

Weekly Economic Update

No time to end hikes

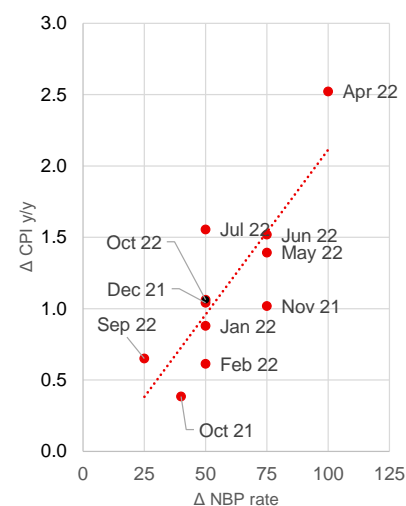
Economy next week

- The main local event ahead of us is the **MPC decision on Wednesday**. In our view, this time rates will go up by 50 bps. Admittedly, NBP President Adam Glapinski announced a month ago that the choice will be between zero and 25 bp, but he also stressed the dependence of further decisions on incoming data. And we think the latest data call for a stronger tightening than 25 bp. In particular, inflation did not decline at all in September as some of the MPC had assumed, but soared high above all analysts' forecasts. Our simple model linking the MPC's decisions over the past year to the monthly changes of annual inflation now points to +50 bps. It seems to us that the Council, with such pressure from CPI, will not dare to signal the end of tightening and may have serious doubts about announcing a pause in hikes. Apart from the MPC meeting the local calendar includes only the manufacturing PMI - although it was already the lowest in the world in August and is likely to fall further, there is still no confirmation in real data of the major collapse it is showing.
- Abroad, attention will be drawn to the US employment data - probably still solid, German industrial data - probably recessionary. Markets will also scan the ECB minutes for hints of how big the next hike will be. The backdrop will be more hikes from major central banks (Australia and New Zealand), OPEC+ meeting.

Markets next week

- In the past week, the zloty experienced a marked weakening, in line with our expectations. The Kremlin's announcement of "partial mobilization" and the annexation to Russia of four fully or partially occupied regions of Ukraine (Lugansk, Donetsk, Kherson and Zaporizhia), following the pseudo-referenda held at an express pace, raised the war to a higher level of escalation. In the minimum variant, such a development means a longer war, and thus also a longer negative impact of it not only on the perception of geopolitical risk in the entire CEE region, but also on the economy e.g. on gas prices in European markets. In this context, the puzzling near-simultaneous failures of the Nord Stream 1 and Nord Stream 2 pipelines have further legitimized the scenario of continued high gas prices for an extended period. The combination of rising geopolitical and economic risks led to a strong weakening of the zloty. EUR/PLN exchange rate attacked the level of 4.90, and USD/PLN exceeded the level of 5.00 for the first time ever. Some hope for the zloty came only with the domestic inflation reading for September, which dismissed the likelihood of an imminent end to the MPC's rate hike cycle, allowing the zloty to limit its weekly losses to the major currencies at the end of the week. **In coming week, we expect that until Thursday's conference of the NBP governor** (date not yet confirmed), **the zloty should be relatively stable against the euro, fluctuating around 4.85**. The prospect of more rate hikes in Poland works potentially in favour of the zloty, however, in the face of a sustained deterioration of the geopolitical and economic environment due to the growing probability of recession in Europe, we assume that the potential for strengthening of the zloty remains strongly limited.
- In the debt market, the ending week saw a marked rise in yields. Problems in the British financial market in response to the government's proposals for strong fiscal loosening drew the markets' attention to this issue. This weighed on Polish government bonds, since the government's draft budget for 2023 also raises many questions in terms of its feasibility, especially in terms of its off-budget financing. Concerns about the situation in the European gas market in the upcoming heating season, which began to grow after the failures of the NS1 and NS2 pipelines, stimulated inflation expectations as a result of which the domestic market gradually began to price more boldly the increasing scale of NBP rate hikes. The high inflation reading for September further reinforced these trends. **In coming week, we expect domestic yields to rise further**. The domestic inflation situation calls for more rate hikes than the scenarios so far plotted by the MPC's dominant dovish camp, and Russia's escalatory moves further increase the likelihood that higher inflation will stay with us for longer. As a result, we assume that the domestic debt market, which has clearly diverged from the trends seen in the main markets for quite some time, will have to adapt to them more vigorously.

Changes in NBP rates vs changes in CPI, with our forecast on October meeting outcome

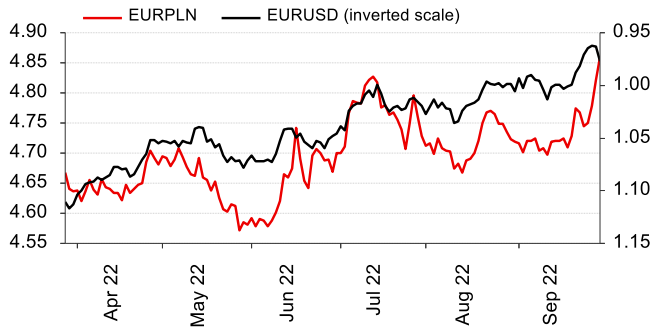


Source: GUS, NBP, Santander

Economic Analysis Department:

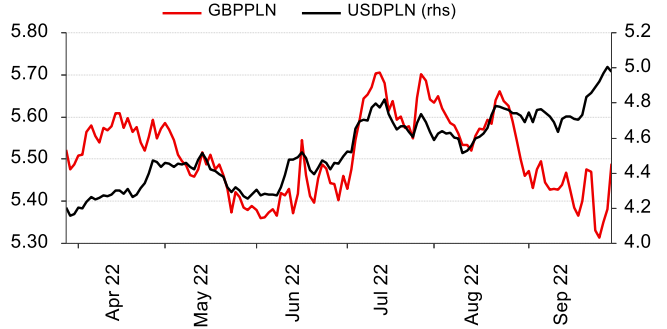
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarosław Kosaty +48 887 842 480
Marcin Luzziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



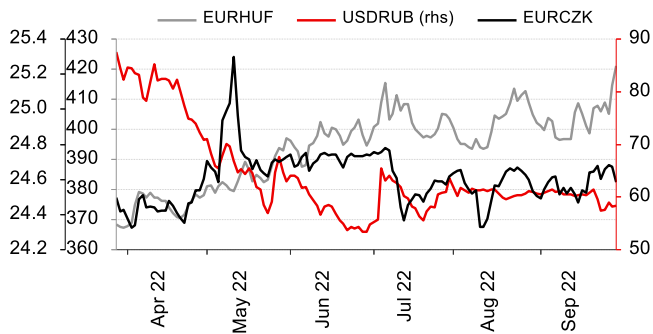
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



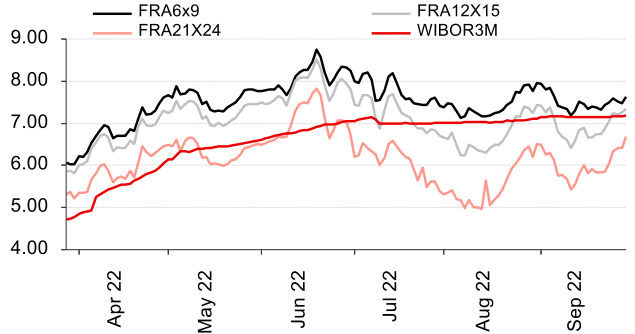
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



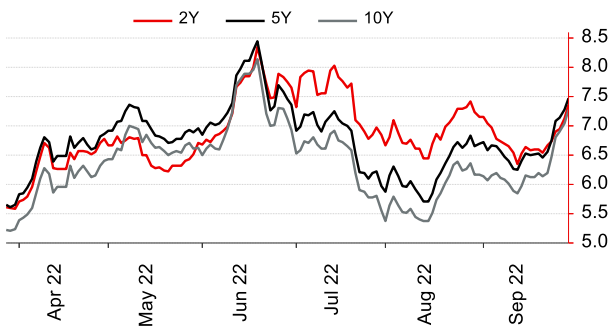
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



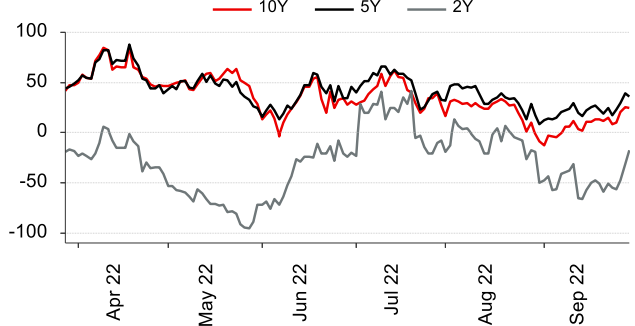
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



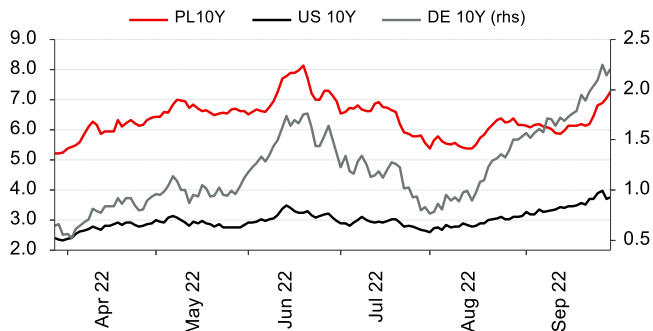
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



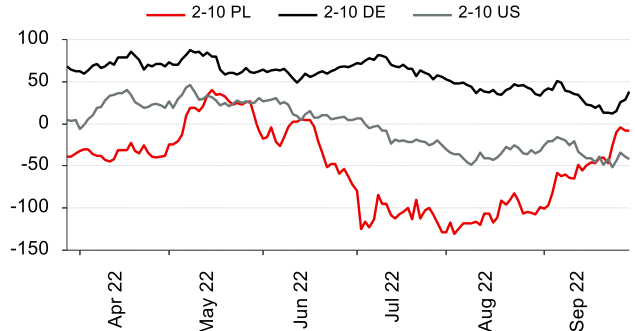
Source: Refinitiv Datastream, Santander Bank Polska

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		
MONDAY (3 October)							
09:00	PL	Poland Manufacturing PMI	Sep	pts	40.2	39.9	40.9
09:55	DE	Germany Manufacturing PMI	Sep	pts	48.3		49.1
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	48.5		49.6
16:00	US	ISM manufacturing	Sep	pts	52.3		52.8
TUESDAY (4 October)							
16:00	US	Durable Goods Orders	Aug	% m/m			-0.2
16:00	US	Factory Orders	Aug	% m/m	0.3		-1.0
WEDNESDAY (5 October)							
	PL	MPC decision		%	7.00	7.25	6.75
08:00	DE	Exports SA	Aug	% m/m	1.5		-2.0
09:55	DE	Markit Germany Services PMI	Sep	pts	45.4		47.7
10:00	EZ	Eurozone Services PMI	Sep	pts	48.9		49.8
14:15	US	ADP report	Sep	k	200		132
16:00	US	ISM services	Sep	pts	56.0		56.9
THURSDAY (6 October)							
08:00	DE	Factory Orders	Aug	% m/m	-0.5		-1.1
09:00	HU	Industrial Production SA	Aug	% y/y	7.7		6.6
11:00	EZ	Retail Sales	Aug	% m/m	-0.4		0.3
14:30	US	Initial Jobless Claims		k	215		193
FRIDAY (7 October)							
08:00	DE	Industrial Production SA	Aug	% m/m	-0.5		-0.3
08:00	DE	Retail Sales	Aug	% m/m	-1.0		1.9
09:00	CZ	Industrial Production	Aug	% y/y	6.7		-1.9
14:30	US	Change in Nonfarm Payrolls	Sep	k	250		315
14:30	US	Unemployment Rate	Sep	%	3.7		3.7

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>.