

# Weekly Economic Update

## Time for FOMC rate cut

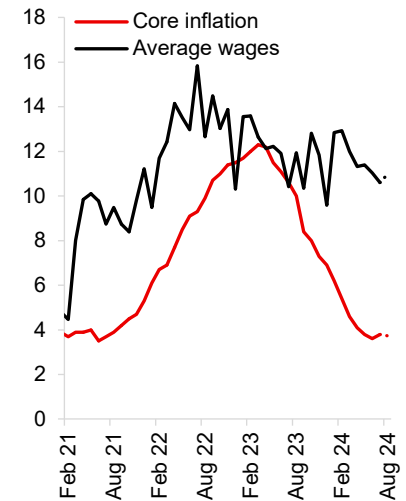
### Economy next week

- After the weekend, we will see a couple of new economic data releases in Poland, allowing to assess the state of the economy in the third quarter: August core inflation (Monday), wages and employment, industrial production and PPI (Thursday), as well as September consumer confidence (Wednesday) and business climate in companies (Friday).
- After today's CPI data, **we expect core inflation to remain at 3.8% y/y in August** (with a slight risk of falling to 3.7%), which will probably be its last reading below 4% for some time - in September, CPI and core inflation will be pushed up by the low base effect. Industrial production will again be under the influence of calendar effects (in August there were fewer working days than a year ago, in July more), so the annual growth may return to a slightly negative level (our forecast -0.4% YoY, consensus -0.5%), which, however, would be consistent with our scenario of the industry gradually coming out of the doldrums. On the labour market, **we expect wage growth to stabilise by nearly 11% y/y** and employment growth to be just below zero.
- Abroad, small number of key data releases is scheduled, the focus will remain on the central banks. The most important will be the FOMC decision on Wednesday evening. **We expect the Fed to cut interest rates by 25bps**. In addition to the decision, markets will scrutinise a refreshed set of Fed's economic forecasts and the expectations of individual Fed members regarding future interest rates illustrated on the so-called dot-plot. The market is currently pricing in a total of 100-125bps in Fed rate cuts by the end of this year and 125-150bps in 2025.
- Decisions on interest rates will also be made by central banks in the UK, Norway, Turkey and Brazil (Thursday) as well as Japan and China (Friday). Brazil is likely to start a new cycle of policy tightening (after a series of rate cuts ended in May), while policy changes are not expected for other central banks.
- On Friday, September 20, in the evening, **Moody's is scheduled to review Polish's rating**. In a previous update in March this year, the agency stated that the maintenance of the A2 rating with a stable outlook was most supported by a marked improvement in Poland's relations with the EU after the 2023 elections. The report concludes that downward pressure on ratings would occur in a scenario of a significantly faster deterioration of the government's debt burden and debt ratios, beyond the Moody's baseline scenario, and a renewed deterioration in the rule of law situation. While the government's draft budget for 2025 points to a significantly higher deficit and debt path than Moodys had projected, **we do not expect a change in the rating or outlook** due to the counterbalance from strong performance of the economy and a progress in restoring the rule of law.

### Markets next week

- EURPLN remains in a narrow trading range with a slight tendency to weaken. Such situation may persist in the coming week. Fed meeting will be key for risk appetite. **In the event of a small 25bp rate cut, as we assume in the baseline scenario, the dollar could strengthen with a negative impact on the CEE currencies**. The probability of a 50bp cut is still relatively high (around 50%) according to market pricing, and in such a scenario, although the stock market could react negatively due to concerns about US economic growth, the reaction of the CEE currencies could be positive taking into account still negative correlation with the EURUSD. Fed's communique will also be important as it could affect the scale of expectations for rate reductions in the next quarters, which in our opinion is exaggerated. The USD/JPY exchange rate is close to support levels, and an upward bounce could support sentiment for EMFX, but rather temporarily.
- In the interest rate market, support levels have been reached on most tenors after a significant drop in swap rates over the past two weeks. **In the coming week, we see the potential for a rebound in IRS rates**, which could be favoured by a less dovish Fed and an upward adjustment in rates in the core markets. In the debt market, the switch auction will be an important event. The prospect of a high bond supply in the coming months will keep asset swap spreads at elevated levels.

### Core CPI and corporate sector wages, %y/y

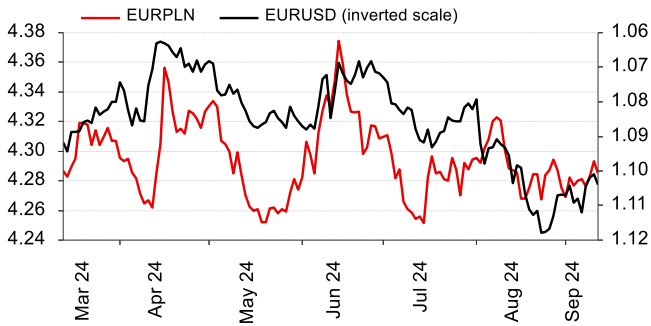


Source: GUS, NBP, Santander

### Economic Analysis Department:

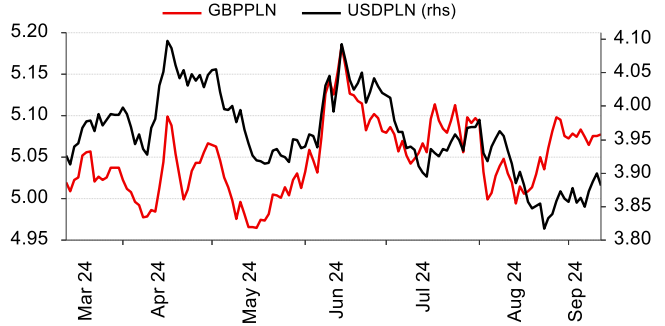
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**EURPLN and EURUSD**



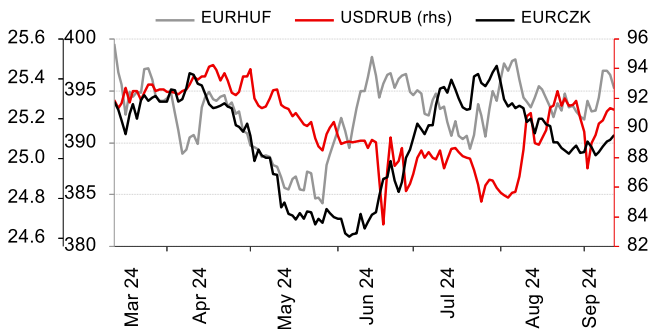
Source: LSEG Datastream, Santander

**GBPPLN and USDPLN**



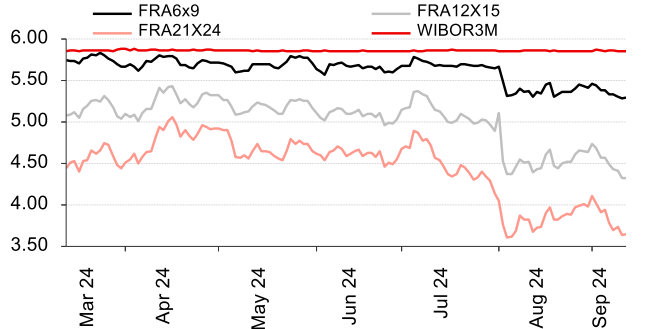
Source: LSEG Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



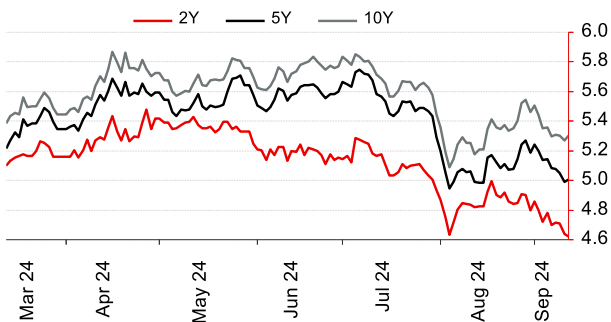
Source: LSEG Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



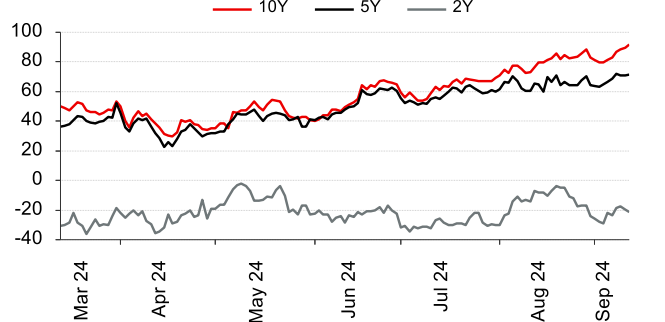
Source: LSEG Datastream, Santander Bank Polska

**Polish bond yields**



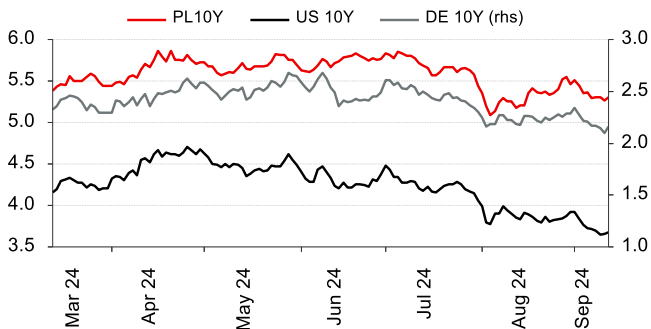
Source: LSEG Datastream, Santander Bank Polska

**Asset swap spreads**



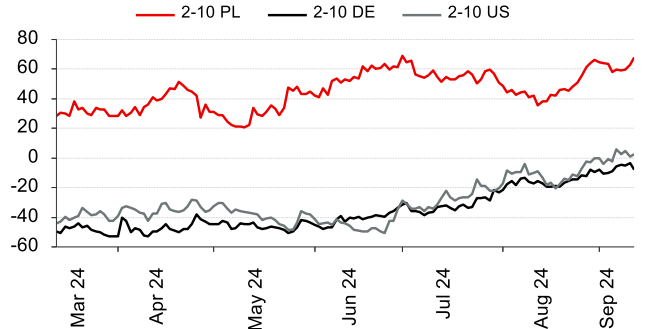
Source: LSEG Datastream, Santander Bank Polska

**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	
<b>MONDAY (16 September)</b>							
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Aug</b>	<b>% y/y</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>
<b>TUESDAY (17 September)</b>							
11:00	DE	ZEW Survey Current Situation	Sep	pts	-80.0	-	-77,3
14:30	US	Retail Sales Advance	Aug	% m/m	-0.2	-	1,0
15:15	US	Industrial Production	Aug	% m/m	0.1	-	-0,6
<b>WEDNESDAY (18 September)</b>							
11:00	EZ	HICP	Aug	% y/y	2.2	-	2,6
14:30	US	Housing Starts	Aug	% m/m	5.9	-	-6,8
20:00	US	FOMC decision	Sep.	%	5.25	-	5,50
<b>THURSDAY (19 September)</b>							
<b>10:00</b>	<b>PL</b>	<b>Employment in corporate sector</b>	<b>Aug</b>	<b>% y/y</b>	<b>-0.3</b>	<b>-0,3</b>	<b>-0,4</b>
<b>10:00</b>	<b>PL</b>	<b>Average Gross Wages</b>	<b>Aug</b>	<b>% y/y</b>	<b>10.7</b>	<b>11,0</b>	<b>10,6</b>
<b>10:00</b>	<b>PL</b>	<b>Sold Industrial Output</b>	<b>Aug</b>	<b>% y/y</b>	<b>-0.3</b>	<b>-0,4</b>	<b>4,9</b>
<b>10:00</b>	<b>PL</b>	<b>PPI</b>	<b>Aug</b>	<b>% y/y</b>	<b>-4.8</b>	<b>-4,7</b>	<b>-4,8</b>
14:30	US	Initial Jobless Claims	weekly	k	-	-	230
16:00	US	Existing Home Sales	Aug	% m/m	-1.3	-	1,3
<b>FRIDAY (20 September)</b>							
No key data releases or events							

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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