

# Poland Central Bank Preview: October 2021

## Details:

**Monetary policy decision:** Wednesday, October 6<sup>th</sup>, 2021. Governor Glapinski to discuss economic situation in online press conference on Thursday.

## MNI Point of View

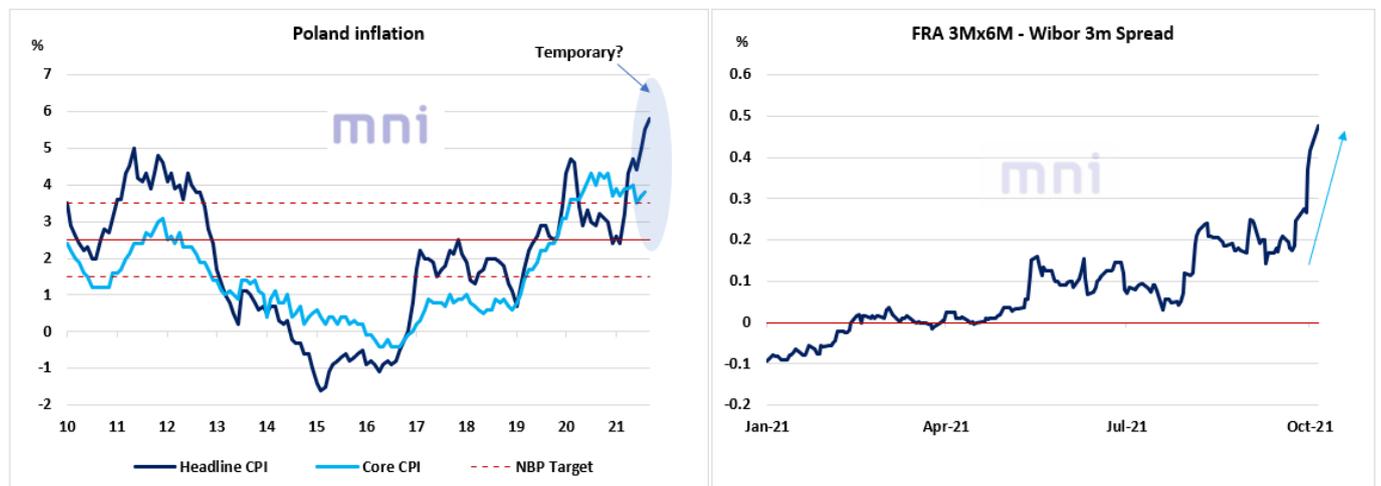
### NBP to maintain policy rate at 0.1%

The National Bank of Poland is expected to keep its policy rate on hold at 0.1% despite the positive surprise in inflation in September. Unlike their CEE peers, which seem to be very sensitive to the elevated inflationary pressures, the majority of the NBP board aim to keep financial conditions as loose as possible as the uncertainty over the economic recovery remains elevated.

Polish CPI inflation accelerated again in September, coming in higher than at expected at 5.8% (vs. 5.5% exp.), up from 5.5% the previous month, currently standing significantly above the NBP 3.5% upper tolerance band (figure 1, left frame). Even though the majority of the NBP board still views the high inflation as largely transitory, caused by factors outside the scope of monetary policy, the rise in inflation expectations and unit labour costs is likely to lead to a persistence of inflation in the medium term.

At this stage, there are three policymakers (Hardt, Gatnar and Zubelewicz) voting for an 'imminent' rate hike as they mentioned several times that inflation is now demand-driven in Poland and a gradual tightening could ease the inflationary pressures. NBP member Hardt and Gatnar reiterated several times that the NBP urgently needs a '15bps' hike and that the central bank will need to hike more aggressively if it keeps delaying its tightening cycle.

Figure 1



Source: Bloomberg/MNI

### Odds for a November hike have been rising

NBP has been receiving external pressure from former Polish policymakers to start hiking rates in response to rising inflation. According to a recent letter signed by former NBP governors Leszek Balcerowicz, Marek Belka and Hanna Gronkiewicz-Waltz and 13 ex-MPC members, the central bank cannot delay actions to reverse a surge in inflation as it would be a breach of the NBP primary goal, which is maintaining price stability.

The market continues to speculate that the NBP will start its gradual tightening cycle in November. With the FRA 3Mx6M currently trading at 45bps above the Wibor 3M, traders are currently pricing in up to three 15bps by January (figure 1, right frame).

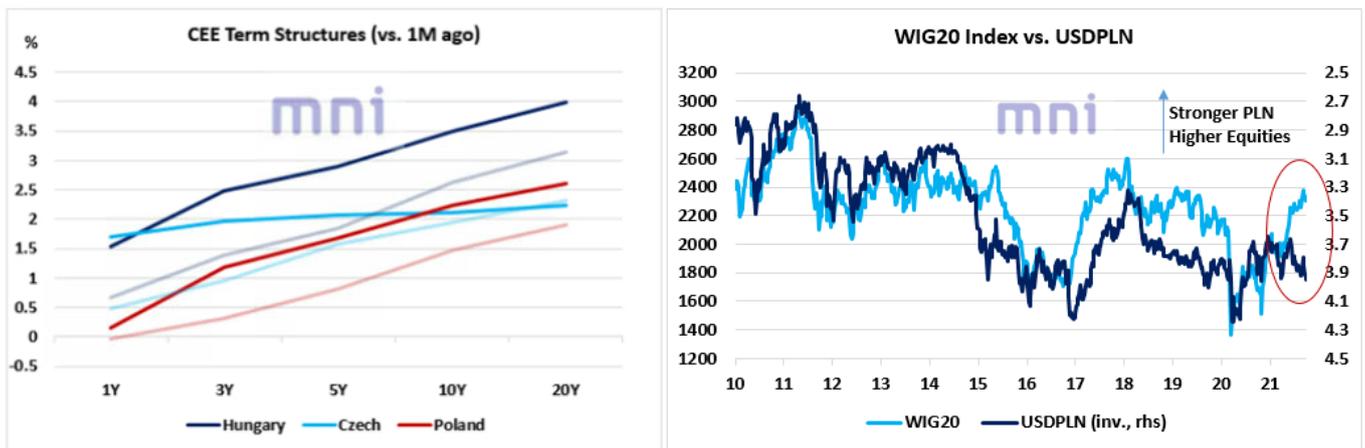
**Market Analysis**

The rise in inflationary pressures have been weighing on the bond market, with the long end of the curve constantly testing new highs in the past month. The 10Y yield is up nearly 50bps since the start of September and is currently trading at its highest level since March 2020. ST resistance to watch on the topside stands at 2.28%; a break above that level would open the door for a move up to 2.34% (January 2020 highs). Hence, the quiet NBP has led to a sharp steepening of the term structure in the past month as policymakers have been keeping interest rates low despite the rising inflationary pressures (figure 2, left frame). In contrast, the volatility on Czech LT bonds has been significantly lower while short term rates have been surging amid hawkish CNB, leading to a sharp flattening of the yield curve.

Interestingly, while PLN has been depreciating against most of the major crosses in recent weeks amid dovish NBP, the momentum on Polish equities has remained firm, mainly driven by the ultra-loose monetary policy run by major central banks. Figure 2 (right frame) shows that Polish equities (WIG20 Index) have been very sensitive to the dynamics of the PLN in the past cycle; periods of PLN weakness have been associated with bearish equity markets. Hence, investors have been questioning if the trend in equities could continue in the medium term while PLN remains weak against most other currencies.

To conclude, NBP will once again hold its policy rate steady at 0.1% this week; however, odds for a November hike have been rising following the positive surprise in inflation in the past few months.

**Figure 2**



Source: Bloomberg/MNI

## mni Central Bank Watch - NBP

October 05, 2021

MNI NBP Data Watch List											
		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
<b>Inflation</b>											
HICP	% y/y	5.8	4.4	↑	3.2	↑					2.12
Core Inflation	% y/y	3.9	4.0	↓	3.7	↑					0.53
PPI	% y/y	9.5	6.6	↑	2.2	↑					1.33
NBP Inflation Expectations	Index	36.3	41.8	↓	41.8	↓					-1.07
<b>Economic Activity</b>											
Poland PMI (Manuf)	Index	53.4	59.4	↓	54.3	↓					0.55
Sold Industrial Output	% y/y	13.2	29.7	↓	2.5	↑					-0.27
Exports (Mn)	EUR	22346	23450	↓	20089	↑					0.02
Construction Output	% y/y	10.2	4.7	↑	-16.9	↑					1.33
<b>Monetary Analysis</b>											
Money Supply (M3)	% y/y	9.1	9.0	↑	16.3	↓					-1.01
Consumer Credit	% y/y	4.3	2.4	↑	1.5	↑					1.53
Credit to Non-Fin Corps	% y/y	-1.9	-5.7	↑	-5.7	↑					1.44
Credit to Households	% y/y	4.2	2.4	↑	1.4	↑					1.49
<b>Consumer / Labour Market</b>											
Retail Sales	% y/y	10.7	19.1	↓	-2.7	↑					0.71
Unemployment Rate	%	5.8	6.1	↓	6.5	↓					-1.20
Ave Monthly Gross Wages	% y/y	9.5	10.1	↓	4.5	↑					0.59
Employment	% y/y	0.9	2.7	↓	-1.7	↑					0.20
<b>Markets</b>											
Equity Market (WIG)	Index	71393	66067	↑	58082	↑					1.77
10-Year Bond Yield	%	2.25	1.62	↑	1.57	↑					2.10
Yield Curve (10s-2s)	bps	122.8	130.7	↓	150.5	↓					-0.21
PLN TWI	Index	89.66	91.87	↓	89.21	↑					-1.16

Source: MNI, Bloomberg

## Sell-side Views

### Barclays: NBP expecting to keep its policy rate on hold

- Barclays expects the NBP to keep its rate on hold at 0.1%.
- The minutes of the September meeting reveal two motions from MPC members to hike the policy rate, one to 0.25% and the other, more surprisingly, to 2.0%.
- While the former motion had already been made in the July meeting, the latter (for a 2.0% hike) is a new motion.
- However, most MPC members still view the high inflation as largely transitory and caused by factors outside the scope of monetary policy and they believe the economic recovery remains uncertain.
- Barclays' analysts still expect the NBP to keep its rate on hold until March 2022, yet they will closely examine the updated inflation forecasts and details of the minutes/statement in November.

### Danske Bank: Dovish NBP and external headwinds capping PLN upside

- The dovish signals from the NBP have made analysts a bit more cautious on the prospects of substantial tightening despite inflation staying elevated.
- Danske analysts' base-case is still that the NBP will turn more hawkish in November, but their conviction has declined.
- Analysts have consequently raised the trajectory for EUR/PLN.
- Persistently elevated unit labour costs, rapid rise in US yields and Dollar or further souring of the risk sentiment remain key upside risks for EUR/PLN.
- Governor Glapinsky sees the price pressures as temporary and driven by supply shocks outside the remit of monetary policy. This carries considerable risk in Danske view as supply side driven prices pressures can still lead to higher wage demands and more chronic inflation.

**JP Morgan: NBP to remain on hold**

- The NBP is likely to stay on hold, as the dovish stance still outweighs inflation concerns.
- Risks of an earlier hike by the NBP have been increasing with every upside surprise to CPI, but Governor Glapinski appears resolute in delaying tightening until early 2022.

**TD Securities: NBP to keep its base rate on hold**

- TD Securities expects the NBP to keep its base rate on hold at 0.1% and do not expect any material shifts at this policy meeting.
- A number of MPC members will likely express their concerns with regards to high inflation and raise a motion to hike rates, which will not pas.