24 November 2023

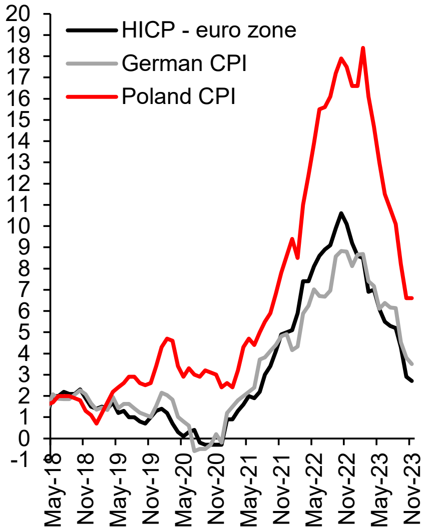
Weekly Economic Update

Consumer optimism

Economy next week

- October data from the domestic economy confirmed the favourable outlook for private consumption, in line with our baseline scenario. Retail sales positively surprised, recording a growth rate of 2.8% y/y, and despite the one-off factors, which boosted the October reading, we expect good data also in the following months. One of the factors which may help in that regard is the steadily improving consumer sentiment. Moreover, the number of unemployed fell to a record low in October (770k with unemployment rate at 5%) and, in our view, will rise only temporarily. Although wages accelerated to almost 13% largely due to bonuses in the mining industry, even after eliminating this effect growth is still in double digits. This, together with the recent decline in inflation, has translated into an acceleration of real wages to around 6% y/y.
- Future inflation path will strongly depend on the future government's decision to extend the 'anti-inflation shields'. Assuming the reinstatement of the 5% VAT rate on food and the unfreezing of electricity prices, inflation could stabilise in the 6-7% y/y range. Press reports suggest that VAT on food could return to 5%, which would be used to finance pay rises for teachers. Decisions regarding gas and energy prices are less clear at this time, but we suspect that any action would be limited in time to the first half of the year. Lower energy prices are a downside risk for our inflation forecast but an upside risk for consumption, which we currently forecast at 4.3% y/y after -0.5% y/y this year.
- Signals from the industry continue to be less optimistic, although industrial production grew at a positive annual rate (1.6%) for the first time since January, GUS data indicated that the declines in new orders have slowed, and the PMI and Ifo indicators for the euro area and Germany were slightly better-than-expected. Construction production data were the most disappointing, but building permits issued or housing starts point to a better outlook of the construction sector, at least when it comes to raising buildings.
- This week's key publication will be the flash November inflation. We expect a stabilisation of the annual growth rate at 6.6% y/y with a strong increase in fuel prices and deceleration in other categories, with core inflation falling to 7.5% y/y (0.2% m/m) from 8%.
- Detailed 3Q GDP data will likely show a further acceleration in private consumption to -0.5% y/y from -2.8% and continued strong investment growth (our forecast: 8% y/y vs. 10.5% y/y in 2Q). Good performance of the latter was indicated by data on investments for medium and large companies (+13.3% y/y in 3Q). In turn, October activity data support our 4Q GDP estimate of a 0.3% q/q contraction after after seasonal adjustment and an acceleration in annual growth 2.5% from 0.4%.
- On Monday, M. Morawiecki will present his government. In our view, the government will not get the required majority by the deadline of 11 December, and the new government of Donald Tusk and the parliamentary majority coalition will likely be sworn on 13 December.

Inflation in euro area, Germany and Poland, % y/y



Source: GUS, Santander

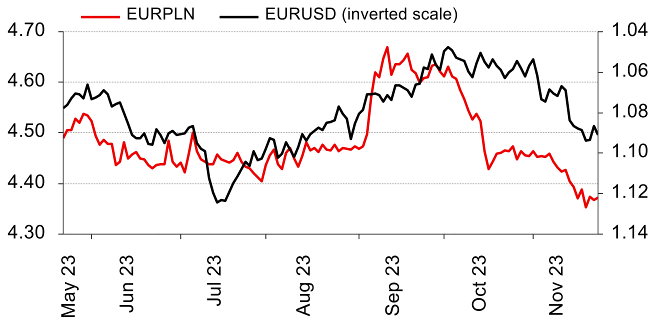
Markets next week

- The zloty strengthened last week by 0.4% to around 4.36 and was the strongest currency in the region. This was partly the result of the euro appreciating above 1.09 against the dollar, but partly due to structural factors such as a more hawkish NBP, the outcome of the parliamentary elections, greater chances of EU funds inflows and increased interest in Polish assets from foreign investors. We think that these factors may support the zloty in the following months and the EURPLN exchange rate will remain in the 4.25-4.45 range for longer with a slight tendency to strengthen in the absence of external shocks. The technical situation for the coming week suggests the potential for a slight weakening of the CEE FX, which could be supported by a drop in inflation in the euro area and a potential downward movement in the EURUSD exchange rate.
- Domestic data and movement in the core markets led to an increase of several basis points in domestic market rates, particularly in the FRA market. The movement in FRA rates was also counter to developments in the region, after the 75 bp rate cut in Hungary. The technical situation points to a possible slight drop in IRS rates in the coming week, which could be supported by a further decline in euro area inflation. Our fairly high Poland inflation estimate and the expected further rise in the PMI could keep short-term rates elevated, resulting in further flattening of the curves, especially as we still believe the market is pricing in too many rate cuts. A possible drop in long-term rates could come only after Tuesday's auction (supply of 5-9 billion zloty).

Economic Analysis Department:

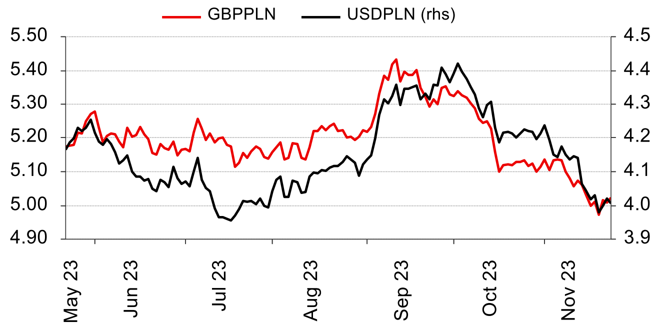
al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



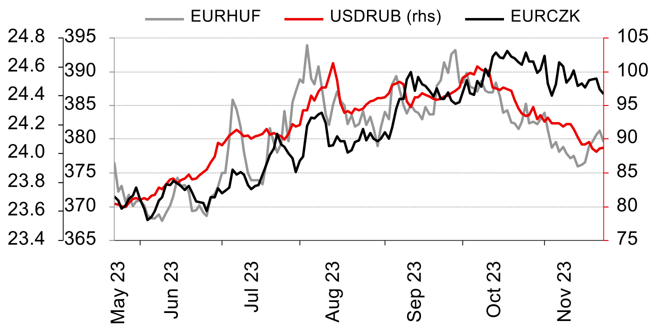
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



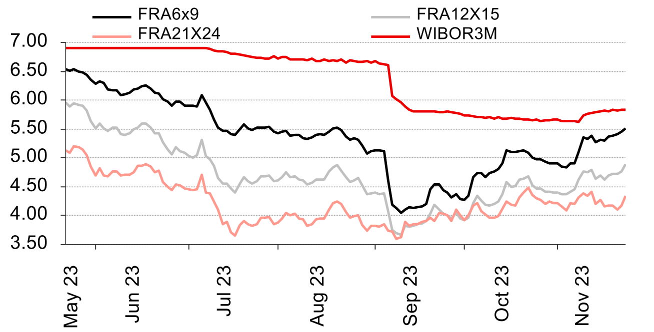
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



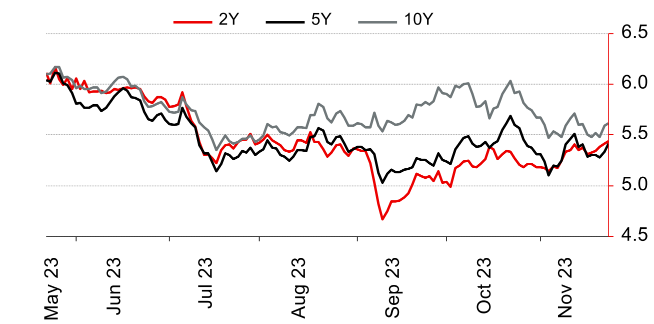
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



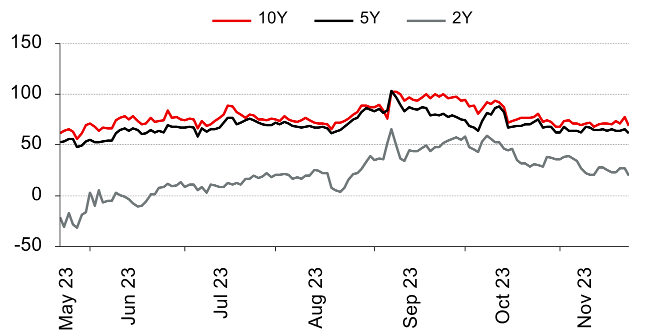
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



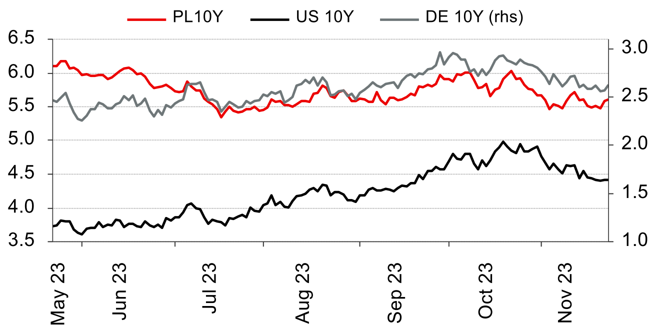
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



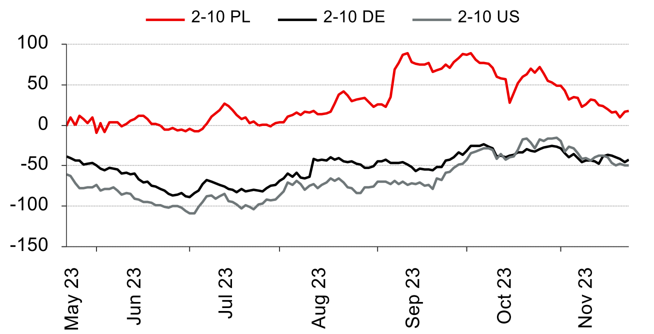
Source: LSEG Datastream, Santander Bank Polska

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 MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (27 November)				
	DE	Retail Sales	Oct	% m/m	-	-	-0.6
16:00	US	New Home Sales	Oct	% m/m	-4.81	-	12.3
			TUESDAY (28 November)				
16:00	US	Consumer Conference Board	Nov	pts	101.0	-	102.6
			WEDNESDAY (29 November)				
11:00	EZ	ESI	Nov	pct.	-	-	93.3
14:00	DE	HICP	Nov	% m/m	-	-	-0.2
14:30	US	GDP Annualized	3Q	% Q/Q	5.0	-	4.9
			THURSDAY (30 November)				
10:00	**PL**	**CPI**	**Nov**	**% y/y**	**6.6**	**6.6**	**6.6**
10:00	**PL**	**GDP**	**3Q**	**% y/y**	**0.4**	**0.4**	**0.4**
11:00	EZ	Flash HICP	Nov	% y/y	2.7	-	2.9
11:00	EZ	Unemployment Rate	Oct	%	-	-	6.5
14:30	US	Initial Jobless Claims	Nov.23	k	227	-	209
14:30	US	Personal Spending	Oct	% m/m	0.2	-	0.7
14:30	US	Personal Income	Oct	% m/m	0.2	-	0.3
14:30	US	PCE Deflator SA	Oct	% m/m	0.1	-	0.4
16:00	US	Pending Home Sales	Oct	% m/m	-0.9	-	1.11
			FRIDAY (1 December)				
08:30	HU	GDP	3Q	% y/y	-	-	-0.4
09:00	CZ	GDP SA	3Q	% y/y	-	-	-0.6
09:00	**PL**	**Poland Manufacturing PMI**	**Nov**	**pts**	**45.0**	**45.7**	**44.5**
09:30	DE	Germany Manufacturing PMI		pts	41.2	-	42.3
10:00	EZ	Eurozone Manufacturing PMI		pts	43.45	-	43.8
16:00	US	ISM manufacturing	Nov	pts	47.65	-	46.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg