

Weekly Economic Update

Vivisection of inflation

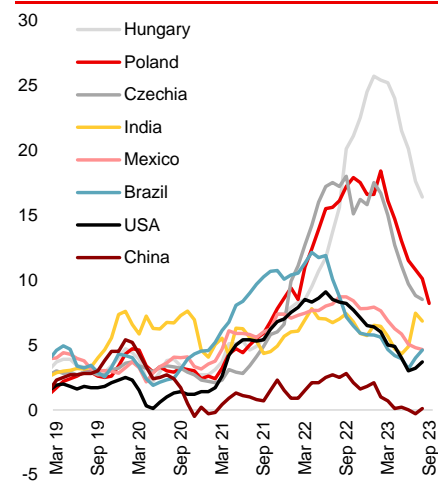
Economy next week

- Even though inflation in Poland is now 'moderate', it will still be interesting to see what caused its September decline from 10.1% y/y to 8.2%. **Detailed data on CPI** will be released on Friday. From the flash data we already know that non-core components (food, fuel, energy) were responsible for 1.2 percentage points of the 1.9 percentage point decline. On the other hand, core inflation (which decelerated from 10% y/y to 8.5-8.6% according to our estimates) fell due to a mix of cyclical, weather (delayed clothing and footwear collections) and discretionary factors (e.g. changes in access to free medicines). Determining which of these factors had the strongest impact will be important for assessing the prospects for further disinflation. Also on Friday, **Poland's August balance of payments** will be published, probably with another current account surplus, although no longer as large as what we saw in the first half of the year.
- This week will also provide an opportunity to see how other countries are doing in their fights against inflation. CPI data will be published in Czechia (where inflation is expected to fall by 1ppt to around 7.5% y/y) and Hungary (expected fall of around 4ppt to around 12.5%). Final readings will also flow in from the main Eurozone economies, as well as from Mexico, Brazil, and India, among others. On Friday, CPI data will be released in China – the only place the world would wish to see a rebound in inflation (from 0.1% y/y in August), as it would give hope that domestic demand is finally recovering there. **The key release will however be the one of US CPI inflation** – the market is expecting to see a gentle y/y decline in both the headline and the core measure (from 3.7% and 4.3% respectively). In light of the recent worryingly rapid rise in US bond yields posing a risk to the stability of global markets, a surprise from this data on the lower side would be welcome.
- The IMF and World Bank annual meeting will span the whole week, with the presentation of the new **World Economic Outlook** forecasts on Tuesday. Minutes from September policy meetings will be released on Wednesday by the Fed and on Thursday by the ECB (admittedly, the bank has communicated that it has already reached a sufficient level of rates, but perhaps the document will give an idea of how strong the faction calling for further increases still is). In the US, the earnings season begins.
- Last but not least, parliamentary elections will take place in Poland On October 15th, so final polls will be closely watched. The electoral silence will begin 24 hours before the election day.

Markets next week

- In the last week before the elections, both **the government and the NBP would likely prefer the zloty to remain stable or at least not to weaken significantly**. The halt in the dollar's appreciation trend could help with that. We believe that the dollar is currently somewhat overvalued, and a rise in the EURUSD could be supported by an anticipated decline in US bond yields. It is difficult to precisely estimate when the US yields will achieve their maximum, but perhaps a fall in US inflation could be the shock that would allow the yields to decline after the rise following the employment data. The zloty exchange rate will be influenced by the election result in the following weeks. Currently, we assume a slight weakening of the zloty until the end of the year.
- **A slight downward revision of market rates is possible this week**, supported by a series of inflation data in the CEE and the US, as well as the technical situation and some of the comments from the MPC members (the dovish message from Gabriela Mastowska). This may favour a renewed widening of credit spreads, especially at the longer end, in view of the approaching election date.

Inflation in selected countries, % y/y

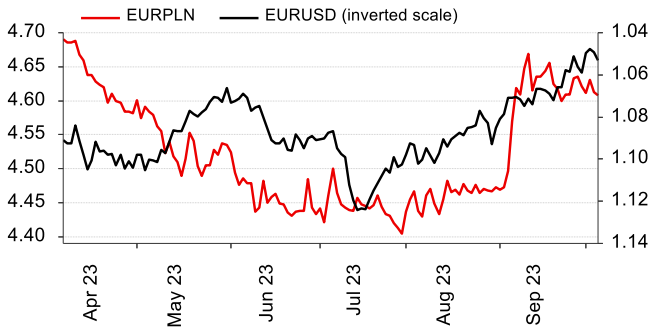


Source: Bloomberg, Santander

Economic Analysis Department:

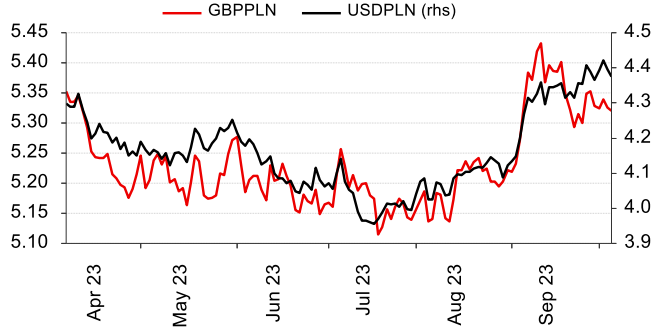
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EURPLN and EURUSD



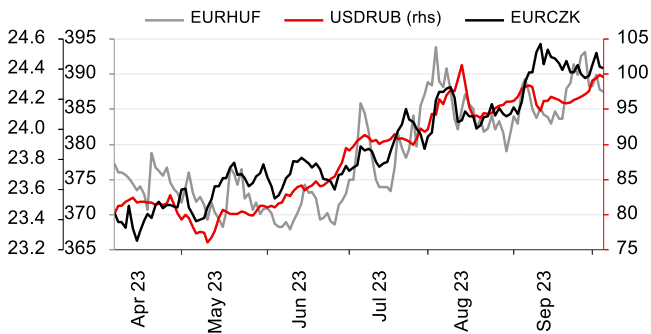
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



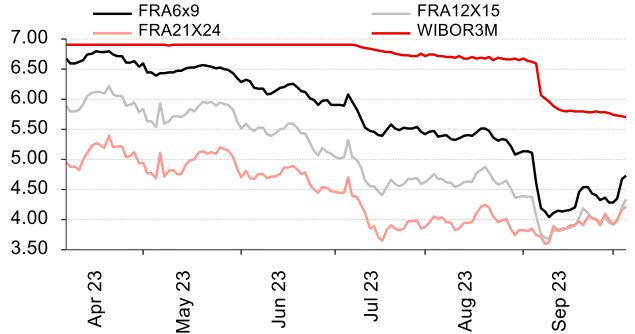
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



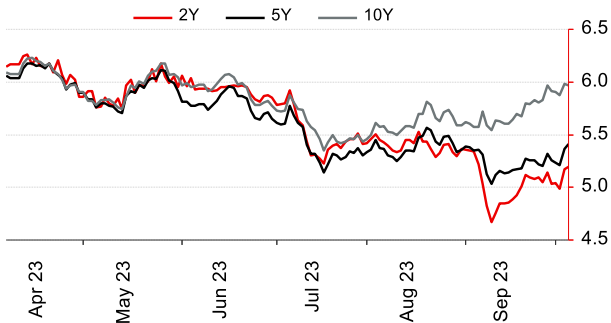
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



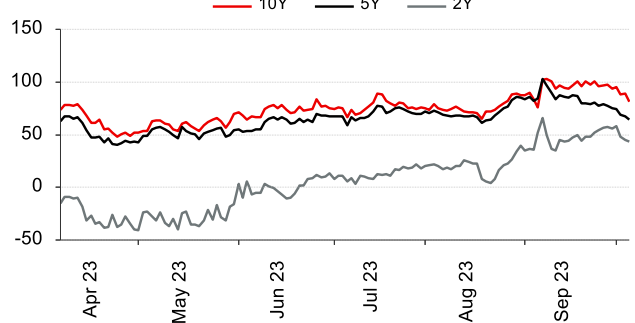
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



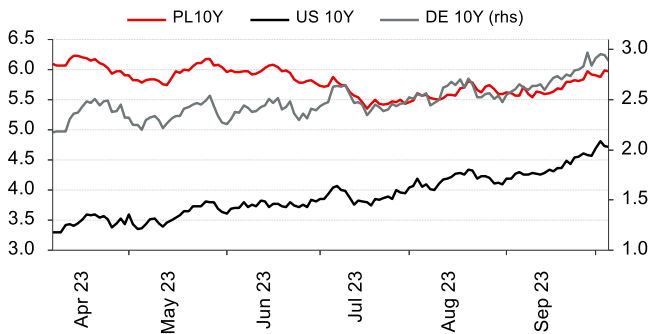
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



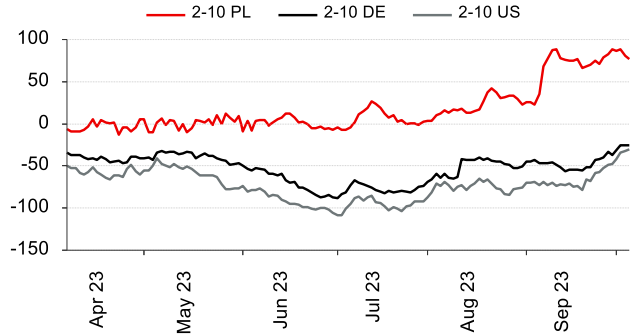
Source: LSEG Datastream, Santander Bank Polska

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 (9 October)							
08:00	DE	Industrial Production SA	Aug	% m/m	-0.1	-	-0.8
09:00	CZ	Industrial Production	Aug	% y/y	-2.8	-	-2.9
TUESDAY (10 October)							
08:30	HU	CPI	Sep	% y/y	12.4	-	16.4
09:00	CZ	CPI	Sep	% y/y	7.5	-	8.5
WEDNESDAY (11 October)							
08:00	DE	HICP	Sep	% m/m	0.2	-	0.2
20:00	US	FOMC Meeting Minutes	Sep.23			-	
THURSDAY (12 October)							
14:30	US	CPI	Sep	% m/m	0.3	-	0.6
14:30	US	Initial Jobless Claims	Oct.23	k	210	-	207
FRIDAY (13 October)							
10:00	PL	CPI	Sep	% y/y	8.2	8.2	10.1
11:00	EZ	Industrial Production SA	Aug	% m/m	0.1	-	-1.1
14:00	PL	Current Account Balance	Aug	€mn	984	375	566
14:00	PL	Trade Balance	Aug	€mn	996	556	1 068
14:00	PL	Exports	Aug	€mn	25 732	26 027	25 909
14:00	PL	Imports	Aug	€mn	24 801	25 471	24 841
16:00	US	Michigan index	Oct	pts	67.5	-	68.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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