

10 September 2021

# Weekly Economic Update

## Less faith in rate hikes = weaker zloty

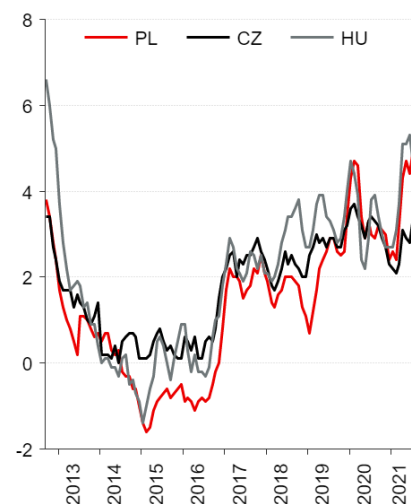
### Economy next week

- After the weekend another round of data releases starts. Locally, we will see July's balance of payments, August CPI and core inflation, plus wages and employment. Abroad, key releases include inflation in USA and euro zone, production in USA and euro zone, US retail sales and consumer confidence.
- We expect the **current account balance** to drop below zero in July, for the first time in two years, amid a significant slowdown in y/y export growth (our forecasts slightly worse than market consensus). Even though export slowdown is mainly the result of growing base effect, the overall message from the data could be unsupportive for the PLN. **Final CPI inflation data**, confirming a jump to 5.4% in August, is unlikely to be big news. If anything, it may be the **core inflation** that affects markets, if it exceeds expectations (our estimate 3.9%-4.0% y/y). **Data from the labour market**, confirming continuation of solid trend, should be market-neutral, in our view.
- The political holidays are over and **the issue of growing conflict between Poland and the EU on the rule of law** is back in the headlines. The European Commission asked the CJEU to impose daily financial penalty on Poland for not implementing the interim measures regarding the Supreme Court's Disciplinary Chamber. Back in 2017 (during the row over logging the Białowieża forest) it took two months since the EC request until the CJEU decided about the fine (it was €100k per day), but this time it may be different. The EU commissioner Didier Reynders suggested in the FT interview that the penalty may even reach €1m daily.
- **Covid-19 is gaining speed** and we should be prepared for this trend to continue. The new forecasts from the ICM UW models reportedly suggest that in the pessimistic scenario the new cases count may reach even 50k daily in November, while in optimistic scenario the 4th wave will be spread over time and will peak at 4-6k daily in January-February.

### Markets next week

- After NBP governor Adam Glapiński strongly cooled down expectations about rate hikes being delivered still this year, the zloty lost significantly and EURPLN climbed above 4.54. Its rise above the 200-day moving average may now make it more difficult for the exchange rate to return to lower levels. **We expect EURPLN to go up some more, which would place it again in its recent trading range of 4.57-4.60.** Such move will be supported by a worsening C/A, high inflation coupled with low probability that the NBP would tackle it, a growing wave of Covid-19 infections and stronger dollar. In the background there is still risk of further negative news regarding the rule of law argument with the EU and military exercises Zapad-21 until 16 September.
- The FRA and IRS market corrected quite visibly the pricing of future interest rate hikes and it seems that in the coming days there will not be any changes on this front. There may be some interviews with MPC members, but these are unlikely to affect rate expectations as the hawks are clearly in the minority. On Wednesday NBP will be buying bonds and a day later the Ministry of Finance will hold a switch auction. **We expect government bond yields to stabilise on the short end and to rise on the long end**, similar to longer swaps, pricing in the risk that a delayed reaction of the MPC would mean the need for more rate hikes in the future.

Inflation rates in CEE, % y/y



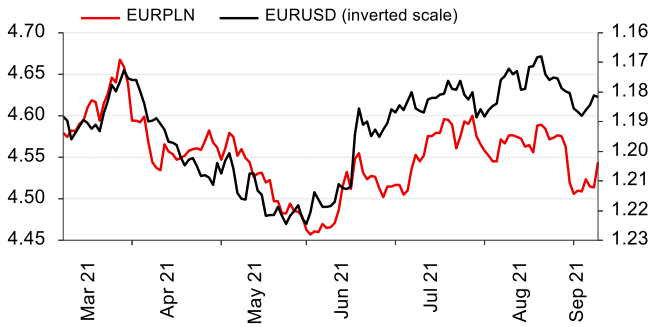
Source: Refinitiv Datastream, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luźniński +48 22 534 18 85  
 Grzegorz Ogonek +48 22 534 18 84  
 Wojciech Mazurkiewicz +48 22 534 18 86

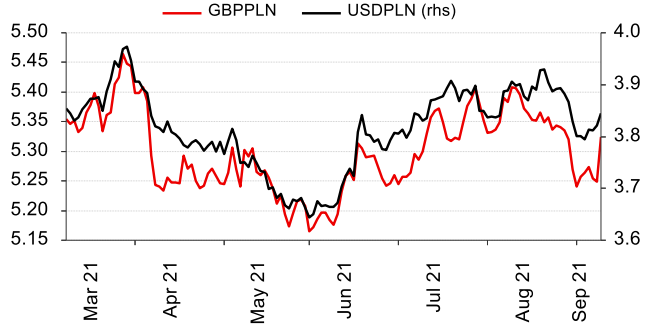
## FX and FI markets

### EURPLN and EURUSD



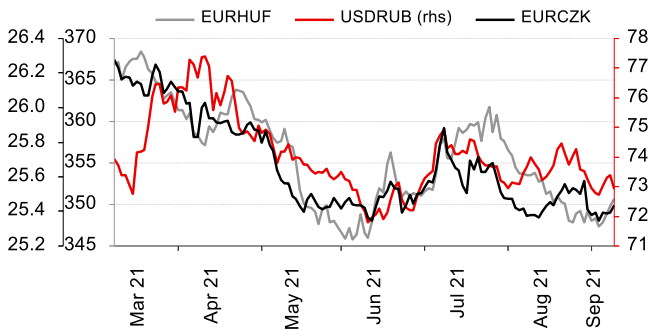
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



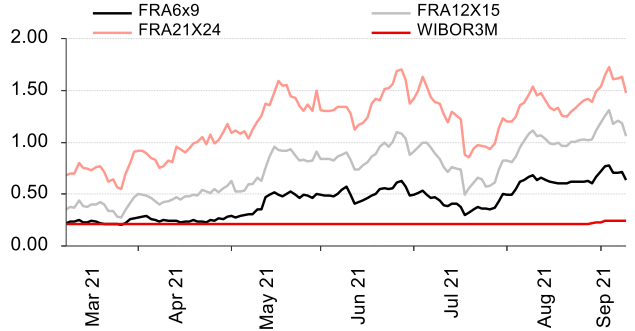
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



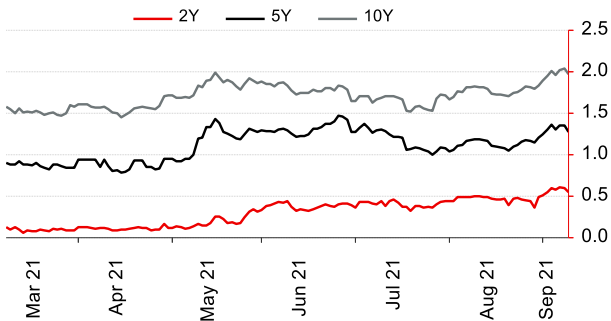
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



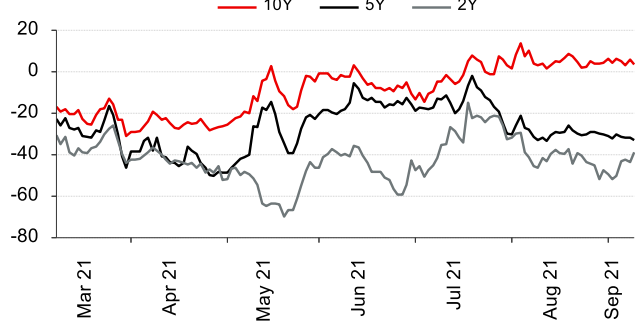
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



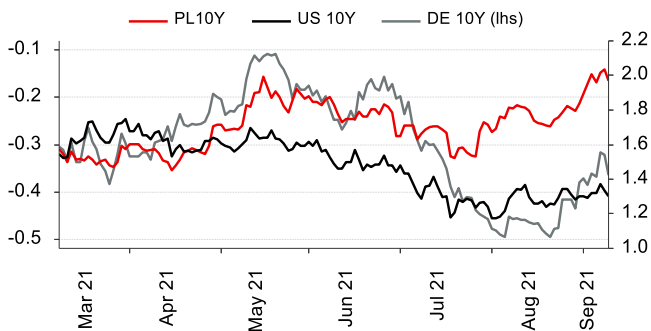
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



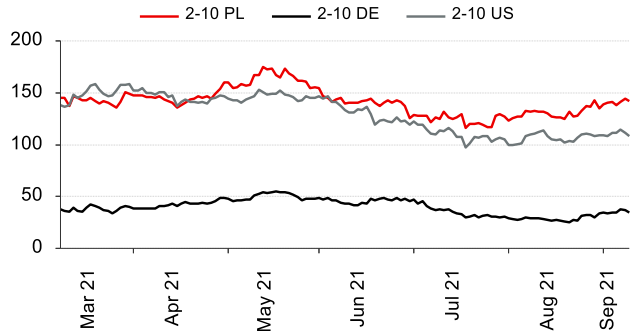
Source: Refinitiv Datastream, Santander Bank Polska

### 10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

### Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
<b>MONDAY (13 September)</b>							
14:00	PL	Current Account Balance	Jul	€mn	-270	-341	281
14:00	PL	Trade Balance	Jul	€mn	258	3	761
14:00	PL	Exports	Jul	€mn	22799-	22032	23680
14:00	PL	Imports	Jul	€mn	22477	22029	22919
<b>TUESDAY (14 September)</b>							
14:30	US	CPI	Aug	% m/m	0.4		0.5
<b>WEDNESDAY (15 September)</b>							
10:00	PL	CPI	Aug	% y/y	5.4	5.4	5.0
11:00	EZ	Industrial Production SA	Jul	% m/m	0.6		-0.3
15:15	US	Industrial Production	Aug	% m/m	0.4		0.9
<b>THURSDAY (16 September)</b>							
14:00	PL	CPI Core	Aug	% y/y	3.9	3.9	3.7
14:30	US	Initial Jobless Claims		k	315		310
14:30	US	Retail Sales Advance	Aug	% m/m	-1.0		-1.1
14:30	US	Index Philly Fed	Sep		18.5		19.4
<b>FRIDAY (17 September)</b>							
10:00	PL	Employment in corporate sector	Aug	% y/y	1.1	1.1	1.8
10:00	PL	Average Gross Wages	Aug	% y/y	8.7	9.1	8.7
11:00	EZ	HICP	Aug	% y/y	3.0		3.0
16:00	US	Michigan index	Sep	pts	72.0		70.3

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.