

04 October 2024

Weekly Economic Update

Volatile market sentiment

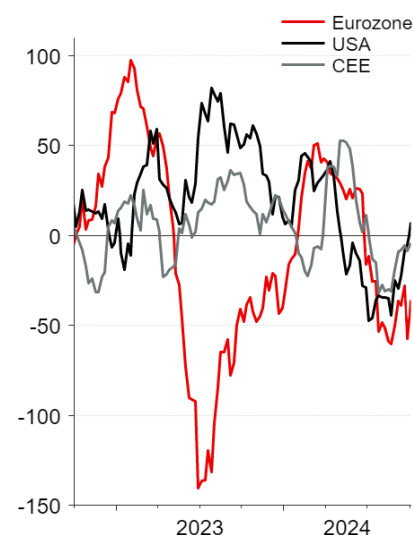
Economy next week

- The domestic economic calendar for the coming week is completely empty. On Tuesday, **the government is expected to work on the medium-term budget and structural plan for 2025-2028**, i.e. a fiscal consolidation plan that is expected to allow Poland to exit the excessive deficit procedure (EDP). On Wednesday, **the session of the Sejm begins, with the first reading of the draft budget bill for 2025** and, most likely, the draft bill will be sent to committees. Work on the budget in the parliament will probably last until the end of this year.
- As usual, in the week following the MPC meeting, we can expect new comments from the Council members, which may shed some new light on the prospects for interest rate cuts in 2025. In our opinion, President Glapiński's speech at the last conference suggested that his influence on the formation of the majority view in the MPC has weakened, so it is worth following the remarks by other MPC members with more attention than before.
- Abroad, the list of publications is also relatively short. Attention may be drawn to, among others, the data on German production, industrial orders and exports, inflation data in Hungary, Czechia, Germany and the USA, the minutes from the September Fed meeting, where rates were cut more than expected, by 50bps.
- With only a small number of publications with market-moving potential, investors will continue following the developments in the Middle East. For now, the escalation of military operations has caused a rather limited increase in risk aversion.

Markets next week

- The past week has been marked by increased volatility in financial markets in the face of tensions in the Middle East and a drop in expectations for rate cuts in the US after good employment data and ISM indices. The VIX index rose slightly, stock markets were down, and oil prices rose. EM currencies were in retreat, with Asian and Central European currencies losing the most. This was supported by the gradual strengthening of the dollar. We think that **the strong US labour market report for September could reinforce the wave of dollar's strengthening, while tensions in the Middle East could continue to negatively affect risk appetite**. Weak industrial data from Germany and Czechia could also weigh on the CEE currencies. While CEE FX have already weakened materially (EURHUF has broken through the important barrier of 400), and the technical situation indicates that they are at relatively weak levels, we think that **in the face of external risks, we may see further weakening of the region's currencies before a rebound comes - EURPLN may test the level of 4.33**.
- The interest rate market saw a sizable rise in market rates, driven in part by developments in the core markets, which was temporarily disrupted by a dovish message from the NBP president. Move in the swap curve was greater than for bonds, leading to narrowing credit spreads. **This week's bond auction may act toward widening of credit spreads**, though bond redemptions accumulated at the end of October will result in a net negative supply for the entire month, so credit spreads should remain relatively low over the next few weeks. Swap rates may continue to rise at the beginning of the week in follow-up reaction to solid data from the US labor market. With the market still pricing in the start of next year's rate cuts too soon, in our view, we assume that **there is still room for FRA and IRS to rise, but after the dovish statements by the NBP president, the chances of a rate cut in 2Q have increased**, so the room for upward movement may be quite limited. Weak manufacturing data from Germany and a further drop in inflation in the US could send yields in the core markets down again later in the week.

Citigroup Economic Surprise Index (CESI)

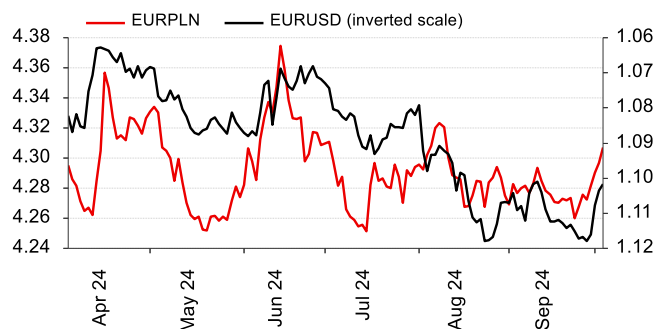


Source: LSEG Datastream, Santander

Economic Analysis Department:

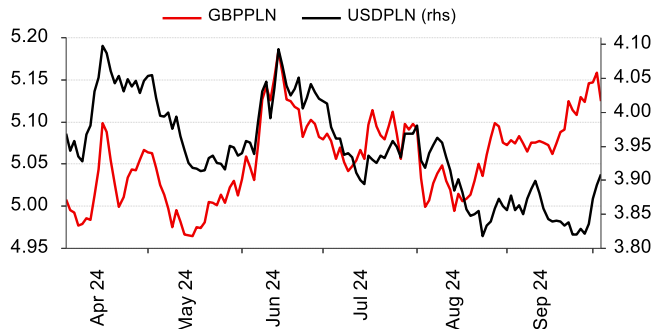
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EURPLN and EURUSD



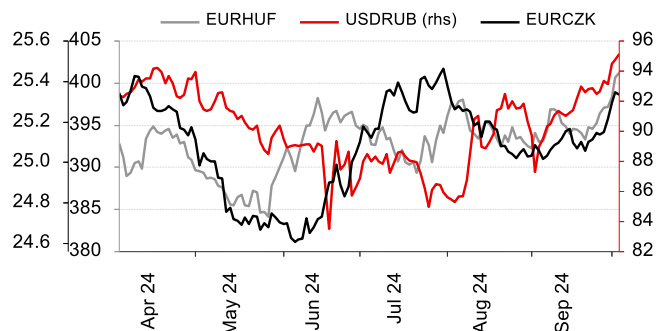
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



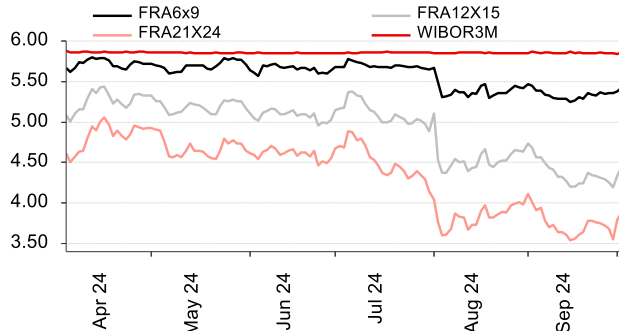
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



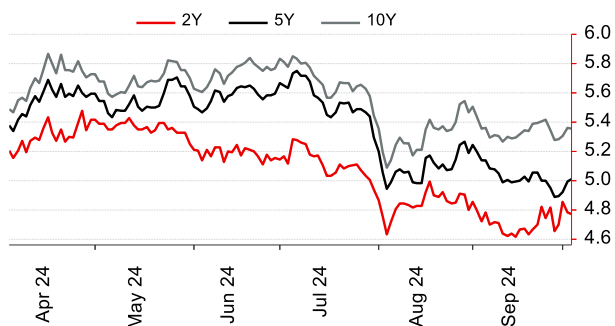
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



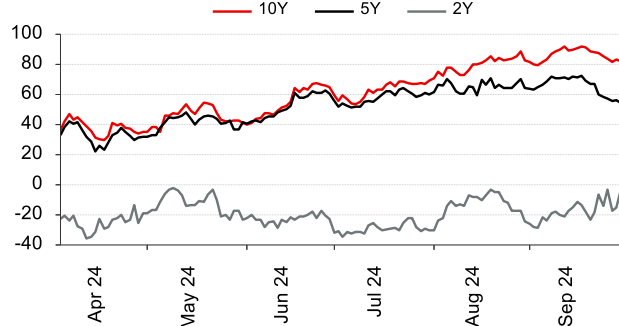
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



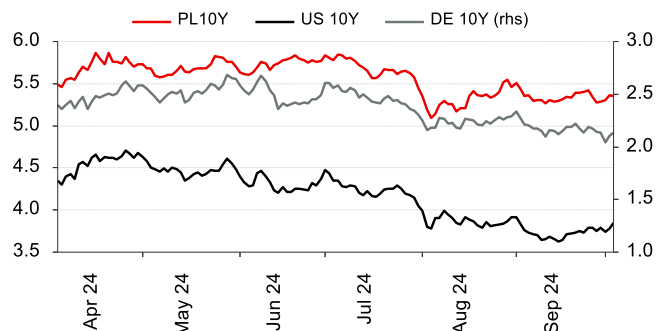
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



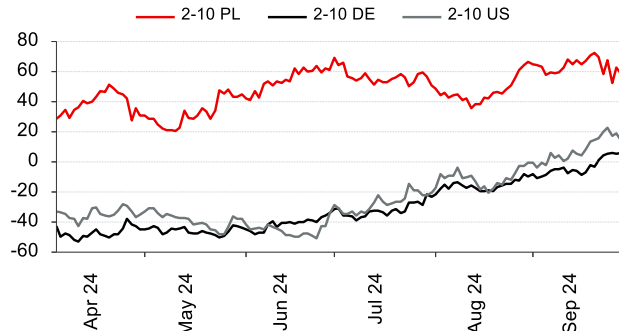
Source: LSEG Datastream, Santander Bank Polska

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 (7 October)							
08:00	DE	Factory Orders	Aug	% m/m	-2.0	-	2.9
09:00	CZ	Industrial Production	Aug	% y/y	-2.2	-	7.2
11:00	EZ	Retail Sales	Aug	% m/m	0.2	-	0.1
TUESDAY (8 October)							
08:00	DE	Industrial Production SA	Aug	% m/m	0.8	-	-2.4
WEDNESDAY (9 October)							
08:00	DE	Exports SA	Aug	% m/m	-1.0	-	1.9
20:00	US	FOMC Meeting Minutes	Sep				
THURSDAY (10 October)							
08:30	HU	CPI	Sep	% y/y	3.1	-	3.4
09:00	CZ	CPI	Sep	% y/y	2.4	-	2.2
14:30	US	CPI	Sep	% m/m	0.1	-	0.2
14:30	US	Initial Jobless Claims	weekly	k	237	-	225
FRIDAY (11 October)							
08:00	DE	HICP	Sep	% m/m	-0.2	-	-0.1
16:00	US	Michigan index	Oct	pts	70.3	-	70.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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