

Weekly Economic Update

Lower CPI lays ground for another rate cut

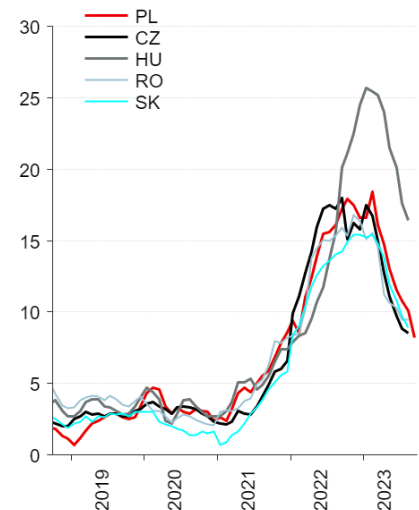
Economy next week

- Inflation has again fallen 'headlong': in September, the CPI growth reached 8.2% y/y and the price level fell by 0.4% m/m. This is a big positive surprise, although it is worth noting that a fair share of this drop was due to various regulatory and/or 'centrally-driven' measures aimed at lowering prices after the holidays, including: raising the limit on electricity consumption, entitling to frozen energy prices, free medicines for seniors and the young, a drop in petrol station prices, and possibly also free laptops for schoolchildren. In total, these factors subtracted about 0.8pp from inflation rate. Food prices and the rest of core inflation were also lower than we expected. The latter may have been due, among other things, to good weather delaying the introduction of the autumn/winter clothing collection into shops. Most of the factors that pushed CPI down strongly are one-offs and, in the case of fuel and clothing, are likely to be reversed in subsequent months. The scale of the increase in fuel prices after October will depend on, among other things, the behaviour of global oil prices and the PLN exchange rate, but we estimate that it could total at least a dozen per cent. As a result, **our CPI forecast for October has fallen below 7%, but for December it remains at around 6.7%-6.8% y/y despite September's strong surprise.**
- The key domestic event of the coming week will be the MPC meeting (decision on Wednesday, NBP governor's conference on Thursday). The strong fall in CPI in September will probably be proclaimed a confirmation of the end of the high inflation era, giving an argument for further rate cuts. **Given recent statements by representatives of the government, and later also the central bank, indicating concerns about a possible depreciation of the PLN, a 25bp cut is most likely in our view.** A larger scale of reduction would, in our view, be negative for the currency, and it would be difficult to count on this being neutralised by the hawkish tone of the communication: after two consecutive decisions diverging from earlier signalling, it would make little sense to listen to further guidance.
- Before we know the MPC's decision, attention will focus on PMI indices at home and abroad. **We are betting on a gentle rebound in the index for Polish industry,** consistent with the signals from alternative economic surveys for October (GUS, ESI).
- Abroad, the week will be filled with ECB and Fed representatives' comments, with decision-making meetings of central banks in Australia, New Zealand, Romania, India. At the end of the week the key US employment report will be released.
- The election campaign in Poland is entering its busiest period. On Sunday, KO is organising the Million Hearts March in Warsaw and PiS is holding its convention in Katowice.

Markets next week

- Bond yields in the core markets have started to turn around today after strong increases in recent days and, **if the PMI readings do not surprise positively, the start of the new week could be marked by a further strengthening in the debt markets.** For the next few days, the MPC decision will be key. A 25bp rate cut and a neutral tone to the communication could push FRA rates and the short end of the curve higher, limiting (excessive) expectations of the scale of further cuts. In the event of a larger rate cut on Wednesday, we expect a return to aggressive pricing of the scale of further easing and a further steepening of the curve. The tone of the communication should matter less and less in this case as the market would get further confirmation that it is not credible.
- **A 25bp cut and a neutral message should support the zloty - we assume that EURPLN could return below 4.60 by the end of the week** (provided that the dollar does not strengthen sharply against the euro in the meantime). A larger cut would have a negative impact on the domestic currency, which we believe makes such a decision less likely in light of clear signals from the government that EURPLN above 4.60 is not welcome.

Inflation in CEE countries, % y/y

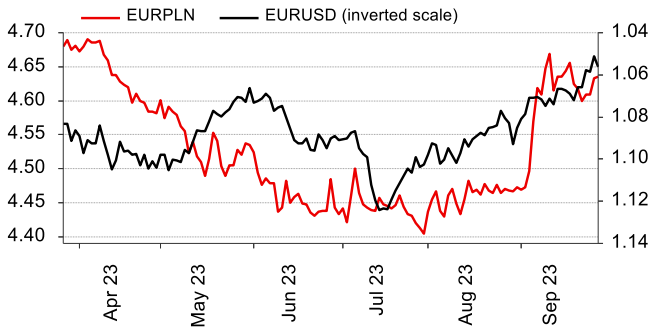


Source: LSEG Datastream, Santander

Economic Analysis Department:

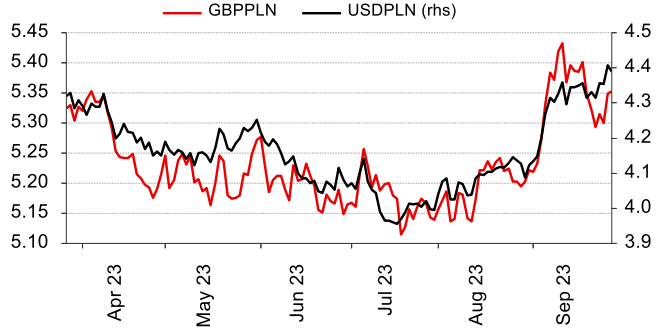
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EURPLN and EURUSD



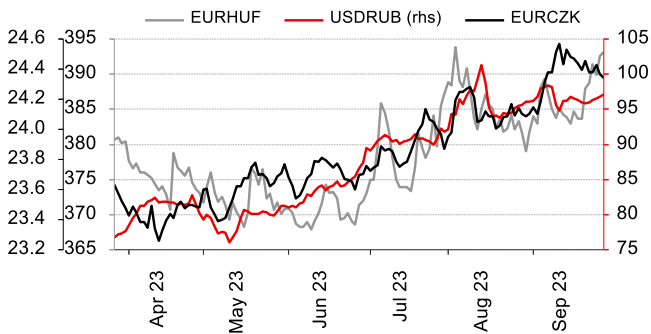
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



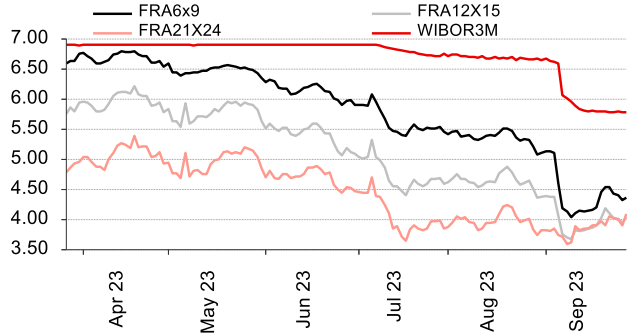
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



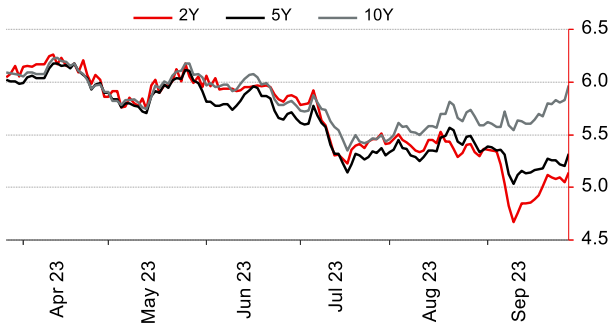
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



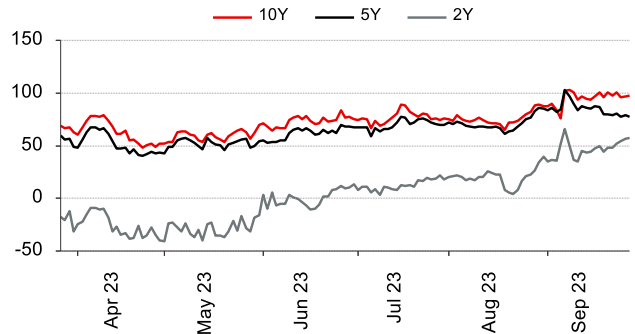
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



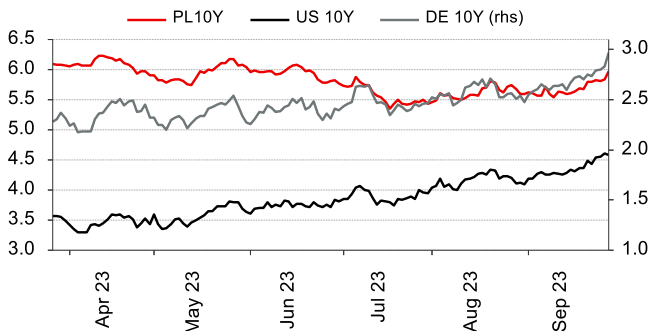
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



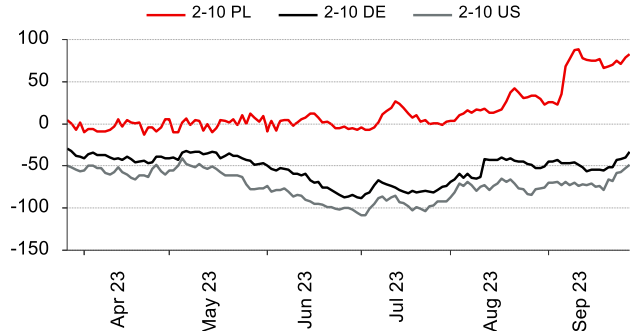
Source: LSEG Datastream, Santander Bank Polska

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 (2 October)							
09:00	PL	Poland Manufacturing PMI	Sep	pts	43.3	44.0	43.1
09:55	DE	Germany Manufacturing PMI	Sep	pts	-	-	39.8
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	-	-	43.4
11:00	EZ	Unemployment Rate	Aug	%	-	-	6.4
16:00	US	ISM manufacturing	Sep	pts	47.8	-	47.6
TUESDAY (3 October)							
No important data releases							
WEDNESDAY (4 October)							
	PL	MPC decision	Oct	%	5.75	5.75	6.00
09:55	DE	Markit Germany Services PMI	Sep	pts	-	-	49.8
10:00	EZ	Eurozone Services PMI	Sep	pts	-	-	48.4
11:00	EZ	Retail Sales	Aug	% m/m	-	-	-0.2
14:15	US	ADP report	Sep	k	150	-	177
16:00	US	Durable Goods Orders	Aug	% m/m	-0.5	-	0.2
16:00	US	ISM services	Sep	pts	53.5	-	54.5
16:00	US	Factory Orders	Aug	% m/m	0.2	-	-2.1
THURSDAY (5 October)							
08:00	DE	Exports SA	Aug	% m/m	-	-	-1.6
14:30	US	Initial Jobless Claims		k	215	-	204
15:00	PL	NBP president's conference					
FRIDAY (6 October)							
08:00	DE	Factory Orders	Aug	% m/m	2.5	-	-11.7
08:30	HU	Industrial Production SA	Aug	% y/y	-	-	-2.5
14:30	US	Change in Nonfarm Payrolls	Sep	k	168	-	187
14:30	US	Unemployment Rate	Sep	%	3.7	-	3.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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