

26 November 2021

# Weekly Economic Update

## Will Covid overshadow inflation?

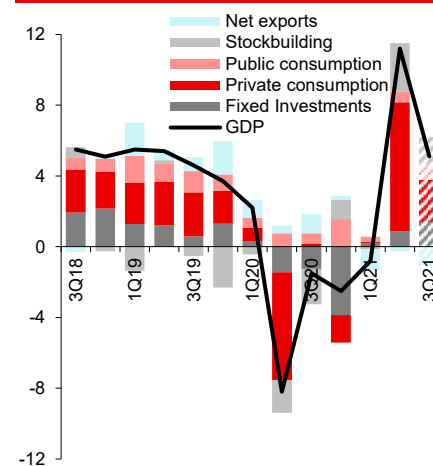
### Economy next week

- In the passing week we saw better-than-expected domestic data (industrial output, retail sales) showing that the economy made a strong entry into the fourth quarter. We also got to know the government plans about “anti-inflation shield”, which will “flatten” the peak of CPI in 1Q22 (it is now less likely to reach 8% y/y), but at the cost of higher inflation further down the road, around 2H22-1H23. The week ends with news about a new Covid variant spreading very fast in southern Africa, making governments across the globe consider travel bans and sending the markets into the risk-off mode.
- After the weekend three important data releases in Poland are in the agenda: flash inflation for November, 3Q GDP (both on Tuesday), manufacturing PMI for November (Wednesday). **Our estimates point to a rise of CPI growth to 7.3% y/y** (same as market consensus), mostly on high food and fuel prices. The breach of another psychological level of 7% will be in our view one of the arguments for another rate hike by the MPC in December (we assume a 75bp hike in our base scenario due to i.a. the prevailing weakness of the zloty). After December there may be a pause in monetary policy tightening, but we stick to the view that the NBP rate will rise to 3% still in 1H22. **When it comes to the GDP, the flash reading showed solid growth of 5.1% y/y and 2.1% q/q**. In the detailed data we expect to see strong private consumption and investments but with clearly negative impact of foreign trade. **We expect the PMI index to decrease gently in November to 53.5 pts**, which would still be a result within the expansion zone, pointing to solid industrial output growth.
- We will get to see a lot of data from abroad: in Europe inflation, GDP, PMI, ESI, in the US consumer confidence, ISM and non-farm payrolls on Friday.
- **Covid-19 has come to the fore again** due to new B.1.1.529 mutation. New information about this variant is likely to affect markets. WHO informed after a special meeting that it can take a few weeks to understand the dynamics of the new strain.
- **Situation on Poland's eastern border has calmed somewhat**. We have no idea whether it is going to stay that way. Today the president of the Ukraine informed about intelligence about Russia-inspired plans of coup d'état in early December and earlier the US intelligence warned about risk of Russian intervention in the Ukraine.
- **The National Recovery Plan still has no approval from the European Commission**. Every day of delay equals deteriorating chances for the payment of 13% upfront instalment and is negative for Poland's economic outlook and for the currency.

### Markets next week

- Black Friday on the financial markets brought discounts to the stock indices and EM currencies as a result of fears regarding the new Covid-19 strain. The EM currency losses were however mitigated by a rebound in EURUSD (previous expectations of quicker Fed tapering and more imminent interest rate hikes slightly weakened). After the weekend there will be several groups of factors impacting the market moods: on the one hand, the economic data out of the US and Eurozone and their possible impact on the respective central banks' monetary policy, on the other hand fears regarding the pandemic situation. Also political and geopolitical processes should be in focus (EU recovery fund, the situation at the Polish eastern border). **In the following week we expect EURPLN to fluctuate near 4.70. However, it seems to us, that it is still much easier to draw scenarios in which the PLN weakens than those where it could strengthen.**
- Up until Thursday the fixed income markets were expecting more and more of interest hikes in Poland (strong macro data, the introduction of the anti-inflation shield which effectively will increase inflation in the future) however the new Covid-19 strain fears somewhat corrected the trend. **It seems that it is the expectations of the pandemic situation that will prove more important to the markets than the macroeconomic data which makes forecasting the fixed income market in the coming week so much difficult**. Scarce market liquidity is causing high volatility – pretty much any factor can send the yield curve more than a dozen or several dozens of bp one way or the other.

Poland: structure of y/y GDP growth,



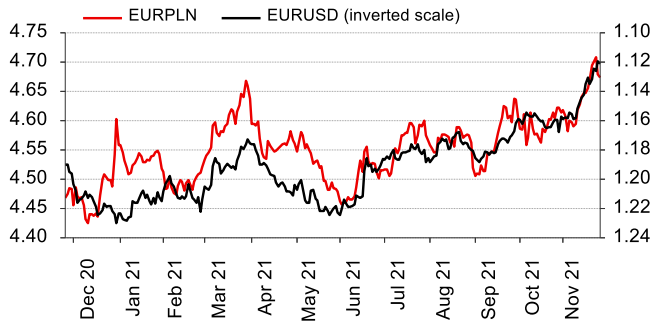
Source: GUS, Santander

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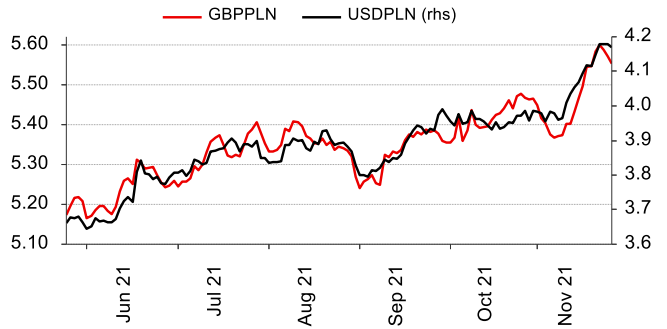
## FX and FI markets

### EURPLN and EURUSD



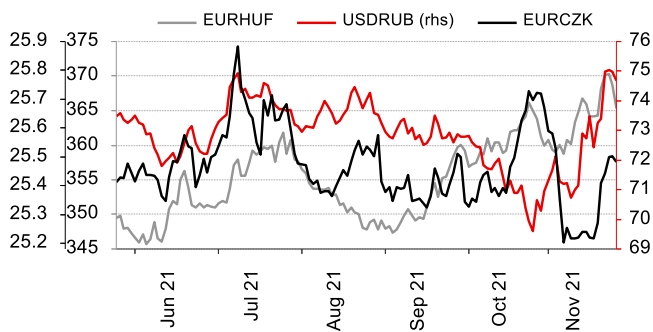
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



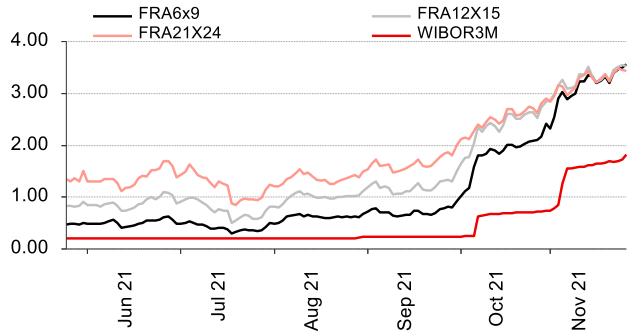
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



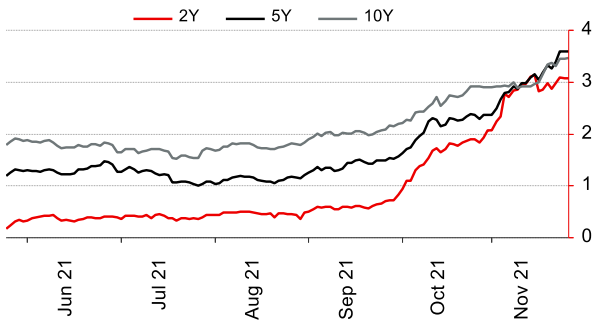
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



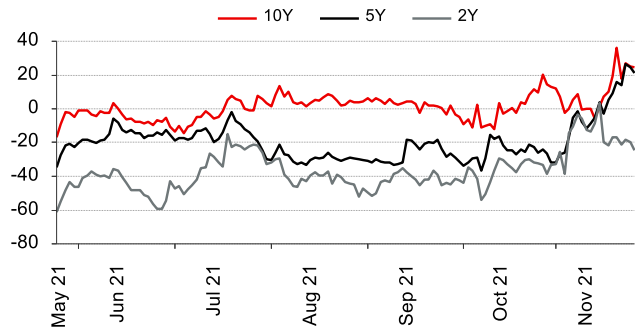
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



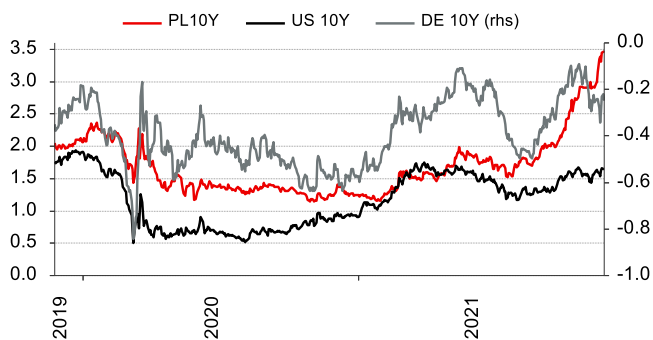
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



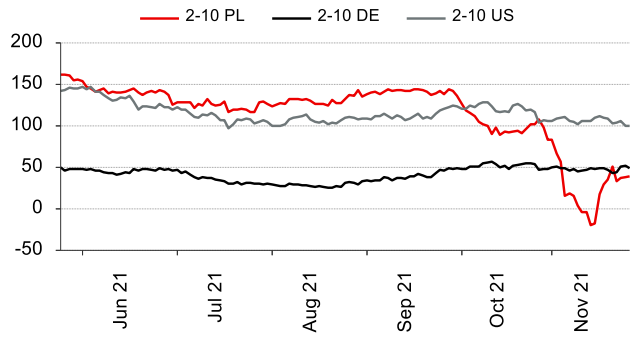
Source: Refinitiv Datastream, Santander Bank Polska

### 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 (29 November)</b>						
08:00	DE	Retail Sales	Oct	% m/m	0.6	-1.9
11:00	EZ	ESI	Nov	pct.	117.9	118.6
14:00	DE	HICP	Nov	% m/m	-0.5	0.5
16:00	US	Pending Home Sales	Oct	% m/m	0.7	-2.3
<b>TUESDAY (30 November)</b>						
09:00	CZ	GDP SA	3Q	% y/y	2.8	2.8
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Nov</b>	<b>% y/y</b>	<b>7.3</b>	<b>7.3</b>
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>3Q</b>	<b>% y/y</b>	<b>5.1</b>	<b>5.1</b>
11:00	EZ	Flash HICP	Nov	% y/y	4.3	4.1
16:00	US	Consumer Conference Board	Nov	pts	110.0	113.8
<b>WEDNESDAY (1 December)</b>						
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Nov</b>	<b>pts</b>	<b>53.9</b>	<b>53.5</b>
09:00	HU	GDP	3Q	% y/y	6.1	6.1
09:55	DE	Germany Manufacturing PMI	Nov	pts	57.6	57.8
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	58.6	58.3
14:15	US	ADP report	Nov	k	515.0	571.1
16:00	US	ISM manufacturing	Nov	pts	61.0	60.8
<b>THURSDAY (2 December)</b>						
11:00	EZ	Unemployment Rate	Oct	%	7.4	7.4
14:30	US	Initial Jobless Claims	Nov/21	k		199.0
<b>FRIDAY (3 December)</b>						
02:45	CN	Caixin China PMI Services	Nov	pts	51.0	53.8
09:55	DE	Markit Germany Services PMI	Nov	pts	53.4	52.4
10:00	EZ	Eurozone Services PMI	Nov	pts	56.6	54.6
11:00	EZ	Retail Sales	Oct	% m/m	0.3	-0.3
14:30	US	Change in Nonfarm Payrolls	Nov	k	500.0	531.0
14:30	US	Unemployment Rate	Nov	%	4.5	4.6
16:00	US	Durable Goods Orders	Oct	% m/m	0.2	-0.5
16:00	US	ISM services	Nov	pts	65.0	66.7
16:00	US	Factory Orders	Oct	% m/m	0.5	0.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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