

29 October 2021

# Weekly Economic Update

## Time for the MPC

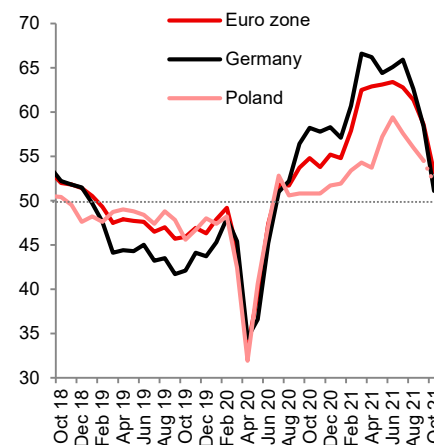
### Economy next week

- **After another strong CPI inflation surprise** (flash October reading at 6.8% y/y vs 5.9% y/y in September) the focus will turn to **the nearest MPC meeting scheduled for Wednesday, 3 November**. The path of inflation forecasts has been moving higher and higher and currently it seems obvious that 7% y/y will be reached as soon as in 2021, while 8% y/y could be seen in 1Q22E (even with conservative commodities price forecasts). Under such circumstances, MPC's decision not to hike in November would be a major surprise for the markets. In our opinion, **an increase by 50bp is very probable**, especially as the MPC will get to know the fresh NBP staff forecasts, which will likely show inflation forecast not only sitting much higher than previously, but also not showing a return to the NBP target (2.5%) over the whole forecasting horizon. NBP governor's press conference was scheduled for Wednesday at 4pm Warsaw time. Markets will look for any hints regarding further action plan in the MPC statement and Glapiński's words. However, the key question is what is the target interest rate level in this cycle. Market currently expects around 2.50% in mid-2022.
- On Tuesday we will get to see **manufacturing PMI for Poland** which, in our opinion, will again decline somewhat (to 52.0 pts) due to supply disruptions, but will still remain in the expansionary zone.
- **In Europe the manufacturing PMI** are released on Monday, when there is a bank holiday in Poland, while the services PMI on Wednesday. Preliminary readings showed declines in most countries in October due to supply disruptions and rising Covid-19 cases. **US labour market data** on Friday will probably be key reading of the week, though. Earlier, there is a FOMC meeting (Wednesday) and a CNB (Czech National Bank) meeting (Thursday). The former will likely decide about trimming down the QE purchases, the latter will likely increase rates by other 50bp (market expectations) to 2.0%. Next week there is also an OPEC meeting where decisions regarding oil supply should be taken.
- On top of the economic data also the pandemic situation in Poland is in focus. The number of cases have accelerated of late. Earlier such events were zloty-negative.
- Today in the evening **the Moody's rating agency is scheduled for a review of Polish sovereign credit rating**. We expect no changes. There might however issue a warning in the statement that further escalation of the conflict with the EU might negatively impact the outlook and the rating itself in the future (other rating agencies have commented already in a similar manner).

### Markets next week

- In October EURPLN slightly increased (by 0.2%) but the zloty behaved better not only than the lira, real or rand but also than the forint and koruna which lost vs euro over the same period by 0.5% and 1.2%, respectively. MTD the 10Y Bund yield increased by 10bp to -0.09% while the 10Y UST by 12pb to 1.60%. Comparing to those the POLGB yield increases MTD were not spectacular: 2Y up by 10bp to 1.97%, 10Y up by 5bp to 2.87%.
- In the upcoming week **the performance of Polish assets will depend on the outcome of the Wednesday MPC meeting**. At the moment markets are expecting a 50bp hike in November followed by other 50bp one in December. Depending on the MPC decision the wide range of market scenarios is possible. **If, as we expect, the MPC will hike by 50bp, EURPLN might fall to vicinity of 4.60 while the yield curve might move higher and slightly flatten** (such a hike might raise hopes of more similar hikes in the futures).
- Similarly, the yield curve would flatten and EURPLN fall (even more – to 4.55 we reckon) in case of a larger, 75bp hike. In case of only a 25bp interest rate increase, which would likely signal a hiking cycle more stretched in time, the yields on the front end of the curve could decline a bit, which would result in a more steep yield curve. The impact on EURPLN would likely be neutral to slightly negative. The scenario of zero interest rate increase would result in a significant weakening of the zloty (EURPLN above 4.70) and much steeper yield curve (including 10Y POLGB yield much above 3.0%).

PMI indices in manufacturing, pts



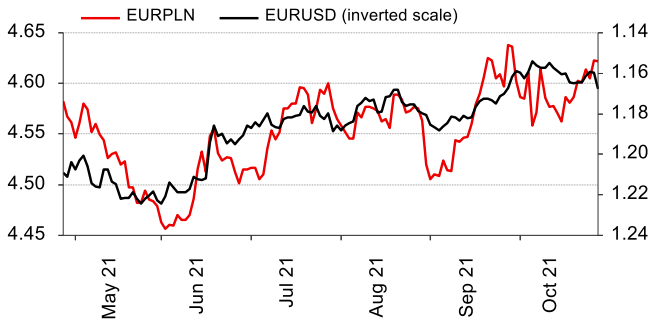
Source: Markit, Santander

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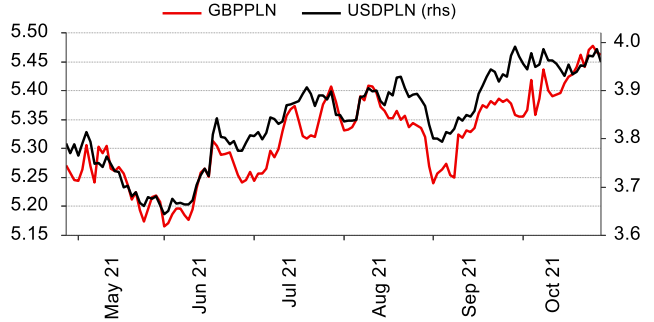
## FX and FI markets

### EURPLN and EURUSD



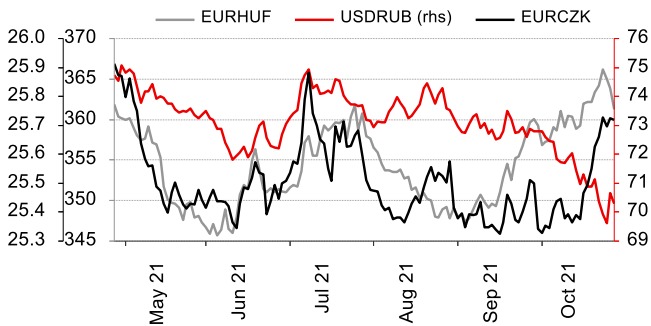
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



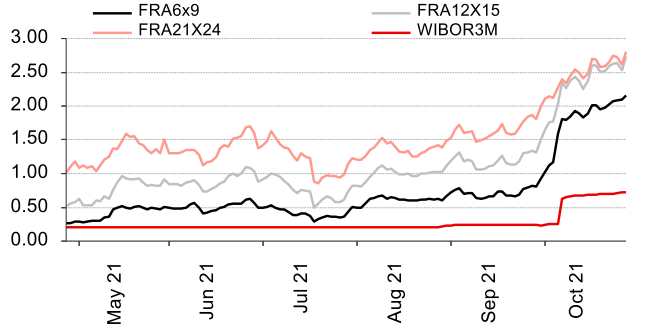
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



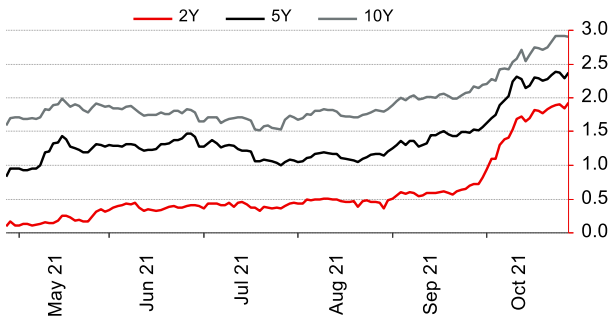
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



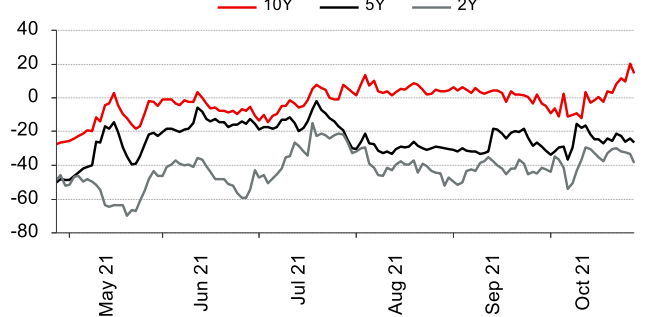
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



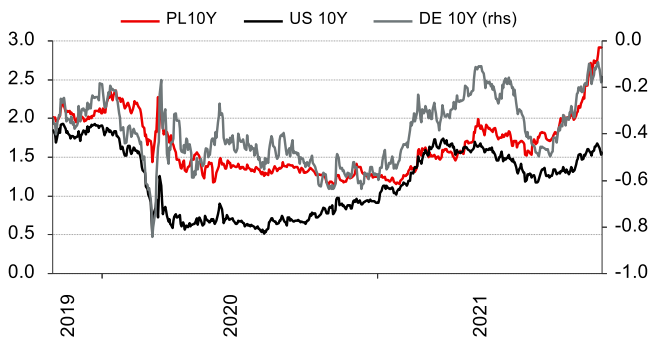
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



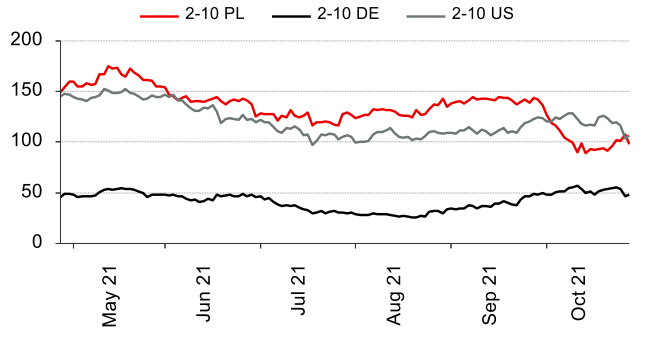
Source: Refinitiv Datastream, Santander Bank Polska

### 10Y bond yields



Source: Refinitiv Datastream, Santander

### Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	SANTANDER	
<b>MONDAY (1 November)</b>							
	<b>PL</b>	<b>Market holiday</b>					
09:55	DE	Germany Manufacturing PMI	Oct	pts	58.2		58.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	58.5		58.5
15:00	US	ISM manufacturing	Oct	pts	60.2		61.1
<b>TUESDAY (2 November)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Oct</b>	<b>pts</b>	<b>53.1</b>	<b>52.0</b>	<b>53.4</b>
<b>WEDNESDAY (3 November)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.75</b>	<b>1.00</b>	<b>0.50</b>
02:45	CN	Caixin China PMI Services	Oct	pts	53.5		53.4
09:55	DE	Markit Germany Services PMI	Oct	pts	52.4		52.4
10:00	EZ	Eurozone Services PMI	Oct	pts	54.7		54.7
11:00	EZ	Unemployment Rate	Sep	%	7.4		7.5
13:15	US	ADP report	Oct	k	400.0		568.1
15:00	US	Durable Goods Orders	Sep	% m/m			-0.4
15:00	US	ISM services	Oct	pts	61.8		61.9
15:00	US	Factory Orders	Sep	% m/m	-0.2		1.2
19:00	US	FOMC decision	Nov/21		0.25		0.25
<b>THURSDAY (4 November)</b>							
08:00	DE	Factory Orders	Sep	% m/m	0.4		-7.7
14:30	US	Initial Jobless Claims		k	287.5		290.0
14:30	CZ	Central Bank Rate Decision	Nov/21		2.0		1.5
<b>FRIDAY (5 November)</b>							
08:00	DE	Industrial Production SA	Sep	% m/m	-0.8		-4.0
09:00	HU	Industrial Production SA	Sep	% y/y	-		0.6
11:00	EZ	Retail Sales	Sep	% m/m	0.2		0.3
13:30	US	Change in Nonfarm Payrolls	Oct	k	425.0		194.0
13:30	US	Unemployment Rate	Oct	%	4.7		4.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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