13 October 2023

Weekly Economic Update

New data overshadowed by election results

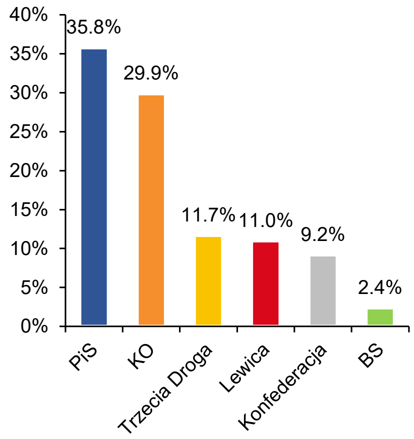
Economy next week

- A key piece of information after the weekend will be the **outcome of the parliamentary elections**. On Monday morning, we will know the exit polls, late polls, and partial data from polling stations. According to the head of the National Electoral Office, the official election results could be announced as early as Tuesday, 17 October, which would follow the pattern of previous years: in 2019 the official results were announced on Monday, in 2015 and 2011 on the Tuesday after the vote. In our opinion, however, it is possible that the counting of votes this time may take longer than usual, as the number of polling stations has been increased by several thousand and due to the simultaneous holding of the vote for the Sejm and Senate and the referendum.
- **Averaged polls from the last week show support for PiS at 35.8%, KO 29.9%, Third Way 11.7%, Left 11%, Confederation 9.2%.** If the results of the elections turned out to be in line with these polls, then according to our estimates this would correspond to the following distribution of seats in the Sejm: PiS 187, KO 144, Trzecia Droga 50, Lewica 41, Konfederacja 37. This would give a total of 235 seats for a possible KO+TD+L coalition. We emphasise that this is not our prediction of the election outcome, but only an estimate of the number of seats based on the latest polls, which may not necessarily agree with the outcome of Sunday's vote.
- It is quite likely that even once we know the actual outcome of the vote and the distribution of seats in the Sejm and the Senate, the answer to the question of who will take power after the elections will not be obvious and the uncertainty about this may continue for at least a few weeks or perhaps even few months. We described the timetable for the next steps in the government formation process in the commentary released in early August. It shows that the end of the government formation process is possible in an optimistic scenario in late November/early December, in a pessimistic scenario at the end of January. Should the balance of power in parliament prevent the passing of a vote of confidence in the government in all three stages envisaged by the Constitution, the next early elections would take place at the latest at the beginning of March 2024.
- Against the backdrop of political events, there will be new domestic macro data releases during the week: **core inflation on Monday, consumer sentiment on Wednesday, wages, employment, industrial production and PPI on Thursday, retail sales on Friday**. Core inflation is likely to show a rather strong decline in September to 8.4% y/y, partly due to regulatory changes (free medicines) and one-off discounts (paid TV, transport services), but also indicating a decline in price momentum in most other categories. Our forecast of industrial output (-4.6% y/y) is below consensus, but we attribute this mainly to the effect of fewer working days underestimated by other forecasts. In contrast, we forecast retail sales (-1.4% y/y) above consensus. The seasonally adjusted data in both cases should, in our view, confirm a gradual revival of economic activity in Q3. Data from the labour market are likely to confirm the stabilisation of past trends, and consumer sentiment will continue to improve.
- Abroad, a limited number of publications, the most important being retail sales and manufacturing in the US, final inflation data in the Eurozone, Q3 GDP in China.
- **The situation in the Middle East remains a risk factor**, the launch of a ground operation by Israel in Gaza in the coming days cannot be ruled out. A possible escalation of the conflict could affect sentiment more than before.

Markets next week

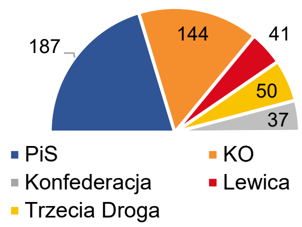
- The zloty exchange rate ends the week with a slight correction, but it had been gaining quite significantly in the previous few days. Part of this movement was probably driven by changes in the EURUSD exchange rate and global risk appetite (which was not heavily affected by events in Israel), and part may have been an attempt to anticipate the outcome of the elections. From our conversations with clients, it appears that as recently as 2-3 weeks ago the vast majority of foreign investors were treating the re-election of the current government as a baseline scenario, which may have started to change under the influence of the latest polls. **Indicating the direction for the PLN after the weekend is as difficult as predicting the actual outcome of the elections, which is why we are not undertaking this task this time.** What is very likely, however, is increased FX volatility.
- In the interest rate market, it is also difficult to point in a clear direction. Yields in the core markets were coming off their peaks for about a week, but the declines stopped after higher-than-forecast inflation in the USA. Domestically, the market has reduced its pricing of future NBP rate cuts and the curve has flattened. The direction of change will be influenced on the one hand by reactions to the election result and on the other by changes in global sentiment, which could be key influenced by the situation in Israel.

Support for political parties in parliamentary elections, according to recent surveys



Average from the latest polls by Pollster, PBG Opinium, Kantar, IBRiS, Social Changes, United Surveys from the lat 7 days.
Source: pollsters, Santander

Possible distribution of seats in Sejm if the election result is in line with the average surveys result



Source: Santander

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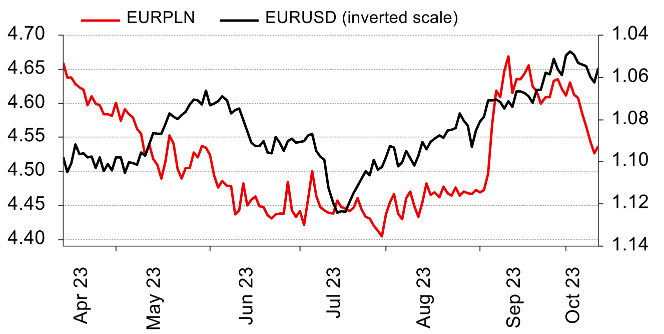
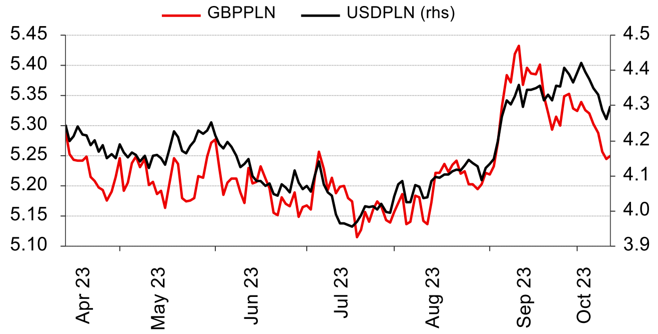
EURPLN and EURUSD



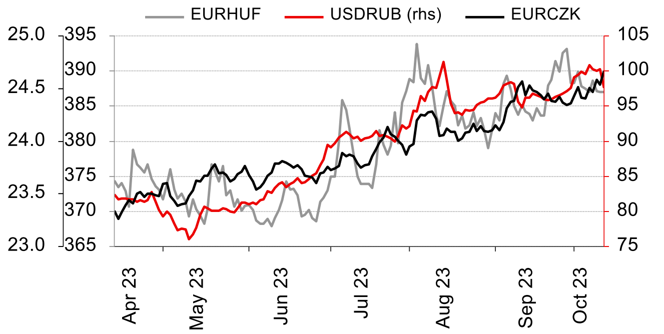
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



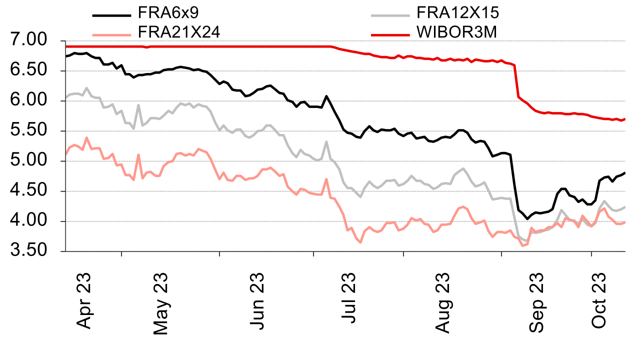
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



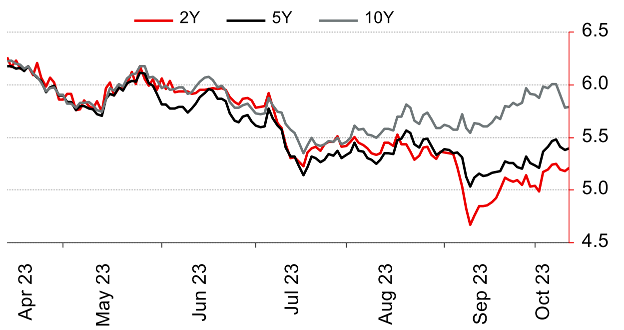
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



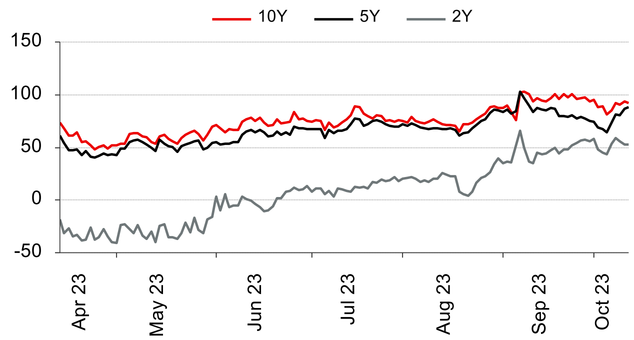
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



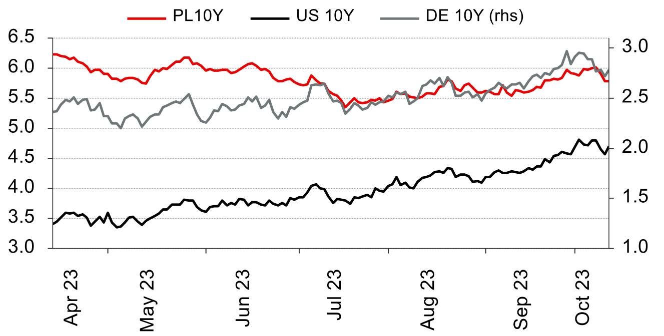
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



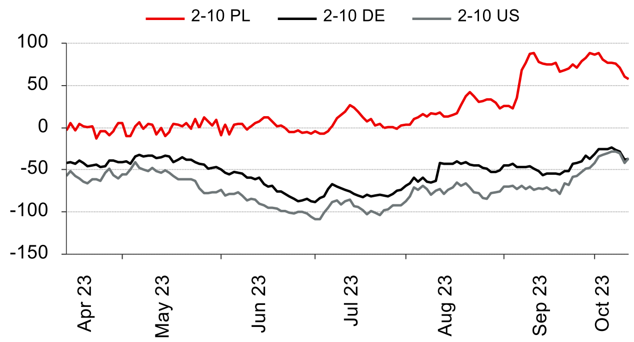
Source: LSEG Datastream, Santander Bank Polska

10Y bond yields



Source: LSEG Datastream, Santander

Steepness of yield curves



Source: LSEG Datastream, Santander Bank Polska

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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (16 October)				
14:00	**PL**	**CPI Core**	**Sep**	**% y/y**	**8.6**	**8.4**	**10.0**
			TUESDAY (17 October)				
11:00	DE	ZEW Survey Current Situation	Oct	pts	-80.0	-	-79.4
14:30	US	Retail Sales Advance	Sep	% m/m	0.3	-	0.6
15:15	US	Industrial Production	Sep	% m/m	-0.1	-	0.4
			WEDNESDAY (18 October)				
11:00	EZ	HICP	Sep	% y/y	4.3	-	4.3
14:30	US	Housing Starts	Sep	% m/m	8.5	-	-11.3
			THURSDAY (19 October)				
10:00	**PL**	**Employment in corporate sector**	**Sep**	**% y/y**	**0.0**	**-0.1**	**0.0**
10:00	**PL**	**Average Gross Wages**	**Sep**	**% y/y**	**10.7**	**10.8**	**11.9**
10:00	**PL**	**Sold Industrial Output**	**Sep**	**% y/y**	**-2.7**	**-4.6**	**-2.0**
10:00	**PL**	**PPI**	**Sep**	**% y/y**	**-2.8**	**-2.1**	**-2.8**
14:30	US	Initial Jobless Claims		k	210	-	209
16:00	US	Existing Home Sales	Sep	% m/m	-3.5	-	-0.7
			FRIDAY (20 October)				
10:00	**PL**	**Retail Sales Real**	**Sep**	**% y/y**	**-1.7**	**-1.4**	**-2.7**

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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