

Weekly Economic Update

Important moment for the MPC

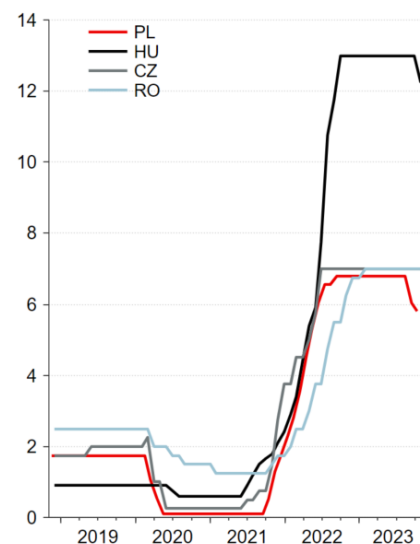
Economy next week

- In the coming week, we will find out whether the **Monetary Policy Council** will decide to cut rates again and whether the cuts made in September and October, by a total of 100bp, have had an impact on the NBP's projections, in particular the likelihood of bringing inflation down to the target. The decision on rates will be taken on Wednesday, on which day we will also learn the main figures from the new projection. On Thursday, we will probably hear from the NBP president on the Council's stance.
- We are sticking to the view that rates will be cut by 25bp, in line with the informal rule signalled by President Głapiński, according to which monetary easing will take place when inflation falls significantly - and the latest data showed its movement from 8.2% y/y to 6.5%. However, we are not strongly convinced about the rate cut. It seems almost equally likely to us that the MPC will hold off on further moves in line with the reasoning recently put forward by MPC's Ludwik Kotecki: the level at which inflation will move next year will depend to a large extent on government decisions (on, inter alia, the scale of unfreezing of energy prices, VAT on food), which will be taken in the not too distant future. A wait-and-see approach therefore now seems attractive.
- Fitch may publish a review of Poland's rating on Friday evening, 10 November, but we do not think that the agency will be tempted to make any changes at this point, before the political situation and fiscal policy outlook have clarified.
- Abroad, we will see the final services PMI data, a set of data describing the industrial performance of Germany, the Czech Republic and Hungary. The same countries will also show inflation data. On Thursday, Jerome Powell will speak at the IMF conference. At the end of the week, there will be the November preliminary reading of the US consumer sentiment index.

Markets next week

- EURPLN returned to the levels from before the surprisingly large rate cut that triggered a clear depreciation of the zloty. It seems we are once again at the point where the MPC's decision may affect the exchange rate. The money market is still pricing in further rate cuts, though at a pace of less than 25 bps per meeting (the FRA9x12 rate is more than 100 bps below the current 3-month market rate), so a possible signal from the Council that it intends to wait longer before taking further action could cool these expectations and give the zloty a reason to move away from 4.45 against the euro. If rates will be cut by 25 bps and with no changes in the communiqué and during the conference of the NBP president, it is likely that the market would not receive such an impulse to adjust and **EURPLN would be able to remain in the band of the last two weeks**.
- Domestic bonds strengthened recently supported by the low CPI reading, but mainly on the back of a wave of falling yields in the base markets (in the case of the 10Y US bond by around 20 bps over the week, and by around 12 bps for the German bonds). The strengthening was triggered by investors' conviction after Wednesday's FOMC meeting that the Fed was done with rate hikes. The lack of an upward surprise in today's employment data and the slim chance that Jerome Powell will present a different approach during Thursday's speech than a week ago hint that yields may continue to slide in the base markets, so a **strengthening of bonds in the domestic market seems possible in the near term** as well.

Policy rates in CEE, %

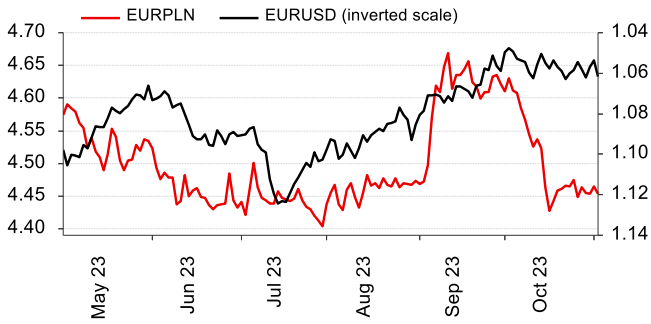


Source: LSEG Datastream, Santander

Economic Analysis Department:

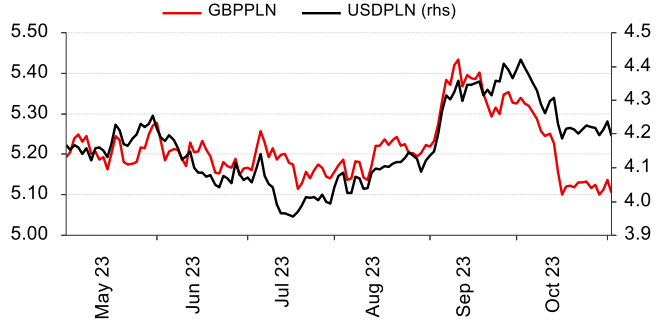
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EURPLN and EURUSD



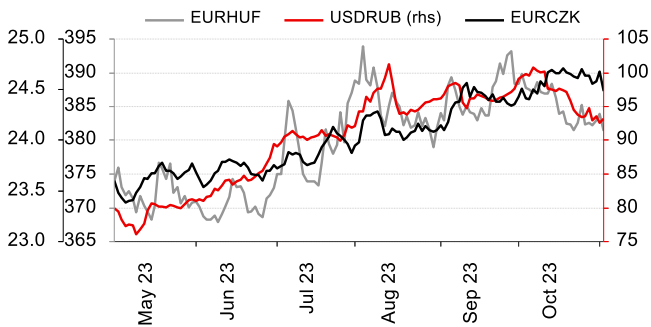
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



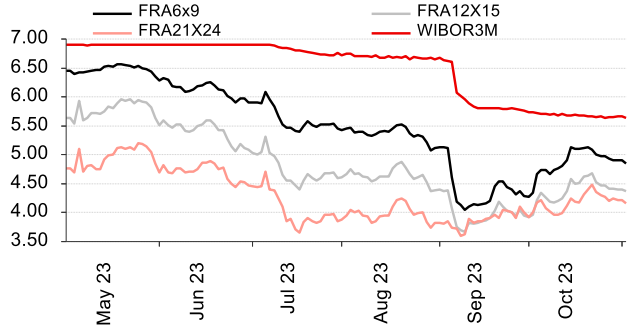
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



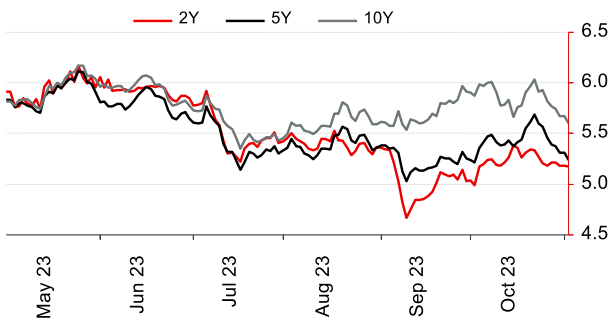
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



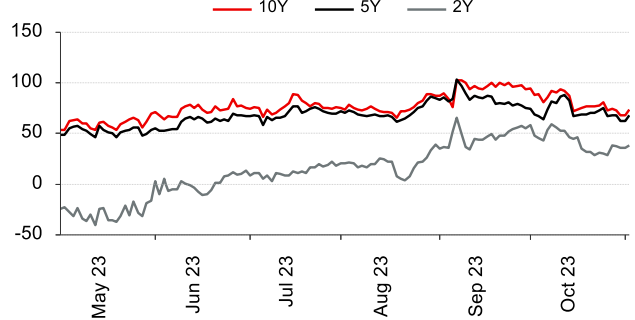
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



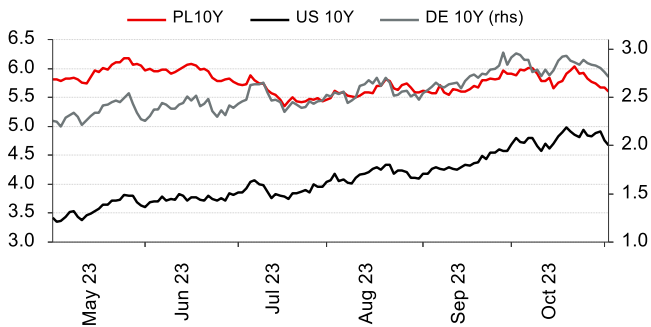
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



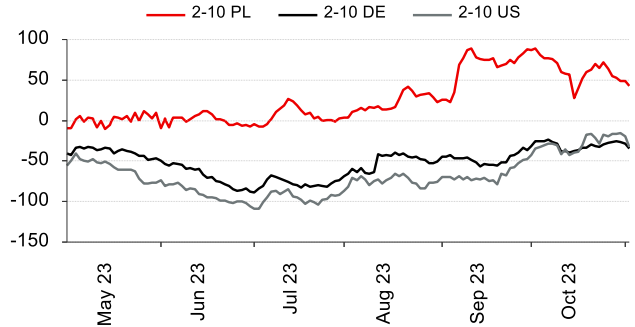
Source: LSEG Datastream, Santander Bank Polska

10Y bond yields



Source: LSEG Datastream, Santander

Steepness of yield curves



Source: LSEG Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (6 November)							
08:00	DE	Factory Orders	Sep	% m/m	-2.0	-	3.9
09:00	CZ	Industrial Production	Sep	% y/y	-6.3	-	-1.7
09:55	DE	Markit Germany Services PMI	Oct	pts	48.0	-	48.0
10:00	EZ	Eurozone Services PMI	Oct	pts	47.8	-	47.8
TUESDAY (7 November)							
08:00	DE	Industrial Production SA	Sep	% m/m	-0.5	-	-0.2
08:30	HU	Industrial Production SA	Sep	% y/y	-	-	-6.1
WEDNESDAY (8 November)							
	PL	MPC decision		%	5.50	5.50	5.75
08:00	DE	HICP	Oct	% m/m	-	-	-0.2
11:00	EZ	Retail Sales	Sep	% m/m	-	-	-1.2
THURSDAY (9 November)							
13:30	US	Initial Jobless Claims		k	-	-	217
FRIDAY (10 November)							
08:30	HU	CPI	Oct	% y/y	-	-	12.2
09:00	CZ	CPI	Oct	% y/y	8.6	-	6.9
16:00	US	Michigan index	Nov	pts	63.5	-	63.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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