

Weekly Economic Update

ECB will not follow in NBP's footsteps

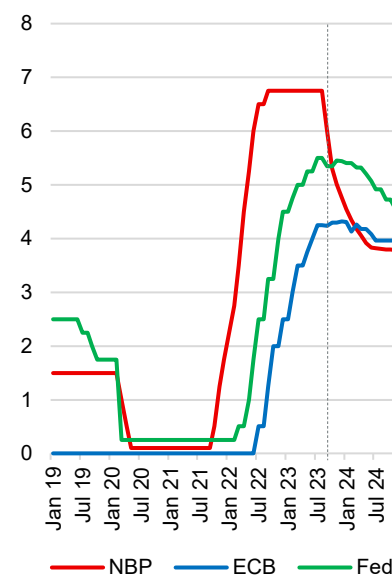
Economy next week

- The MPC cut the reference rate by 75 bps, to 6.00%, and we learnt from the NBP president's speech that it was the 'overdue' policy easing from past three months (it is worth to note that three conferences earlier Glapinski criticised the question about possible rate cuts, saying that at that stage one should instead consider further rate hikes). Since the cut was "overdue" rather than "front-loaded", and since inflation is likely to continue falling in the coming months, further rate cuts are to be expected. As we wrote in our [post-conference comment](#): **we expect two more interest rate cuts of 25 bps each in October and November, to 5.50%, followed by a pause until at least mid-2024.** We think interest rate cuts will be paused at the end of this year, as we expect the disinflation process to stall in 2024. Inflation may even re-accelerate slightly, initially at the very start of the year (driven by unwinding of the anti-inflation shields, rising prices of energy and fuel, weaker PLN), and then, in the middle of the year (lower base, economic recovery, expansionary fiscal policy).
- **Few news from the domestic economy in the following week: on Wednesday the July balance of payments data, on Friday the final August inflation data.** We expect a current account surplus of around €550m (consensus €1.3bn), clearly smaller than in the previous two months, with decelerating trade in goods and services. CPI data will, as usual, reveal a detailed breakdown of inflation, which in a preliminary reading of 10.1% y/y surprised slightly upwards in August. We continue to expect elevated price increases in services. Overall, it seems that these publications should not materially affect market sentiment.
- **The ECB meeting will be the event of the week abroad.** Most of analysts expect 25bp interest rate hike, which could be the last rate hike in the cycle. In addition, there will be inflation data in several EU countries and in the USA, plus production and retail sales overseas. All in all, a relatively loose publication calendar.
- **The election campaign is entering a key stage, with PiS and KO due to present their election programmes over the weekend.** Some of the proposals have already appeared in the media in recent days, but it is possible that some surprises are still to come. Meanwhile, [opinion polls](#) have recently shifted towards greater support for PiS, with a decline in the ratings of the third-placed Confederation. Such results - should they persist - still do not guarantee PiS an independent majority in the parliament.

Markets next week

- The zloty reacted to the MPC's decision and A.Glapiński's statements with an almost 3% depreciation - EURPLN jumped from around 4.50 to 4.63. **In our view, the zloty will remain weakened in the coming weeks, and this will be caused by the expected expansive monetary and fiscal policies.** Moreover, we get the impression that the aggressive rate cut and the NBP president's statements at the conference suggest a change in the central bank's approach to the exchange rate: Glapiński stressed, among other things, that, unlike the Czech Republic and Hungary, Poland does not need to influence the exchange rate and that if the weakening of the currency continues, the MPC has nothing to worry about. It is worth recalling that the 2024 budget draft includes, among other things, the payment of PLN6bn in profit from the central bank and this result will be very difficult to achieve, in our view, without a marked depreciation of the exchange rate. A factor that could allow EURPLN to decrease slightly could be a possible strengthening of the euro against the dollar following a rate hike by the ECB.
- **In the interest rate market, there has been a strong increase in expectations of further MPC rate cuts, which in our view is exaggerated:** the market is now pricing-in a drop in the NBP rate below the ECB and the Fed in 2024. In our view, this is an unlikely scenario, but such expectations may persist for another month or two if inflation continues to fall and the MPC continues cutting rates before the end of this year. The large steepening of the bond curve (10L yields even rose after the cut) and the widening of ASW spreads should also continue in the near term, amid ambitious plans to fund borrowing needs and the impact of the aggressive cut on longer-term inflation expectations.

Main interest rates, market-implied, %

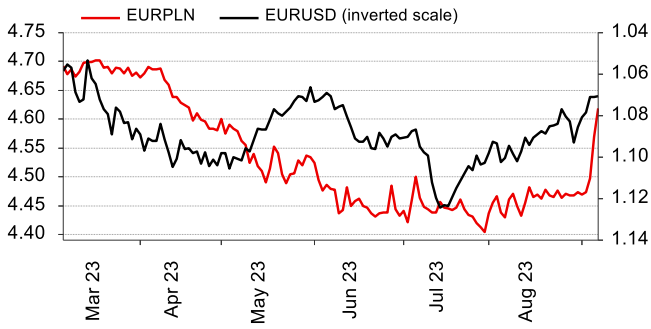


Source: Bloomberg, Santander

Economic Analysis Department:

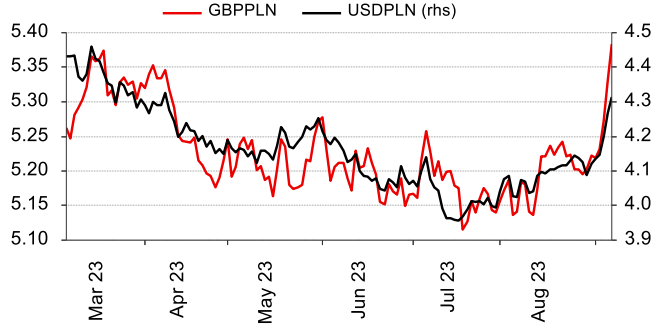
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EURPLN and EURUSD



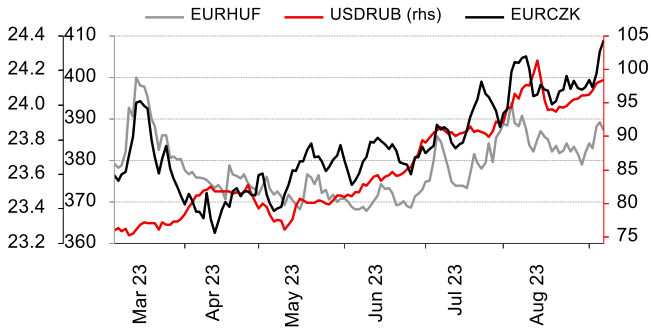
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



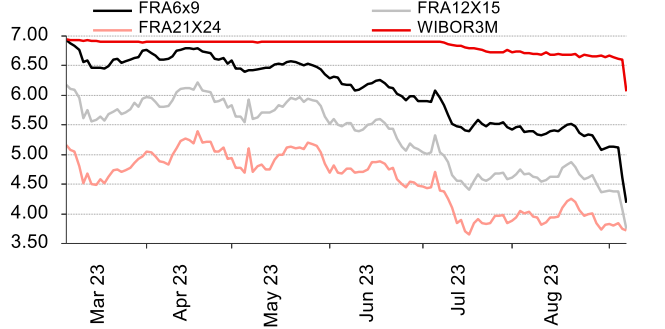
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



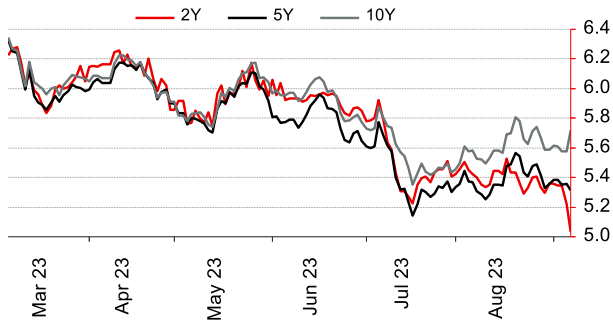
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



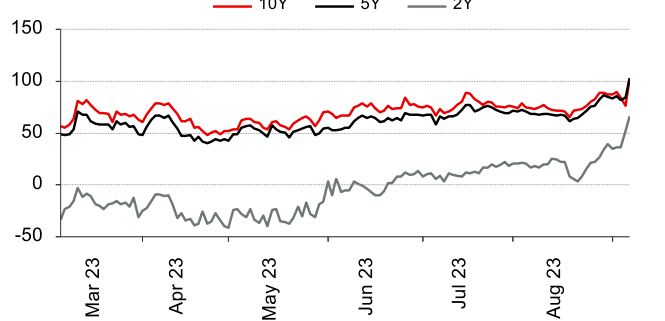
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



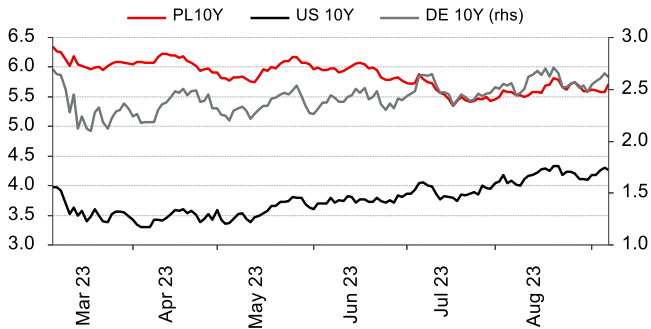
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



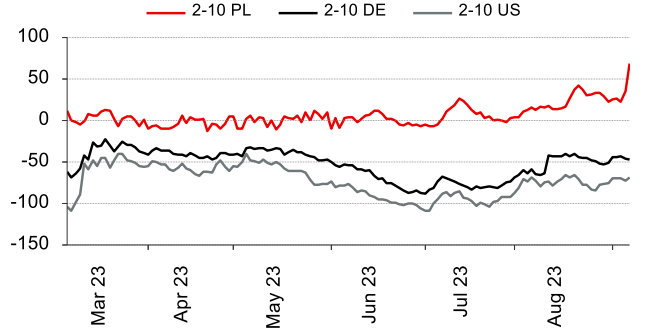
Source: LSEG Datastream, Santander Bank Polska

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 | | |
| MONDAY (11 September) | | | | | | | |
| 09:00 | CZ | CPI | Aug | % y/y | 8.6 | - | 8.8 |
| TUESDAY (12 September) | | | | | | | |
| 11:00 | DE | ZEW | Sep | pts | -76.9 | - | -71.3 |
| WEDNESDAY (13 September) | | | | | | | |
| 11:00 | EZ | Industrial Production SA | Jul | % m/m | -0.7 | - | 0.5 |
| 14:00 | PL | Current Account Balance | Jul | €mn | 1 300 | 549 | 2 431 |
| 14:00 | PL | Trade Balance | Jul | €mn | 560 | 540 | 1 029 |
| 14:00 | PL | Exports | Jul | €mn | 25 878 | 25 500 | 27 886 |
| 14:00 | PL | Imports | Jul | €mn | 25 407 | 24 960 | 26 857 |
| 14:30 | US | CPI | Aug | % y/y | 3.6 | - | 3.2 |
| THURSDAY (14 September) | | | | | | | |
| 14:15 | EZ | ECB Main Refinancing Rate | Sep | % | 4.75 | - | 4.25 |
| 14:30 | US | Initial Jobless Claims | | k | 234 | - | 216 |
| 14:30 | US | Retail Sales Advance | Aug | % m/m | 0.1 | - | 0.7 |
| FRIDAY (15 September) | | | | | | | |
| 10:00 | PL | CPI | Aug | % y/y | 10.1 | 10.1 | 10.1 |
| 15:15 | US | Industrial Production | Aug | % m/m | 0.1 | - | 1.0 |
| 16:00 | US | Michigan index | Sep | pts | 69.4 | - | 69.5 |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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