tone of the press conferences - investors will be on the lookout for signs of central banks' determination to raise rates further in light of the ongoing cooling of the economy and expected disinflation next year. What is more, over the course of the week, many countries will publish **new inflation data. Preliminary December PMIs and industrial production in the USA and the euro area will also be released.**
- On Wednesday, **the session of the Sejm** (the lower chamber of the Polish parliament) begins, where, a motion of no-confidence in the Minister of Justice Zbigniew Ziobro is to be voted on, among other things, and there may be proposals to amend the judicial law necessary to unblock the EU recovery fund payments for Poland.
- On Tuesday, the EU General Affairs Council is scheduled to hold its **annual review on the rule of law**, this time focusing on the situation in Poland, Portugal, Romania, Slovenia and Sweden. On Thursday, a European Council summit will be held on topics including the war in Ukraine, security, the energy situation.

### Markets next week

- Global debt markets have already priced in the possible further Fed and ECB policy tightening and are now anticipating possible future interest rate cuts amid signs of economies slowing down and inflation coming off peaks. Data in the months ahead will verify whether these are reasonable or premature expectations. For now, further declines are expected in the upcoming inflation readings and, if these forecasts are confirmed, the Fed and ECB will have no reason to surprise investors with a more hawkish stance.
- The combination of lower inflation data, weaker economic growth and expectations of less hawkish rhetoric from central banks is supporting debt markets (although it has already ceased to encourage stock market rise, due to recessionary fears). **In our view, the downward trend in yields will continue in the coming week.**
- On the FX market, we see little room for the dollar to strengthen (the FOMC is unlikely to surprise with hawkishness, the ECB will outline a balance sheet reduction plan), so we do not see much upside risk for EURPLN from this side. If our current account deficit forecast turns out to be accurate, the zloty could weaken temporarily, but global sentiment will be the deciding factor, and we assume that it will remain positive. Local politics could become an important factor for the currency in case of a breakdown in the ruling coalition (for example, if the Minister of Justice is removed). If it leads to an accelerated process of EU funding unfreeze, this could be a positive impulse for the PLN. But at the same time market may start thinking about the chances of snap election (potential problem with approval of the 2023 budget).

Inflation in Poland, %y/y

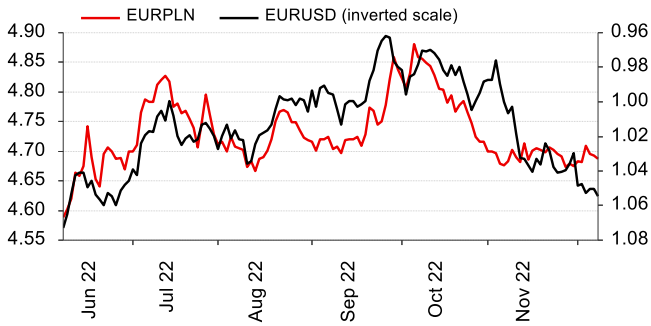


Source: GUS, NBP, Santander

### Economic Analysis Department:

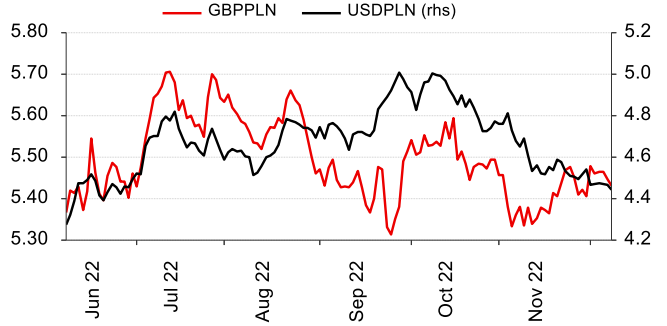
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**EURPLN and EURUSD**



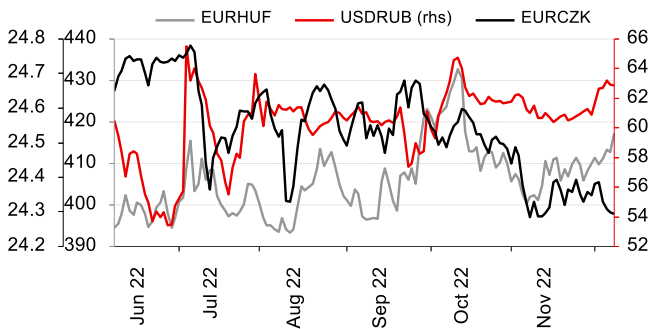
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



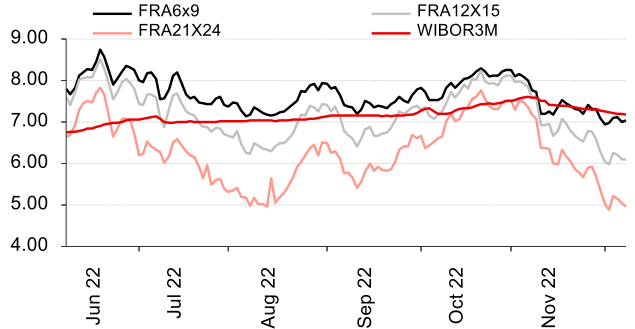
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



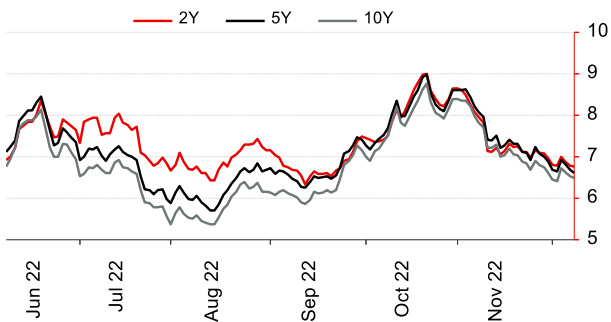
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



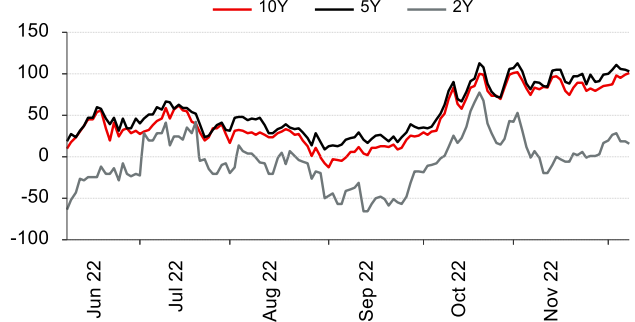
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



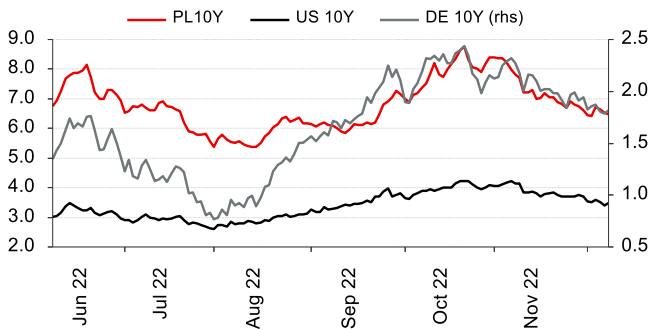
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



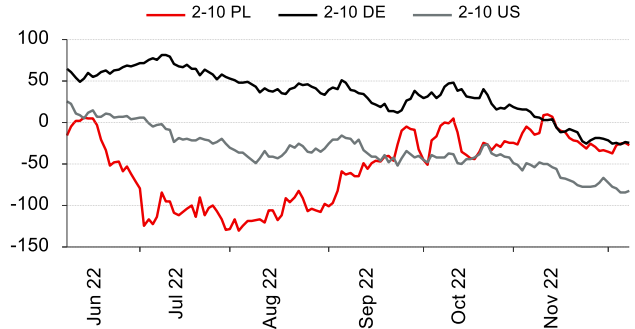
Source: Refinitiv Datastream, Santander Bank Polska

**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	
<b>MONDAY (12 December)</b>						
09:00	CZ	CPI	Nov	% y/y	15.5	15.1
<b>TUESDAY (13 December)</b>						
08:00	DE	HICP	Nov	% m/m	0.0	1.1
11:00	DE	ZEW Survey Current Situation	Dec	pts	-57.5	-64.5
14:30	US	CPI	Nov	% m/m	0.3	0.4
<b>WEDNESDAY (14 December)</b>						
11:00	EZ	Industrial Production SA	Oct	% m/m	-1.2	0.9
14:00	PL	<b>Current Account Balance</b>	Oct	€mn	<b>-796</b>	<b>-1578</b>
14:00	PL	<b>Trade Balance</b>	Oct	€mn	<b>-2316</b>	<b>-2599</b>
14:00	PL	<b>Exports</b>	Oct	€mn	<b>28072</b>	<b>28264</b>
14:00	PL	<b>Imports</b>	Oct	€mn	<b>30392</b>	<b>30863</b>
20:00	US	FOMC decision			4.5	4.0
<b>THURSDAY (15 December)</b>						
10:00	PL	CPI	Nov	% y/y	17.4	17.4
14:15	EZ	ECB Main Refinancing Rate		%	2.5	2.0
14:30	US	Initial Jobless Claims	week	k	230	230
14:30	US	Retail Sales Advance	Nov	% m/m	0.0	1.3
15:15	US	Industrial Production	Nov	% m/m	0.2	-0.1
<b>FRIDAY (16 December)</b>						
09:30	DE	Germany Manufacturing PMI	Dec	pts	46.2	46.2
09:30	DE	Markit Germany Services PMI	Dec	pts	46.3	46.1
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	47.1	47.1
10:00	EZ	Eurozone Services PMI	Dec	pts	48.5	48.5
11:00	EZ	HICP	Nov	% y/y	10.0	10.6
14:00	PL	<b>CPI Core</b>	Nov	% y/y	<b>11.3</b>	<b>11.2</b>

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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