

Weekly Economic Update

Zloty under the pressure from interest rates

Economy next week

- Inflation, the energy crisis and the government's efforts to protect consumers and businesses from rising costs will remain main themes in the week ahead (we may learn details of the new shielding measures and possibly a corporate tax proposal to fund them). The list of economic data releases is not particularly long: In Poland, we will see detailed CPI data for September and the balance of payments for August - both on Friday. Abroad, a number of inflation prints: on Monday from the Czechia and Hungary, on Thursday from Germany and the USA, on Friday from France, Spain. In addition, production and foreign trade in the euro area, FOMC minutes. Every day ECB and Fed representatives are scheduled to talk. It seems likely that the surprising pause in NBP rate hikes will also be followed by interviews with members of the Polish MPC. Markets may therefore have plenty of reasons to think about the monetary policy outlook both in Poland and abroad.
- Final inflation data for August were no different from the flash result, but revisions have been quite frequent over the past year, so it is possible that **September's CPI reading** of 17.2% y/y will see some small correction. The key, however, will be the breakdown of price growth, which will allow to answer whether the strong surprise in the core component of inflation was due to broadening of the price impulse, or whether it was some sort of disruption in a narrow area / one-off. If the former, the chances of inflation descending to single-digit levels before the end of 2023 will become increasingly slim.
- Following the NBP's strong revision of the balance of payments data, the **current account deficit** for August may surprise more than usual. Our forecast is for an increase in the trade deficit to -EUR2.2bn, but a decline in the current account gap to -EUR1.5bn (3.4% of GDP on a rolling 12-month basis). In contrast, the median forecast indicates a better goods balance and a worse current balance.

Markets next week

- The lack of a rate hike by the MPC and the dovish rhetoric of President Glapiński weakened the zloty (EURPLN temporarily approached 4.90) and in our view this factor will contribute to the currency's prolonged weakness in the days/weeks ahead, especially if Friday's CPI data confirms that there are reasons to fear greater inflation persistence. An additional important factor is the renewed strengthening of the dollar, which may continue in the face of the fading of temporarily revived hopes of a 'dovish pivot' in FOMC policy, as well as rising geopolitical risks. We do not rule out that **EURPLN will test the 5.0 level in a few weeks' time**.
- In the debt market, **we anticipate a further increase in yields**, particularly at the long end of the curve as a result of strengthening expectations that stopping the monetary tightening cycle right now may be at the expense of stronger interest rate hikes in the future, as well as in anticipation of a growing scale of debt issuance financing new proposals for sheltering measures towards companies and households. The trend of rising yields in the core markets, supported both by the expectation of rate hikes and the looming fiscal expansion of European countries, will also remain a significant factor.

EURPLN and 10Y Polish bond yield

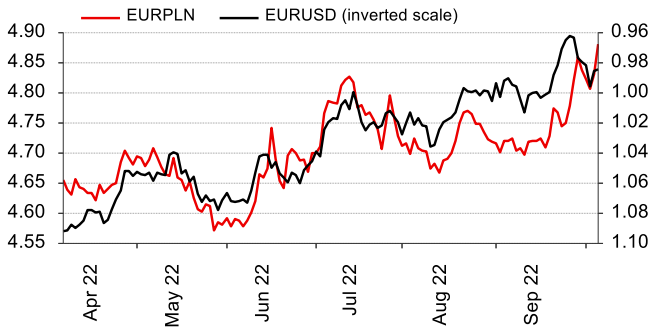


Source: Refinitiv, Santander

Economic Analysis Department:

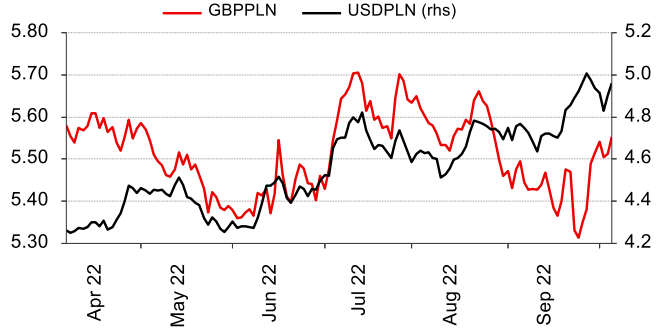
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EURPLN and EURUSD



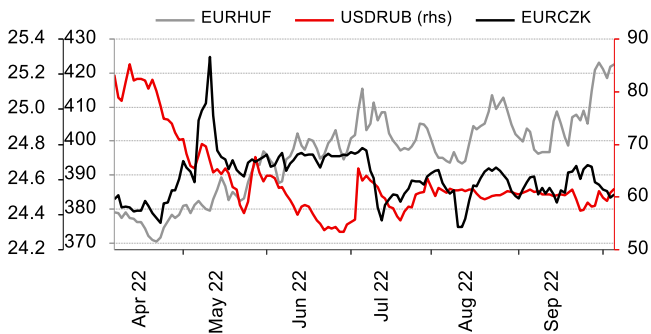
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



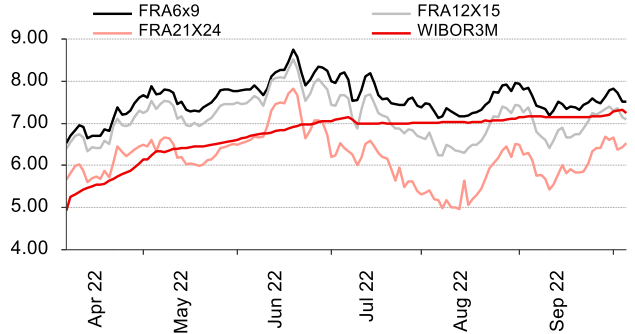
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



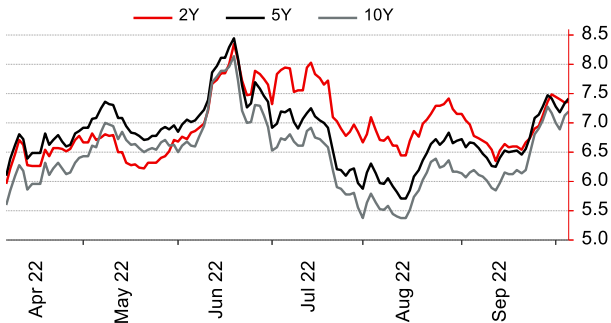
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



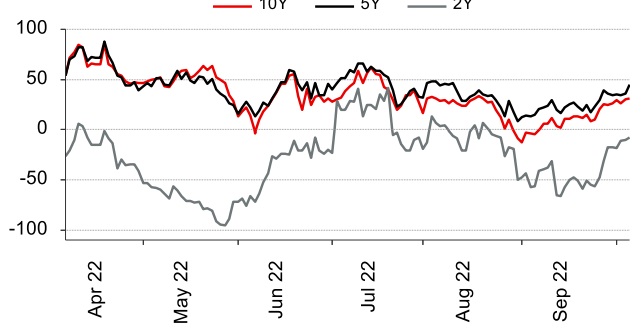
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



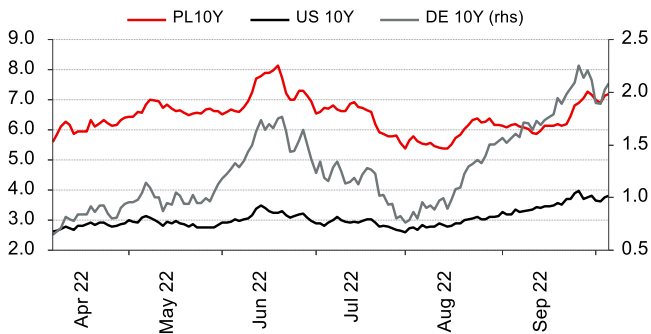
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



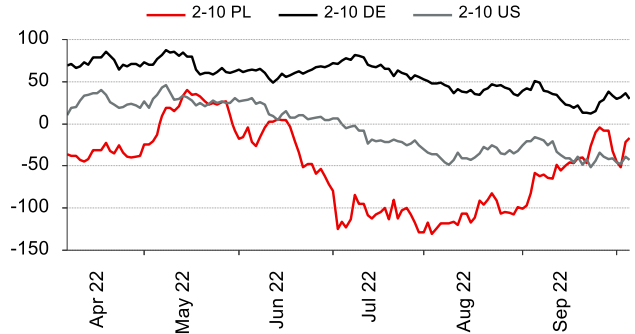
Source: Refinitiv Datastream, Santander Bank Polska

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 | |
| TUESDAY (11 October) | | | | | | | |
| 09:00 | CZ | CPI | Sep | % y/y | 17.1 | | 17.2 |
| 09:00 | HU | CPI | Sep | % y/y | 19.9 | | 15.6 |
| WEDNESDAY (12 October) | | | | | | | |
| 11:00 | EZ | Industrial Production SA | Aug | % m/m | 1.3 | | -2.3 |
| 20:00 | US | FOMC Meeting Minutes | | | | | |
| THURSDAY (13 October) | | | | | | | |
| 08:00 | DE | HICP | Sep | % m/m | 2.2 | | 2.2 |
| 14:30 | US | CPI | Sep | % m/m | 0.2 | | 0.1 |
| 14:30 | US | Initial Jobless Claims | week | k | 204 | | 219 |
| FRIDAY (14 October) | | | | | | | |
| 10:00 | PL | CPI | Sep | % y/y | 17.2 | 17.2 | 17.2 |
| 14:00 | PL | Current Account Balance | Aug | €mn | -1642 | -1534 | -1735 |
| 14:00 | PL | Trade Balance | Aug | €mn | -1317 | -2226 | -1452 |
| 14:00 | PL | Exports | Aug | €mn | 26560 | 24775 | 26010 |
| 14:00 | PL | Imports | Aug | €mn | 27876 | 27001 | 27462 |
| 14:30 | US | Retail Sales Advance | Sep | % m/m | 0.2 | | 0.3 |
| 16:00 | US | Michigan index | Oct | pts | 58.8 | | 58.6 |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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