

21 October 2024

Weekly Economic Update

3Q economic data to be almost complete

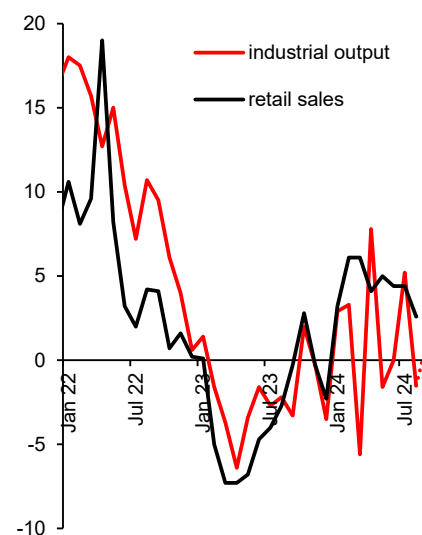
Economy next week

- This week, a **large package of data from Poland** is due: on Monday industrial output, construction output, labour market figures and PPI inflation, on Tuesday retail sales, M3 money supply, business sentiment indicators, on Wednesday consumer sentiment, unemployment rate and the Statistical Bulletin. Thus, in a few days, we will have almost a full set of data from 3Q24, which will allow us to reassess our forecast that the GDP growth will remain above 3% y/y.
- We assume that the growth of **industrial output** in real terms will return above zero and we are slightly more optimistic than the market about this statistic. However, it is worth remembering that in the last two readings, industrial production surprised downwards. A third reading below forecasts would be a rather bad sign. In the case of **retail sales**, we assume that the growth rate will remain close to the August reading, which will stem from two factors – the high base effect from September 2023, when pre-election fuel price promotions increased traffic at gas stations, and the flood, which, according to our estimates, had a slightly negative impact on current purchases. In the case of **construction output**, we expect the reading to be clearly below zero, although we assume that the impulse related to the recovery of EU funds will soon start to appear. On the labour market, on the other hand, we assume a continuation of the current trends – a solid increase in wages with a reduction in employment.
- There will also be a lot of interesting information globally. From the USA, we will get to see the Conference Board and Michigan business sentiment indicators as well as data on durable goods orders. In Germany – Ifo and PPI inflation. In addition, preliminary PMI indexes for major economies will be published. Recently, the indicators for manufacturing and services in the euro zone and Germany have clearly weakened and the market is not very positive about the incoming numbers. Decisions on interest rates will be made, among others, in China, Hungary, Canada. Numerous speeches by central bankers are also planned, and the words of the governors of the ECB, the Bank of Japan and the Bank of England should attract particular attention.

Markets next week

- **Recent days have been marked by a gradual weakening of the zloty** to just above 4.30 with a gradual strengthening of the dollar against the euro. The EURPLN exchange rate remains in a narrow range of fluctuation and we assume that this trend will continue in the next week. Further strengthening of the dollar against the euro in view of the upcoming U.S. elections with the growing lead of D. Trump may mean that the region's currencies may behave relatively weak in the near term. **We assume that the EURPLN exchange rate may head toward 4.33.** The EURHUF exchange rate is fluctuating near 400, and should be protected from further overvaluation at least for a while by the MNB's decision to pause in the cycle of rate cuts.
- **The past week was marked by a continuation of the upward trend in the interest rate market with a continuation of the slight steepening** of the IRS curve with the euro curve falling and steepening following the ECB's rate cut. Bond yields rose in a slightly wider range with spreads to Bunds widening in the region of 340 bps. Only the end of the week brought a drop in market rates, but a continuation of the steepening from the curves. According to our forecasts, **data released at the beginning of the week may surprise slightly upward and there will be also the first of two bond auctions scheduled for this month.** In view of this, **we assume that IRS rates may still rise slightly until the auction, and bonds may weaken a bit more.** Friday is the due date for maturing PS1024 bonds in the amount of PLN 31.3 bn (most of which are in the portfolios of local banks), so we assume that demand at the auction may be strong, and the debt market may strengthen until the next auction. We have assumed for some time that the space for further increases in market rates has diminished, in view of the fact that in the longer term, i.e. a 2-year horizon, the market is currently pricing the NBP rate to go down to around 4.25-4.50, and we see the potential for a slightly larger decline. In our view the FRA rates from 5x8 to 8x11 have still some potential room to rise slightly further in view of the fact that we still assume the timing of the first rate cut in July next year. **Looking ahead to the next few weeks, we see chance for the curves to decline and flatten.**

Industrial output and retail sales, % y/y

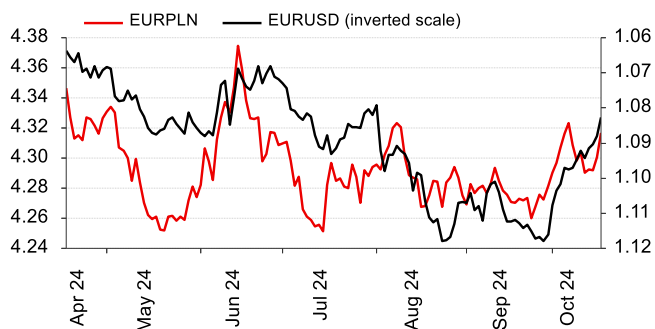


Source: GUS, Santander

Economic Analysis Department:

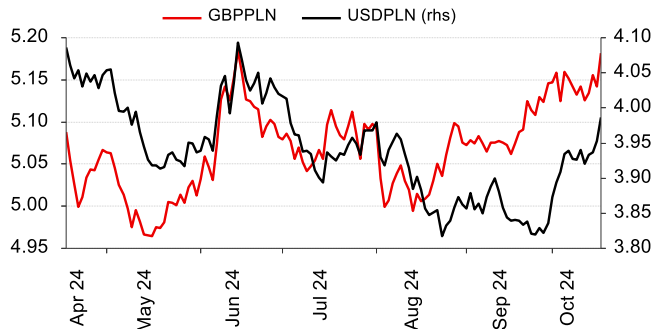
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EURPLN and EURUSD



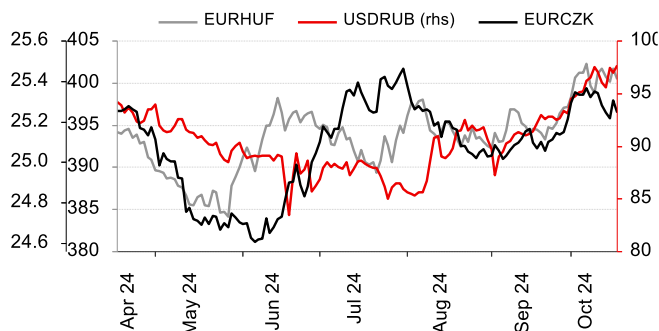
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



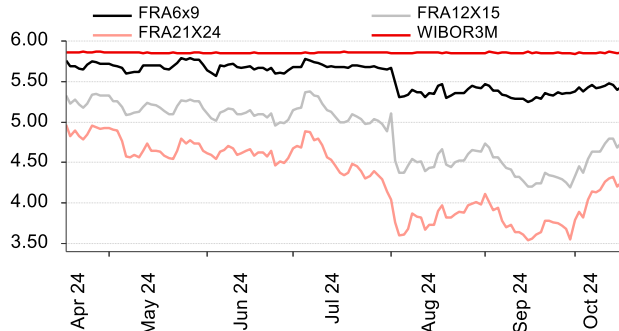
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



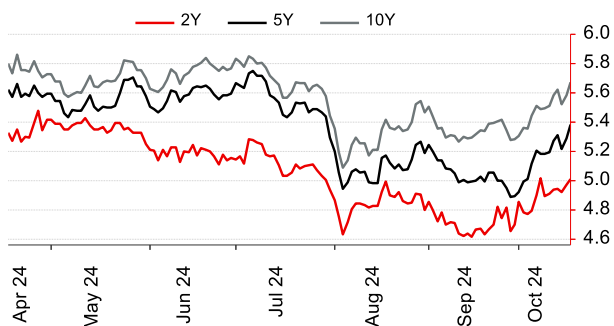
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



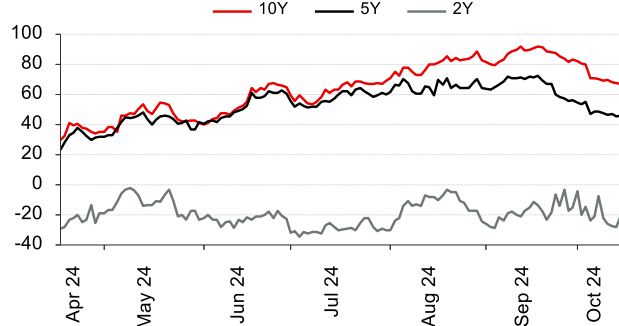
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



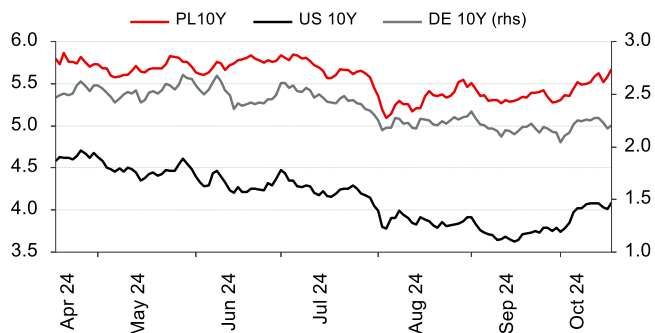
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



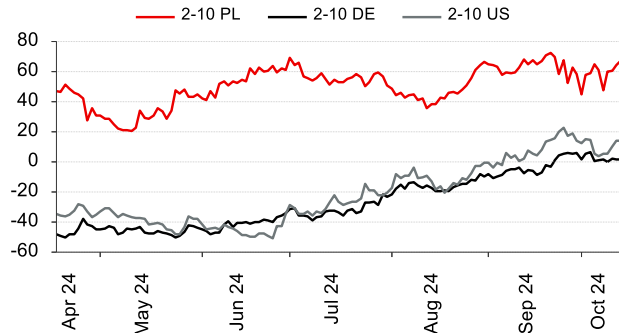
Source: LSEG Datastream, Santander Bank Polska

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 (21 October)							
10:00	PL	Employment in corporate sector	Sep	% y/y	-0.5	-0,5	-0.5
10:00	PL	Sold Industrial Output	Sep	% y/y	0.1	1,1	-1.5
10:00	PL	Construction Output	Sep	% y/y	-9.5	-8,7	-9.6
10:00	PL	PPI	Sep	% y/y	-5.7	-5,7	-5.1
10:00	PL	Average Gross Wages	Sep	% y/y	11.1	11,2	11.1
TUESDAY (22 October)							
10:00	PL	Retail Sales Real	Sep	% y/y	1.95	2,5	2.6
14:00	HU	Central Bank Rate Decision	Oct	%	6.5	6,5	6.5
14:00	PL	Money Supply M3	Sep	% y/y	6.8	6,5	7.8
WEDNESDAY (23 October)							
10:00	PL	Unemployment Rate	Sep	%	5.0	5,0	5.0
16:00	US	Existing Home Sales	Sep	% m/m	1.0	-	-2.5
THURSDAY (24 October)							
09:30	DE	Germany Manufacturing PMI	Oct	pts	40.8	-	40.6
09:30	DE	Markit Germany Services PMI	Oct	pts	50.7	-	50.6
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	45.3	-	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	51.5	-	51.4
14:30	US	Initial Jobless Claims	weekly	k	259	-	241
16:00	US	New Home Sales	Sep	% m/m	-0.4	-	-4.7
FRIDAY (25 October)							
10:00	DE	IFO Business Climate	Oct	pts	85.7	-	85.4
14:30	US	Durable Goods Orders	Sep	% m/m	-0.9	-	0.0
16:00	US	Michigan index	Oct	pts	69.5	-	68.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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