

Weekly Economic Update

Is this just correction or trend reversal?

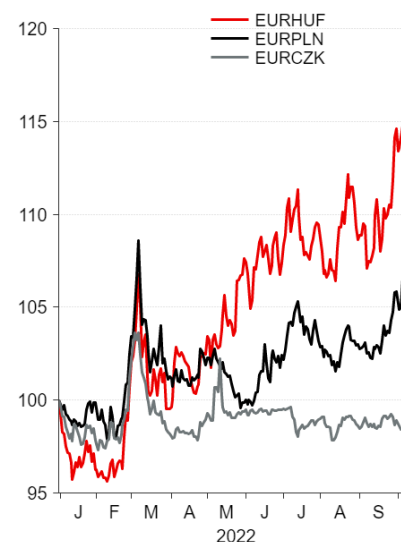
Economy next week

- Another week of high market volatility is behind us. After the weekend, there will be less reasons for sudden twists and turns, theoretically, as key data such as US payrolls or inflation are no longer on the calendar; but that doesn't mean there won't be any. The list of publications abroad includes inflation data from Eurozone countries, Eurozone and US consumer sentiment, among others. Again, a long list of ECB and Fed officials' speeches is on the agenda. However, the show may be stolen by China: the **20th national congress of the Chinese Communist Party** begins on Monday, where Xi Jinping is expected to be approved as chairman for a third term. Perhaps on this occasion he will unveil plans for how he intends to respond to economic and social challenges. Also, China will release important data on Monday-Tuesday: foreign trade, manufacturing, retail sales, Q3 GDP - all of which could influence expectations about the risk of a global recession.
- **In Poland, there a set of September data is due for release:** on Monday core inflation, on Thursday-Friday wages and employment, PPI, industrial and construction output, retail sales, housing market data. On Friday, an update on the 2021 GG debt and deficit. Our forecasts, updated after today's full CPI data, point to another strong rise in core inflation (10.7-10.8% y/y), a still resilient labour market (employment 2.4% y/y, wages 13.4% y/y - in line with consensus) and sales and output growth consistent with Q4 GDP deceleration (some above, some below consensus). October's consumer and business sentiment indicators will be also released, most likely pessimistic again. All in all, it will be a mixed set of signals for the MPC: signs of consolidating inflationary pressures, but at the same time decelerating economic activity. Barring any strong surprises, this is unlikely to shift significantly market expectations for monetary policy outlook.

Markets next week

- EURPLN has retreated markedly since last Friday, slipping below 4.80 today on the back of, among other things, dollar weakness (helped by weaker US retail sales and Putin's comments perceived as reducing the short-term risk of geopolitical escalation). However, we treat it as a temporary correction in the trend and **still see a greater risk of the zloty weakening than strengthening in the coming weeks**. This will be supported, inter alia, by: the slowing down of the NBP rate hike cycle with still rising inflation, the widening current account deficit (today data again surprised unfavourably), a possible resumption of EURUSD declines and stock market selloff, geopolitical risk and the risk of energy shortages in winter.
- The scale of the sell-off in the debt market far exceeded our expectations: yields across the curve broke through the 8% level this week. Previously when this happened (in June), there was a sharp turnaround immediately afterwards and within a few weeks yields had fallen to almost 5%. Now, too, there has been some unwinding, especially at the long end, but in our view the situation this time is somewhat different - in the middle of the year foreign investors were, to our knowledge, heavily underweight in POLGBs, and this time the positioning seems to be more neutral; moreover, the belief that the rate hike cycle is over, which the NBP president managed to successfully instil in the market in June (FRAs retreated significantly then) is now diminishing rather than growing (FRAs are going up again). This suggests that the 8% level may not be an effective and sustainable barrier to rising yields this time if the sell-off in the core debt markets continues.

CEE exchange rates, 1/01/2022=100

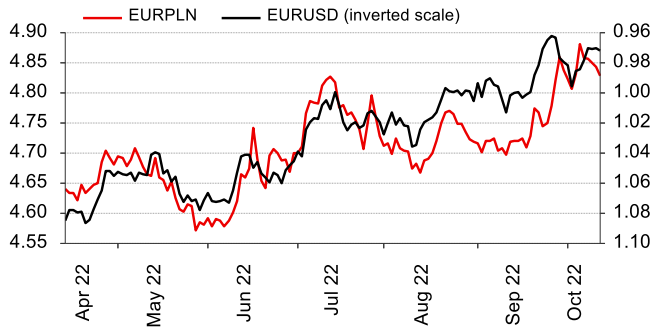


Source: Refinitiv, Santander

Economic Analysis Department:

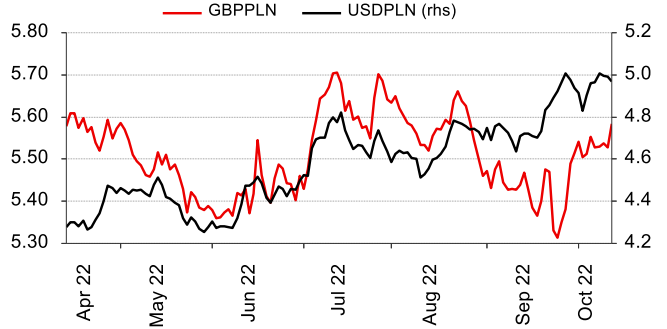
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EURPLN and EURUSD



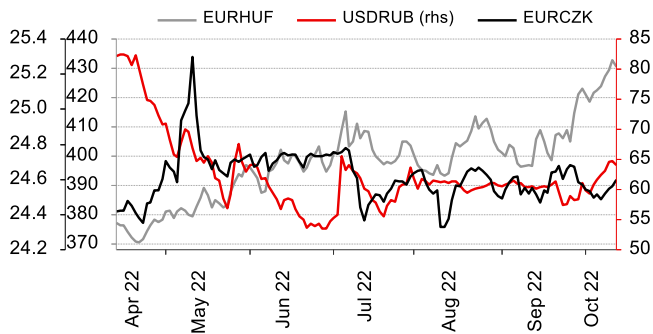
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



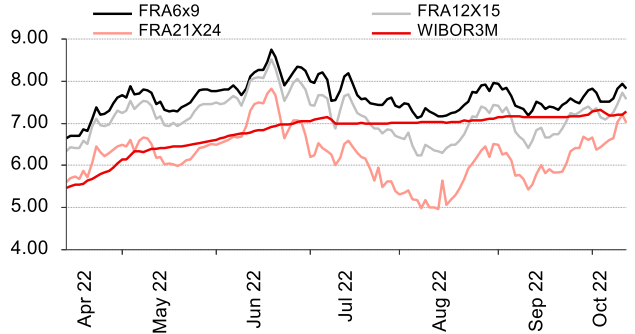
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



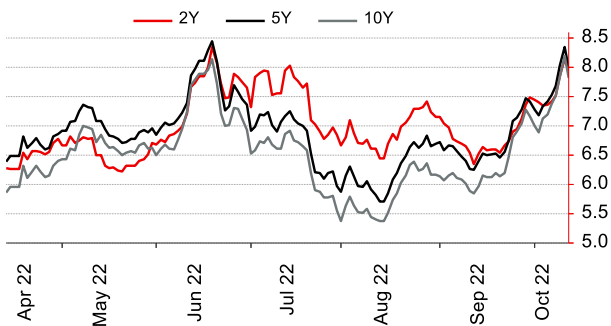
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



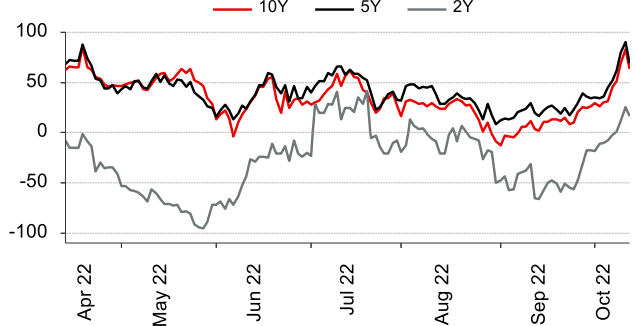
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



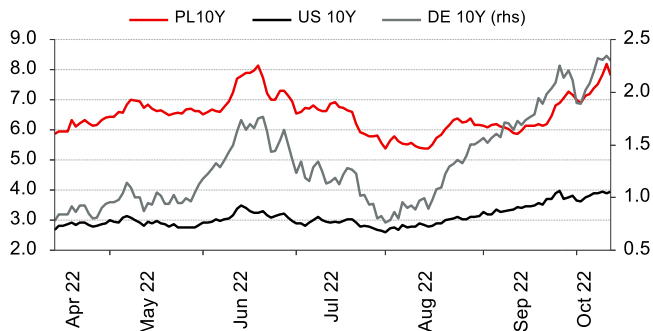
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



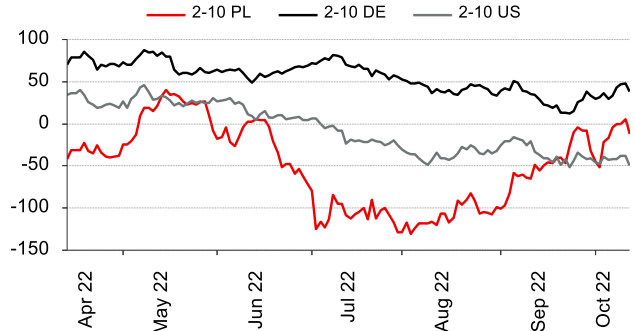
Source: Refinitiv Datastream, Santander Bank Polska

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	
MONDAY (17 October)							
14:00	PL	CPI Core	Sep	% y/y	10.7	10.8	9.9
TUESDAY (18 October)							
11:00	DE	ZEW Survey Current Situation	Oct	pts	-69.0		-60.5
15:15	US	Industrial Production	Sep	% m/m	0.1		-0.2
WEDNESDAY (19 October)							
11:00	EZ	HICP	Sep	% y/y	10.0		9.1
14:30	US	Housing Starts	Sep	% m/m	-6.4		12.2
THURSDAY (20 October)							
10:00	PL	Employment in corporate sector	Sep	% y/y	2.4	2.4	2.4
10:00	PL	Average Gross Wages	Sep	% y/y	13.4	13.4	12.7
10:00	PL	Sold Industrial Output	Sep	% y/y	8.8	9.2	10.9
10:00	PL	PPI	Sep	% y/y	25.5	25.6	25.5
14:30	US	Initial Jobless Claims		k	235.0		228.0
16:00	US	Existing Home Sales	Sep	% m/m	-2.1		-0.4
FRIDAY (21 October)							
10:00	PL	Construction Output	Sep	% y/y	6.5	9.2	6.1
10:00	PL	Retail Sales Real	Sep	% y/y	4.5	3.5	4.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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