

11 October 2024

Weekly Economic Update

What made the inflation swell?

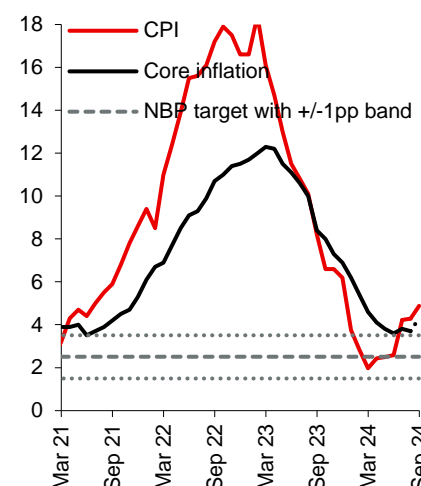
Economy next week

- This week, we will get to see **full data on September CPI inflation**, which, according to the preliminary reading, was almost two times higher than the inflation target. In the previous five months, final inflation was identical to the flash estimate, and we are expecting this to happen again. Core inflation is likely to show 4.3% y/y (we are in line with the market consensus) vs. 3.7% y/y in August. Inflation and core inflation averages for 3Q2019 would then be 0.1 percentage points higher than the last NBP projection. We will also see **August data on Poland's balance of payments**, likely to show a major deficit (this time closer to €1bn than to July's €1.5bn). We differ from the market consensus primarily in our estimates of how much exports fell in August (in our opinion, by 4.6% y/y, market expects -2.2% y/y). This week we are also likely to see the **central budget results after September**.
- Abroad, the **ECB decision** will be crucial, although given that all forecasts collected by Bloomberg indicate a 25bp cut, there is not much space of excitement. In mid-September, right after the bank's decision to cut by 25bp, the market was convinced that the ECB would rather take a break in October. Now, based on the valuation of interest rate derivatives, a cut can be taken for granted.
- On Saturday, October 12, Donald Tusk is to present a migration strategy for Poland, which he also wants to propose as a template for the entire EU.
- Among the upcoming data, it is worth highlighting the August industrial production in the eurozone, which this time may show a solid m/m rebound thanks to Germany – although the data from the German industrial sector is more often scary than uplifting, the production volume there increased solidly in August (+2.9% m/m vs. expectations at +0.8%, making it the biggest positive surprise in almost three years). At the same time, however, the sentiment indicators in the eurozone industry do not leave much room for hopes for a clear and lasting rebound. There will also be a publication of the ZEW index for Germany and the final inflation data from the eurozone. The UK CPI may show the first decline in inflation below the 2% target since mid-2021. In the US, industrial output and retail sales will be out.
- At the end of the week, the EU summit will take place, during which country-specific recommendations regarding fiscal policy are to be approved, among other issues discussed.
- In the coming week, we will also see key data for China, ranging from CPI inflation, lending and foreign trade to sales and production outcomes, as well as GDP for 3Q. A new communication on the stimulus package is also possible this weekend (given that a briefing by the Ministry of Finance has been scheduled).

Markets next week

- The past week was marked by limited currency market movements in the region. The EURUSD exchange rate declined slightly, and the stronger dollar was supported by reduced expectations of a US interest rate cut in the face of little dovish statements from central bankers or a slightly higher CPI reading from the US while maintaining expectations of two rate cuts from the ECB by the end of the year. Despite continuing tensions in the Middle East, the zloty and the Czech koruna gained slightly in value, while the forint lost slightly. In general, **the region's currencies remain at local lows, which may suggest limited potential for weakness. This could potentially be supported by a weakening of the euro against other currencies following a rate cut at next week's meeting or an escalation of Iran-Israel tensions.** Although we assume an improvement in the current account relative to July, we will still see a deficit, which will not be a good signal for the zloty. **In the perspective of the coming weeks, we assume a stabilization of the EURPLN rate near 4.25-4.35, with possible weakening during the upcoming US elections.**
- Last week was marked by a continuation of market rate hikes which were supported by changes in the underlying markets including a greater increase in yields on US Treasuries than on European bonds. **We think that the space for further rate increases is getting smaller.** The market has de-priced some of the interest rate cuts and is now assuming a 100bp cut in 2025 starting in April. In the baseline scenario, we still assume a first move in July with minimally more cuts than the market assumes with the risk that the start of the cycle could actually begin in Q2. Earlier cuts could also potentially be favored by a strengthening of the zloty in H1 2025. **We assume a higher chance for market rates to decline this week. This may be supported by the ECB's rate cut, but the constraint on a rate decline will in turn be a rise in core inflation.**

Polish inflation and inflation target, % y/y

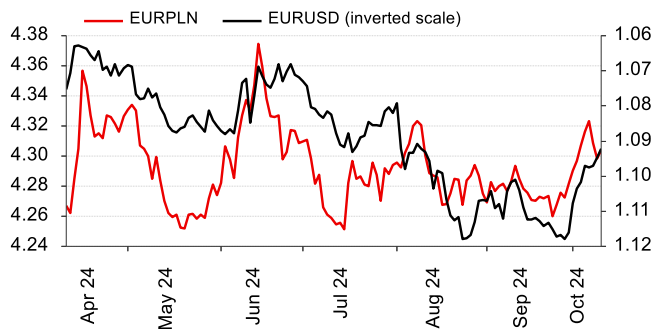


Source: GUS, NBP, Santander

Economic Analysis Department:

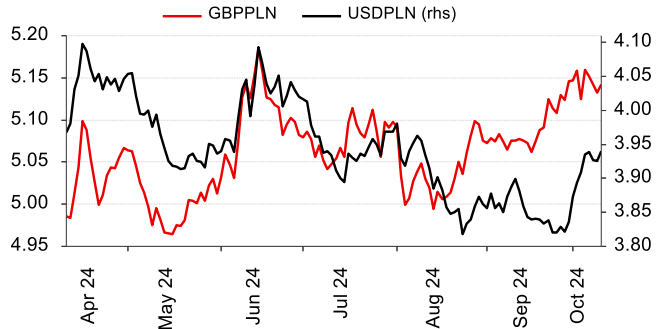
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EURPLN and EURUSD



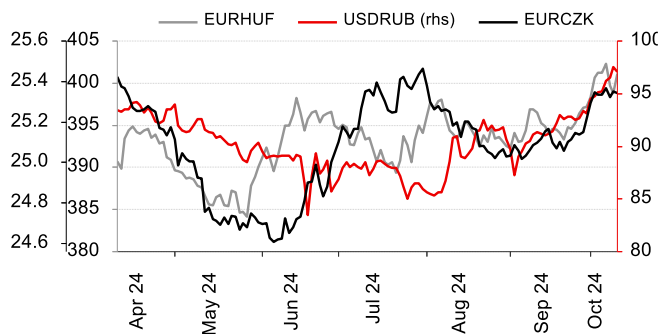
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



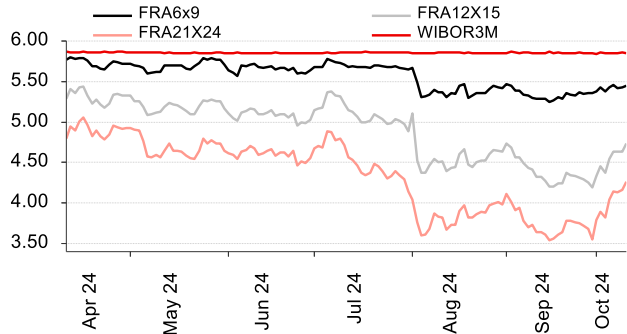
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



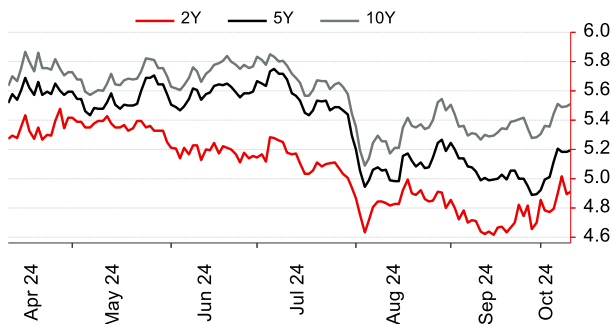
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



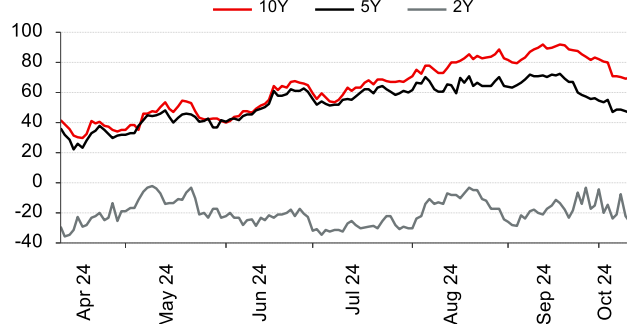
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



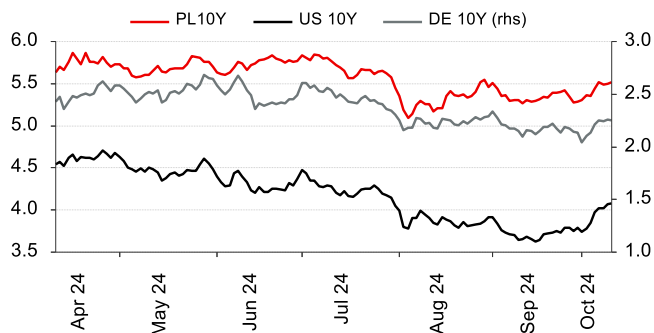
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



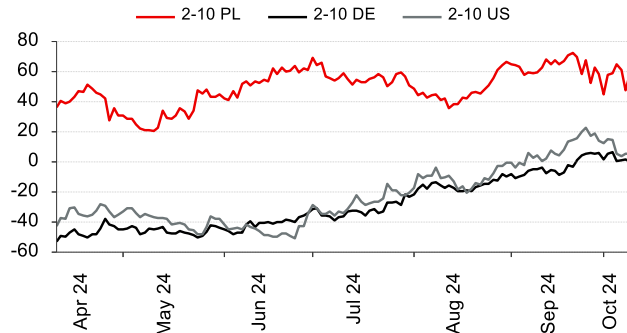
Source: LSEG Datastream, Santander Bank Polska

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 | | |
| MONDAY (14 October) | | | | | | | |
| 14:00 | PL | Current Account Balance | Aug | €mn | -929 | -938 | -1 462 |
| 14:00 | PL | Trade Balance | Aug | €mn | -1 305 | -1 456 | -1 450 |
| 14:00 | PL | Exports | Aug | €mn | 25 232 | 24 626 | 27 009 |
| 14:00 | PL | Imports | Aug | €mn | 26 417 | 26 082 | 28 459 |
| TUESDAY (15 October) | | | | | | | |
| 10:00 | PL | CPI | Sep | % y/y | 4.9 | 4.9 | 4.3 |
| 11:00 | EZ | Industrial Production SA | Aug | % m/m | 1.7 | - | -0.3 |
| 11:00 | DE | ZEW Survey Current Situation | Oct | pts | -84.0 | - | -84.5 |
| WEDNESDAY (16 October) | | | | | | | |
| 14:00 | PL | CPI Core | Sep | % y/y | 4.3 | 4.3 | 3.7 |
| THURSDAY (17 October) | | | | | | | |
| 11:00 | EZ | HICP | Sep | % y/y | 1.8 | - | 1.8 |
| 14:15 | EZ | ECB Main Refinancing Rate | Oct | % | 3.40 | - | 3.65 |
| 14:30 | US | Initial Jobless Claims | weekly | k | 240 | - | 258 |
| 14:30 | US | Retail Sales Advance | Sep | % m/m | 0.3 | - | 0.1 |
| 15:15 | US | Industrial Production | Sep | % m/m | -0.1 | - | 0.8 |
| FRIDAY (18 October) | | | | | | | |
| 14:30 | US | Housing Starts | Sep | % m/m | -0.5 | - | 9.6 |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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