

25 October 2024

Weekly Economic Update

Inflation above five?

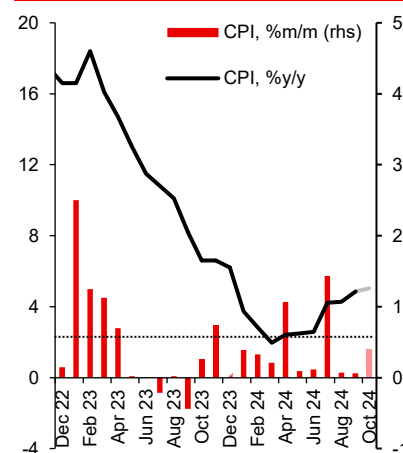
Economy next week

- In the coming week, shorter in Poland because of the All Saints' Holiday, the calendar of domestic publications is short but concise: **on Wednesday, the Central Statistical Office (GUS) will publish updated quarterly GDP estimates for 2023-2024, and on Thursday it will release flash estimate of October inflation.**
- Two weeks ago, GUS revised the annual GDP data (slightly lowering growth in 2023 and changing its structure). After the publication of quarterly data consistent with this revision, we will try to update the GDP forecasts for the next quarters. Recent weaker-than-expected monthly indicators of real activity suggest that the GDP growth estimates for 3Q24 (which we have so far predicted at 3.3% y/y) are subject to downside risk, but the final result may also be affected by revisions of historical data, which is why we are waiting with the forecast revision until the data release.
- **We expect CPI inflation to rise to 5.1% y/y in October**, from 4.9% in September, which was due to a higher increase in food prices than a year ago, but also to the still elevated core inflation momentum, additionally supported by a marked weakening of the zloty against the dollar, which in turn pushed up cost of imported goods.
- After the announcement of a **looming amendment to the 2024 budget** appeared on the government's website (confirming our expectations on this subject), markets and investors will be waiting for any signals from the Ministry of Finance regarding the possible scale of the deficit increase. We expect the government's decision on this matter in November.
- Several important indicators will be released abroad, of which markets will focus first on the **preliminary GDP estimates for the third quarter**, which will be published on Wednesday by a large group of EU countries (including Czechia, Hungary, Germany, France, Italy, Spain) and the USA. In addition, there will be inflation data from Germany and the Eurozone, as well as the PCE deflator in the US. On Friday, when Poland will be on holiday, the industrial PMI indices and the most important publication of the week – **the monthly report from the US labour market** – will be released abroad. The previous increase in non-farm payrolls (+245k) surprised strongly upwards. This time, the consensus is clearly lower (c.120k) and it is difficult to be sure which way the surprise will take place – it will depend, among other things, on how strongly the impact of hurricanes and the Boeing strike will be revealed in the data.

Markets next week

- The last few days have been marked by a further weakening of CEE currencies, even despite a reversal of the dollar's appreciation at the end of the week, with slightly better PMI and Ifo readings from the euro area. CEE currencies looked quite weak against other emerging market currencies. The forint lost the most, but the zloty weakened only slightly less, by around 1% vs the euro – the EURPLN exceeded 4.345. It seems that this may have been related to (a) the approaching US election date and (b) growing concerns about the impact of eurozone weakness on CEE countries. **It appears that until the outcome of the US presidential election, weakness in the zloty and other currencies in the region may persist**, as investors refrain from taking on more risk. We see potentially asymmetric implications of a possible surprise from the US payrolls data: a strong NFP reading could be negative for EM currencies, strengthening the dollar, while a weak reading, despite its negative impact on the dollar, may fail to provide support for EMFX, exacerbating fears of a global economic slowdown.
- The interest rate market saw a downward correction in rates after a prolonged period of increases, including a decline in short-term rates in particular, leading to a further increase in the slope of the swap curve. **We think that after a wave of steepening of the swap curve, there is a chance of a slight flattening, i.e. a drop in long-term rates in the face of weak data from the US labour market with a stabilization of short-term rates supported by a further rise in Polish inflation.** It seems that the budget amendment is already priced in by the market, but there is also the next debt auction (with supply of PLN5-9bn), which may contribute to a widening of asset swap spreads. Moreover, reaction of the euro curve to the results of potentially weak 3Q GDP data from the euro area and Germany will be also important for the domestic curve.

CPI inflation

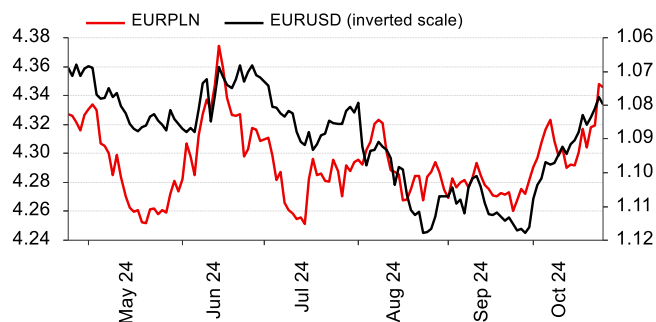


Source: GUS, Santander

Economic Analysis Department:

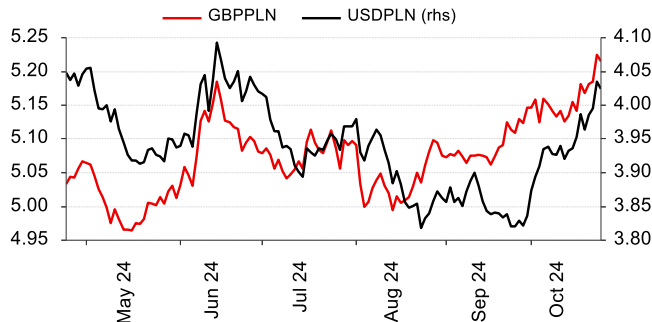
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Łuziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



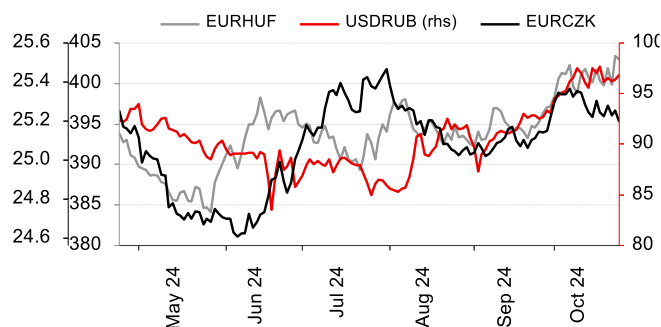
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



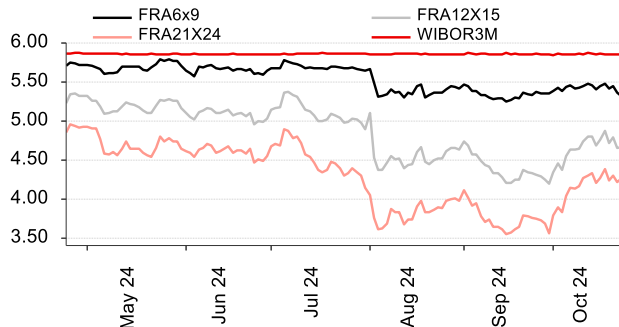
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



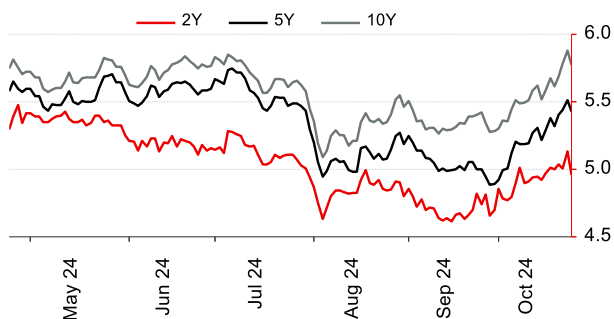
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



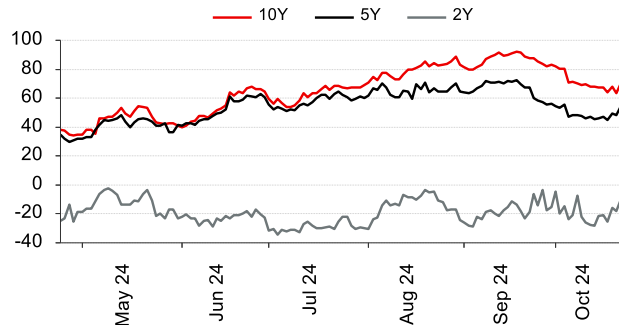
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



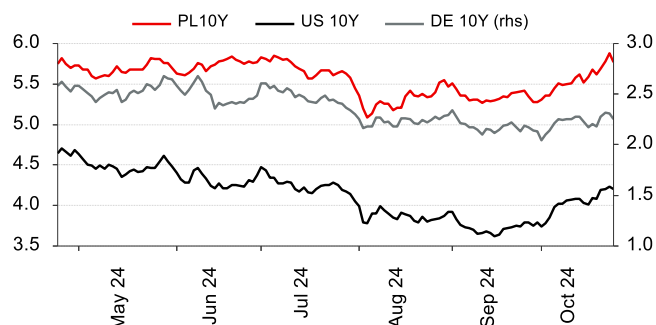
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



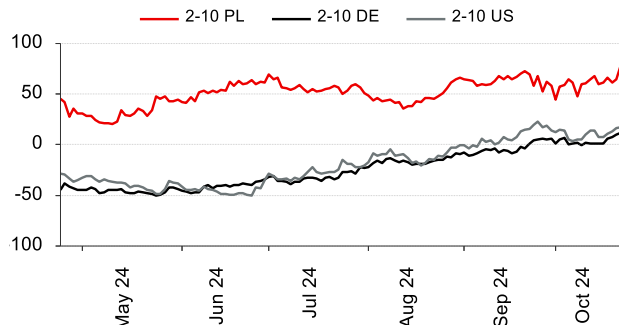
Source: LSEG Datastream, Santander Bank Polska

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 (28 October)						
No data releases						
TUESDAY (29 October)						
15:00	US	Consumer Conference Board	Oct	pts	99.0	- 98.7
WEDNESDAY (30 October)						
08:30	HU	GDP	3Q	% y/y	0.7	- 1.5
09:00	CZ	GDP SA	3Q	% y/y	1.4	- 0.6
10:00	PL	Updated quarterly GDP estimates	2023-2024			
10:00	DE	GDP WDA	3Q	% y/y	-0.3	- 0.0
11:00	EZ	GDP SA	3Q	% y/y	0.8	- 0.6
11:00	EZ	ESI	Oct	pct.	96.3	- 96.2
13:15	US	ADP report	Oct	k	98	- 143
13:30	US	GDP Annualized	3Q	% q/q	3.0	- 3.0
14:00	DE	HICP	Oct	% m/m	0.2	- -0.1
15:00	US	Pending Home Sales	Sep	% m/m	-	- 0.6
THURSDAY (31 October)						
10:00	PL	CPI	Oct	% y/y	5.0	5.1 4.9
11:00	EZ	Flash HICP	Oct	% y/y	1.9	- 1.8
11:00	EZ	Unemployment Rate	Sep	%	6.4	- 6.4
13:30	US	Initial Jobless Claims	weekly	k	-	- 227
13:30	US	Personal Spending	Sep	% m/m	0.4	- 0.2
13:30	US	Personal Income	Sep	% m/m	0.4	- 0.2
13:30	US	PCE Deflator SA	Sep	% m/m	0.2	- 0.1
FRIDAY (1 November)						
13:30	US	Change in Nonfarm Payrolls	Oct	k	120	- 254
13:30	US	Unemployment Rate	Oct	%	4.1	- 4.1
15:00	US	ISM manufacturing	Oct	pts	47.6	- 47.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. <http://www.santander.pl>.