

27 September 2024

# Weekly Economic Update

## MPC faces the rise of inflation

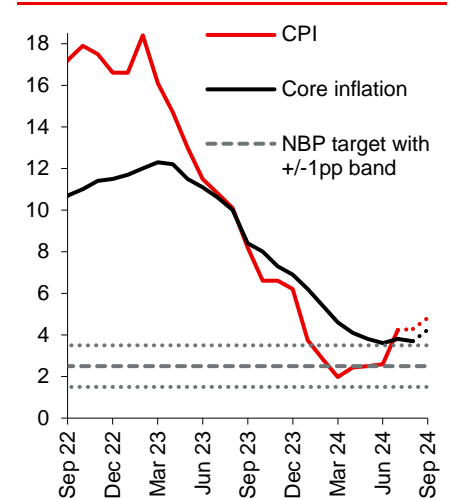
### Economy next week

- Ahead, there is a week with the MPC decision and the NBP Governor's press conference. Before these events, we will get to see data on inflation and sentiment in Polish manufacturing in September. In addition, GUS will publish its second estimate of the main crops. The previous estimate, from July, indicated large **losses in the harvest** of fruit, with fairly good results in vegetable production. Since then, however, unfavourable weather conditions have persisted.
- **CPI inflation** has probably jumped markedly in September, to 4.8% y/y from 4.3% y/y (market forecasts are focused on 4.8-5.0% range). The statistical base effect, i.e. events from a year ago, such as the extension of entitlements to free medicines or a special offer by one of the largest streaming platforms, has a large share in the inflation increase. Fuel prices recorded a relatively large drop in September 2023, although they have gone down quite a bit also this September. Another factor to take into account is the beginning of the school year with higher costs of education. The flood effect is unlikely to be revealed already in these numbers. As a result, in our opinion, core inflation will jump above 4% y/y from August's 3.7% y/y and it is possible that it will remain above this mark until the end of the year and even for a better part of 2025, if not the whole next year.
- In recent statements, **MPC** members have strongly focused on next year's March meeting as a moment when the first interest rate cut could be considered, while rejecting the idea of such a move this year. This was a motif so common in their statements that it may affect the shape of the communicate, which usually just repeats earlier text. However, it is difficult to expect anything else from this meeting than to see rates being kept unchanged.
- **The PMI index for the Polish manufacturing** will appear when we already know that its German counterpart recorded another severe decline in September, but also after the publication of alternative domestic sentiment indicators, which have recently been pointing to an improvement. In our opinion, the PMI stay close to the levels from the last two months.
- Abroad, the preliminary September **inflation reading in the Eurozone** will be crucial. The already known results of Spain and France turned out to be much lower than expected, increasing the chance that the reading for the entire Eurozone will go below 2.0%, i.e. the ECB inflation target. However, still high core inflation may discourage the ECB from lowering rates at every meeting. **In the US, Friday's labour market report** will be the most important, a release that at times causes market jitters. ISM indices for industry and services will also be out. In China, we will see PMI indices, which have no chance to take into account the reaction of businesses to the economic stimulus plan presented in the passing week and the actions already taken by the central bank, but perhaps they will show why such an aggressive plan had to be launched.

### Markets next week

- Last week was marked by an improvement in risk appetite. This was reflected mainly in increases in stock markets and commodity prices. Support was certainly provided by another rate cut in China and the stimulus plan. The CEE currencies weakened in the face of rate cuts by the Hungarian and Czech central banks and concerns about the future of the fiscal situation in Hungary. The zloty remained relatively stable and we assume that **the EURPLN exchange rate will remain in tight trading range in the coming week**. The zloty may possibly be supported by a not very dovish statement from the NBP president, and a lot will depend on US non-farm payrolls data. In the event of prolonged weakness in the US labour market data, the EURUSD exchange rate could rise, although these data will not be released until the end of the week, and by then there is a chance for the dollar to recover towards slightly stronger levels. This, in turn, would promote weakness in the CEE currencies at the beginning of the week. In view of the fact that both the koruna and forint are close to significant resistance levels, we assume that the short-term potential for further declines in these currencies is not high.
- As we assumed, in the interest rate market, the upward correction in market rates did not last long, with negative surprises in European PMI indexes or lower-than-forecast inflation readings supporting decline in yields. There were also good results of the bond auction and a narrowing of credit spreads. In the coming week, **we assume a stabilisation of market rates**. A not-so-dovish MPC rhetoric would favour limiting the extent of the downward movement, as would an upward trajectory of inflation. On the other hand, we expect that inflation may turn out to be lower than the market consensus, so this would incline slightly lower swap rates. Credit spreads have already narrowed to low levels, but October will be marked by significant negative net issuance of government bonds, which may limit the room for an upward adjustment. This one may come a little later in the face of significant issuance next year.

### CPI inflation, %y/y with Santander forecast

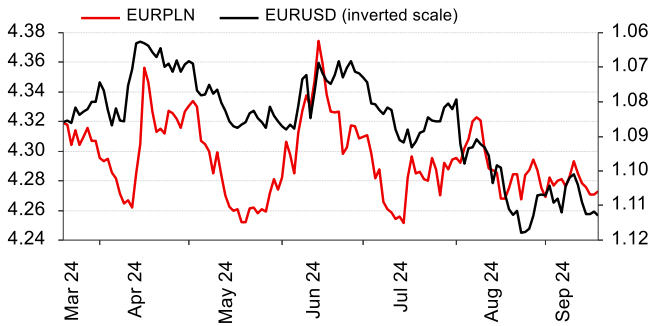


Source: GUS, NBP, Santander

### Economic Analysis Department:

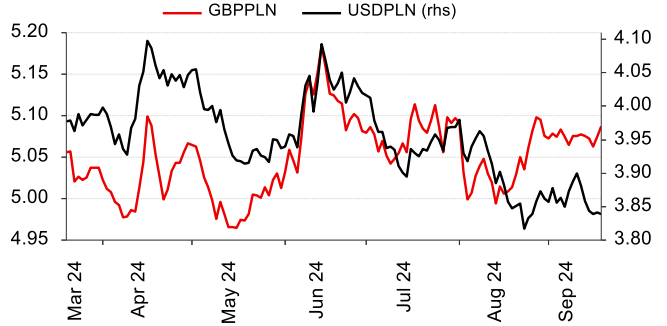
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**EURPLN and EURUSD**



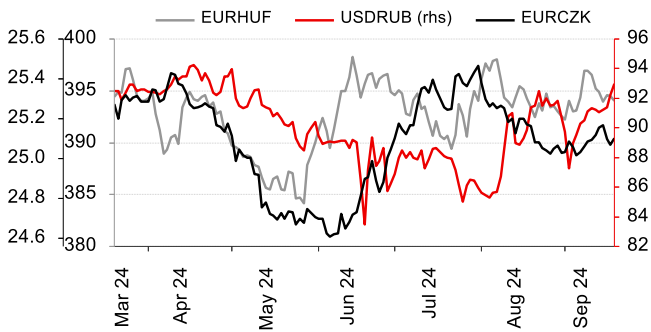
Source: LSEG Datastream, Santander

**GBPPLN and USDPLN**



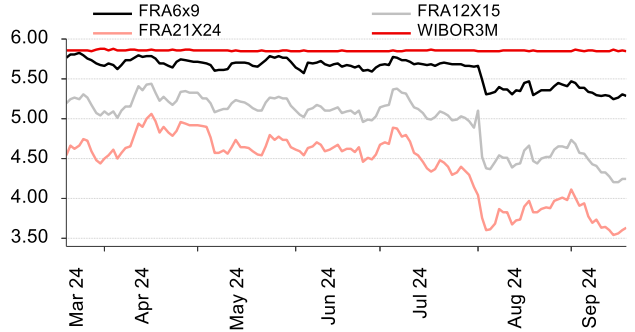
Source: LSEG Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



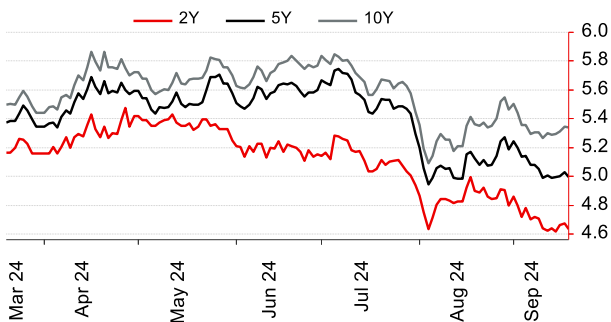
Source: LSEG Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



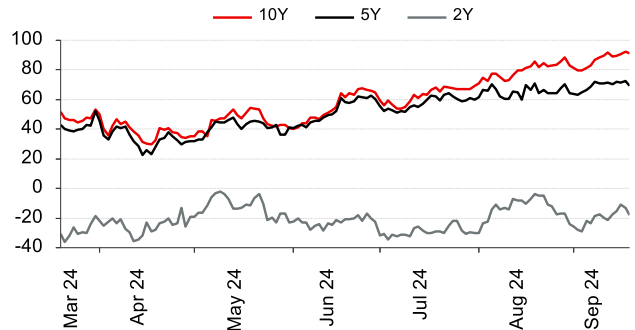
Source: LSEG Datastream, Santander Bank Polska

**Polish bond yields**



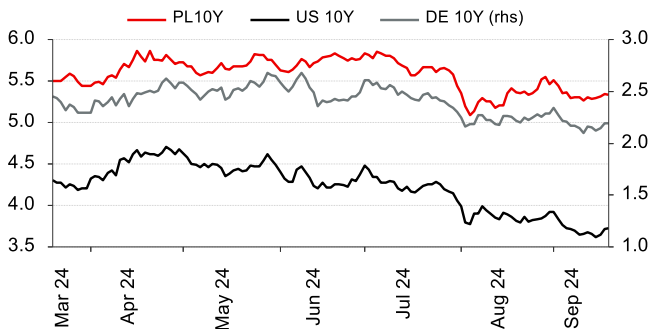
Source: LSEG Datastream, Santander Bank Polska

**Asset swap spreads**



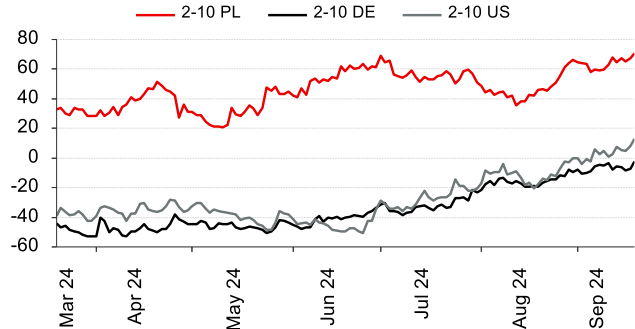
Source: LSEG Datastream, Santander Bank Polska

**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		
<b>MONDAY (30 September)</b>							
03:45	CN	Caixin China PMI Services	Sep	pts	51.6	-	51.6
10:00	PL	CPI	Sep	% y/y	4.9	4.8	4.3
14:00	DE	HICP	Sep	% y/y	1.8	-	2.0
<b>TUESDAY (1 October)</b>							
09:00	CZ	GDP SA	2Q	% y/y	0.6	-	0.4
09:00	PL	Poland Manufacturing PMI	Sep	pts	47.3	47.3	47.8
09:55	DE	Germany Manufacturing PMI	Sep	pts	40.3	-	42.4
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	44.8	-	45.8
11:00	EZ	Flash HICP	Sep	% y/y	1.9	-	2.2
16:00	US	ISM manufacturing	Sep	pts	47.0	-	47.2
<b>WEDNESDAY (2 October)</b>							
	PL	MPC decision	Oct	%	5.75	5.75	5.75
11:00	EZ	Unemployment Rate	Aug	%	6.4	-	6.4
14:15	US	ADP report	Sep	k	120	-	99
<b>THURSDAY (3 October)</b>							
09:55	DE	Markit Germany Services PMI	Sep	pts	50.6	-	51.2
10:00	EZ	Eurozone Services PMI	Sep	pts	50.5	-	52.9
14:30	US	Initial Jobless Claims	weekly	k	-	-	218
16:00	US	ISM services	Sep	pts	51.5	-	51.5
16:00	US	Durable Goods Orders	Aug	% m/m	-2.6	-	9.9
16:00	US	Factory Orders	Aug	% m/m	0.1	-	5.0
<b>FRIDAY (4 October)</b>							
08:30	HU	Industrial Production SA	Aug	% y/y	-2.8	-	-6.4
14:30	US	Change in Nonfarm Payrolls	Sep	k	130	-	142
14:30	US	Unemployment Rate	Sep	%	4.2	-	4.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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