

# Weekly Economic Update

## First MPC meeting after summer holidays

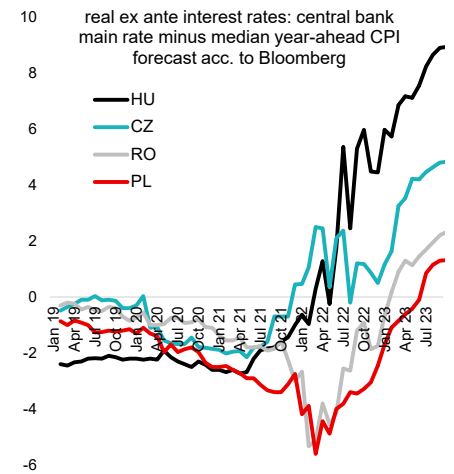
### Economy next week

- **The key event of the coming week will be the first decision-making meeting of the MPC after the summer holidays.** Its date has been reverted to the original schedule 5-6 September two weeks after it was unexpectedly postponed to 12-13 September.
- We still believe that it is still too early to start monetary easing in Poland, given the economic outlook, the state of the labour market, expansionary fiscal policy and still low real interest rates, especially compared to other countries. Inflation drop this year has indeed turned out to be faster than we had anticipated, but this is primarily the result of a strong reversal of the energy and food shock and is the easiest part of inflation's journey from the peak towards the target. Meanwhile, the prospect of inflation returning to the 2.5% target is not getting any closer for the time being. Already next year, the downward trend in CPI has a good chance of stopping in the vicinity of 7% y/y: the high base effects will expire, the purchasing power of personal incomes will be rising again, the energy price freeze and zero VAT on food will probably be reversed.
- Nevertheless, **it seems almost a deal done that NBP interest rates will be cut no later than in October** - this is indicated quite clearly by communication from the majority representatives on the MPC. According to the latest Parkiet survey, only 6 out of 22 analysts (including us) expect interest rates to remain unchanged at the next MPC meeting, with the rest assuming a 25bp rate cut. Expectations of a rate cut as early as September have risen despite the fact that flash August inflation data surprised upwards for the first time in many months and did not confirm the CPI's descent into single digits. Single-digit inflation was one of the conditions formulated by the NBP President in July to allow rate cuts to begin. It seems that everyone is aware that Mr. Glapinski is not famous for sticking meticulously to his earlier words, and the pretext for the decision could be weaker GDP or PMI data. **We are aware that the risk of a rate cut starting as early as September is relatively high, although we are still betting that a slightly more likely option is it will happen in October.** We assume that the MPC will move in 25bp per month steps and will cut the benchmark rate three times to 6.00% by the end of the year, after which it will pause as medium-term forecasts start showing the slipping prospect of inflation returning to target.
- Apart from the MPC, the domestic calendar is empty. Abroad, among others, services PMIs, industrial production and retail sales in several EU countries, German and Hungarian inflation.
- **Next weekend, on 9 September, the ruling PiS party is due to present its election programme.** It is quite possible that there will be more costly proposals that may support economic growth outlook, but further impede the effective disinflation. It is worth remembering that the chances of introducing new legislative changes before the elections are already slim due to the parliamentary calendar.

### Markets next week

- Until Wednesday, we assume relative stability in the domestic financial market amid anticipation of the MPC meeting and a fairly loose calendar abroad. Possible slight downward pressure on yields in case of negative surprises from foreign data. The second half of the week will be probably determined by the Council's decision and communication.
- The financial market has been anticipating the scale of monetary easing quite aggressively in recent days: a cut of even slightly more than 25bp is already priced in for September, with a total of approx. -200bp until the end of 2024. As a result, **the first market reaction to the Council's decision is likely to be asymmetric: a greater scale of upward adjustment of FRA/IRS/yield rates in the absence of a cut than of a possible strengthening (if any) in response to a cut.** The NBP president's conference on Thursday will also be important as usual and will set the direction for the next few days.
- The EURPLN exchange rate may remain stable if the MPC holds off on cuts and continue to rise slightly in the event of a cut.

### Real interest rates in CEE region, %

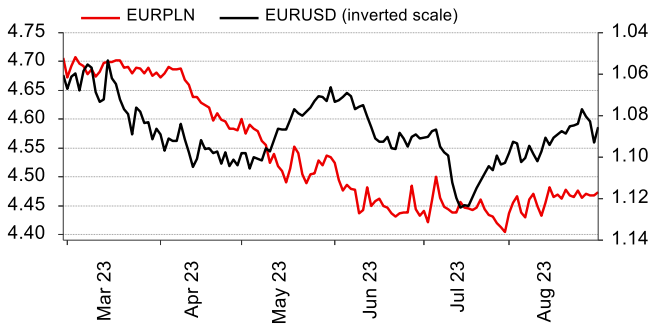


Source: Bloomberg, Santander

### Economic Analysis Department:

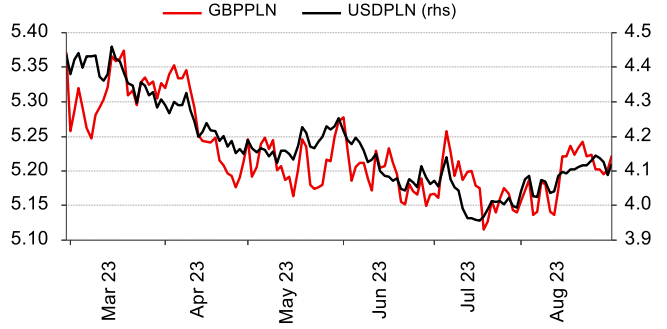
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**EURPLN and EURUSD**



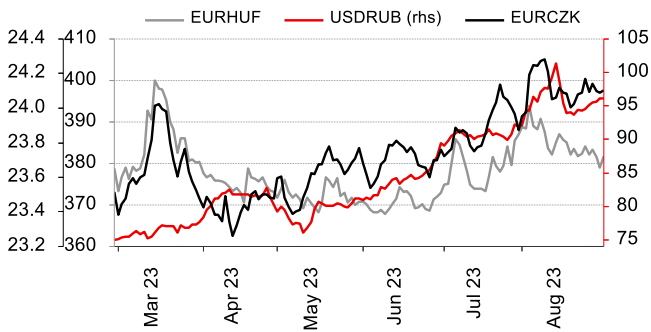
Source: LSEG Datastream, Santander

**GBPPLN and USDPLN**



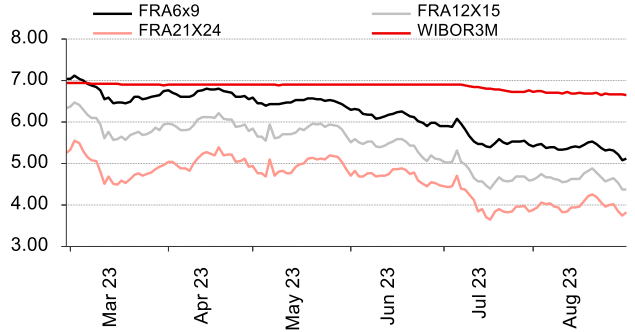
Source: LSEG Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



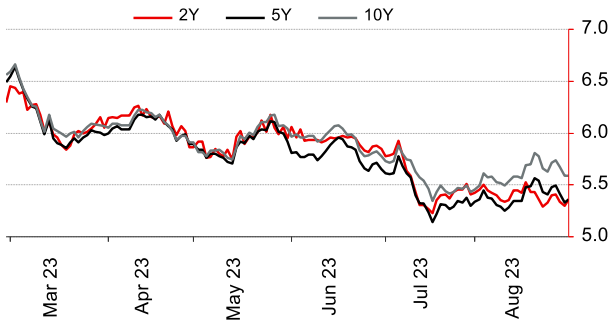
Source: LSEG Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



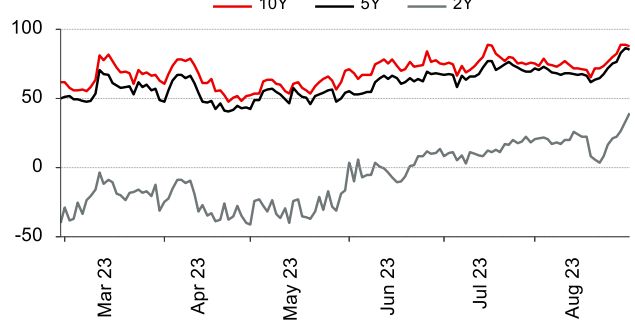
Source: LSEG Datastream, Santander Bank Polska

**Polish bond yields**



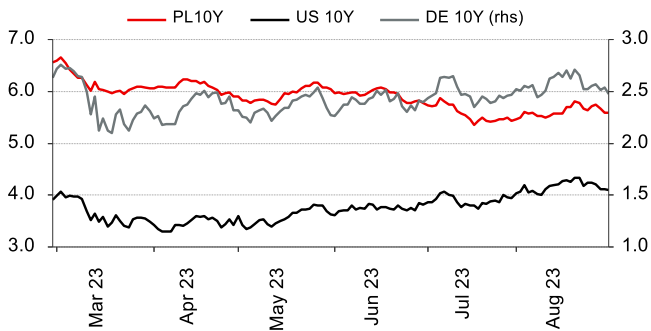
Source: LSEG Datastream, Santander Bank Polska

**Asset swap spreads**



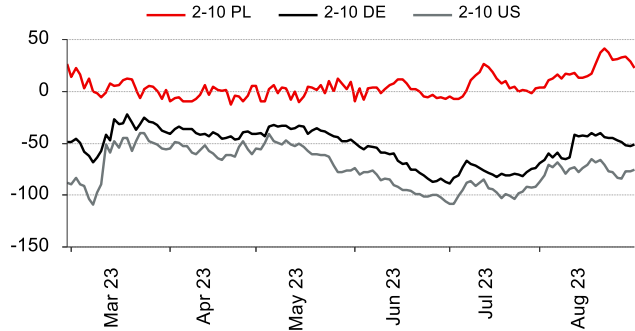
Source: LSEG Datastream, Santander Bank Polska

**10Y bond yields**



Source: LSEG Datastream, Santander

**Steepness of yield curves**



Source: LSEG Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (4 September)</b>						
08:00	DE	Exports SA	Jul	% m/m	-1.5	0.4
<b>TUESDAY (5 September)</b>						
03:45	CN	Caixin China PMI Services	Aug	pts	53.5	54.1
09:55	DE	Markit Germany Services PMI	Aug	pts	47.3	47.3
10:00	EZ	Eurozone Services PMI	Aug	pts	48.3	48.3
16:00	US	Durable Goods Orders	Jul	% m/m	-	-5.2
16:00	US	Factory Orders	Jul	% m/m	-2.5	2.3
<b>WEDNESDAY (6 September)</b>						
	PL	<b>MPC decision</b>		%	<b>6.50</b>	<b>6.75</b>
08:00	DE	Factory Orders	Jul	% m/m	-5.5	7.0
09:00	CZ	Industrial Production	Jul	% y/y	0.3	0.9
11:00	EZ	Retail Sales	Jul	% m/m	-0.2	-0.3
16:00	US	ISM services	Aug	pts	52.3	52.7
<b>THURSDAY (7 September)</b>						
08:00	DE	Industrial Production SA	Jul	% m/m	-0.6	-1.5
08:30	HU	Industrial Production SA	Jul	% y/y	-6.9	-6.1
11:00	EZ	GDP SA	2Q	% y/y	0.6	0.6
14:30	US	Initial Jobless Claims	Sep.23	k	235	228
<b>FRIDAY (8 September)</b>						
08:00	DE	HICP	Aug	% m/m	0.4	0.4
08:30	HU	CPI	Aug	% y/y	16.2	17.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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