National Bank of Poland Preview: March 2023

Details:

Monetary policy decision: Wednesday, March 8th, 2023.
Press conference: Thursday, March 9th, 2023.

MNI Point of View: Rhetoric & Forecasts To Steal Limelight

The latest rounds of macroeconomic data and central bank communications provided no hints of any imminent monetary policy action by the National Bank of Poland, with universal consensus calling for no change to interest rates this week. This turns the spotlight on the subsequent press conference with Governor Adam Glapinski and the new macroeconomic projection, with market participants on the lookout for fresh clues on the outlook for Poland's monetary policy.

This may be the NBP's most closely watched monetary policy meeting since the central bank pressed pause on its rate-hike cycle, due to the release of the updated forecast which will inform rate decisions going forward. Most expect the NBP to unveil dovish forecast revisions, which has supported speculation that Governor Glapinski could formally end the tightening cycle this week. We think that it is too early for the NBP to declare that the tightening cycle is over as core inflation remains sticky.

The data released since the NBP's previous monetary policy failed to provide the sort of surprises that might prompt the rate-setting panel to reassess its collective stance. Headline inflation accelerated in January, albeit slightly less than expected by analysts. At the same time, annual wage growth was faster than forecast, fuelling concerns over the persistence of core inflation. The NBP is widely expected to revise its economic projection to the dovish side, charting the inflation path lower than in November. Governor Glapinski will likely reiterate that price pressures will ease after Q1 and reach single-digit levels by the year-end, albeit elevated core inflation remains a source of concern.

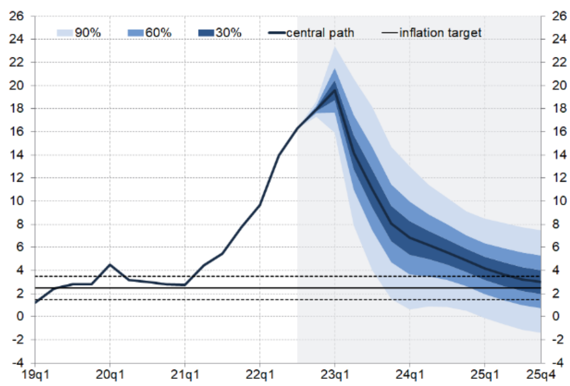
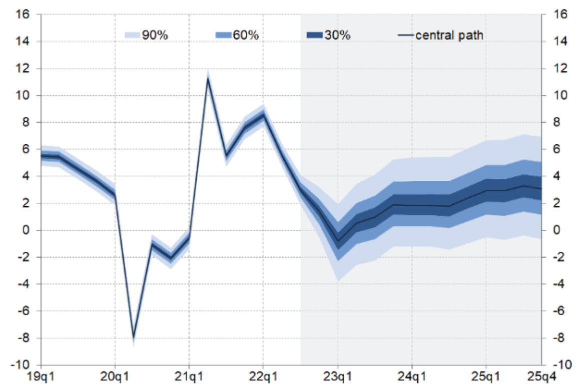
The recent weeks have seen some analysts speculate that Governor Glapinski could finally declare an end to the central bank's rate-hike cycle. We do not see this as a base-case scenario, due to several considerations: (1) core inflation remains sticky, tying the hands of MPC doves; (2) hawkish adjustments to the pricing of Fed and ECB terminal rates raise the costs of premature exit by the NBP; (3) the PLN remains the worst CE3 performer this year; and (4) even some of the dovish policymakers are wary of discussing rate cuts too early. That being said, we cannot rule it out that the NBP will use dovish forecast revisions as a pretext to formalise ending its tightening cycle.

Judging by the recent remarks from the MPC members, we expect familiar divisions within the MPC to resurface, resulting in a split decision. Joanna Tyrowicz, Ludwik Kotecki and Przemyslaw Litwiniuk are likely to support motions to raise interest rates but will be outvoted by the other seven policymakers. Meanwhile, there are subtle differences within the dovish camp when it comes to the policy outlook. Governor Glapinski will likely reiterate his familiar views on the matter: further tightening would entail excessive socioeconomic costs and he would like to see rate cuts as soon as possible, but it's too early easing now and the central bank will react to data signals.

Complicating the central bank's communications is the election year in Poland, with government officials under pressure to alleviate the cost-of-living crisis. The market took it for a dovish signal when Prime Minister Mateusz Morawiecki suggested that interest-rate cuts are "possible and even likely" by the end of 2023. Two of his closest aides, state-owned development fund PFR chief Pawel Borys and Finance Minister Magdalena Rzeczkowska, poured cold water on easing bets last week, but we may see the discourse on monetary policy become noisier as the election campaign gathers steam.

Heading into the MPC meeting, all 30 economists polled by Bloomberg said they expect interest rates to remain unchanged, while a PAP survey of 20 local analysts also showed unanimous consensus. Looking ahead, two local analysts told PAP that they expect one 25bp rate cut as soon as in Q3, while most see the start of the easing cycle only next year. Last month saw an upward adjustment to the FRA curve, suggesting that market participants pared their bets on rate cuts being delivered by the end of this year.

NBP November Economic Forecast

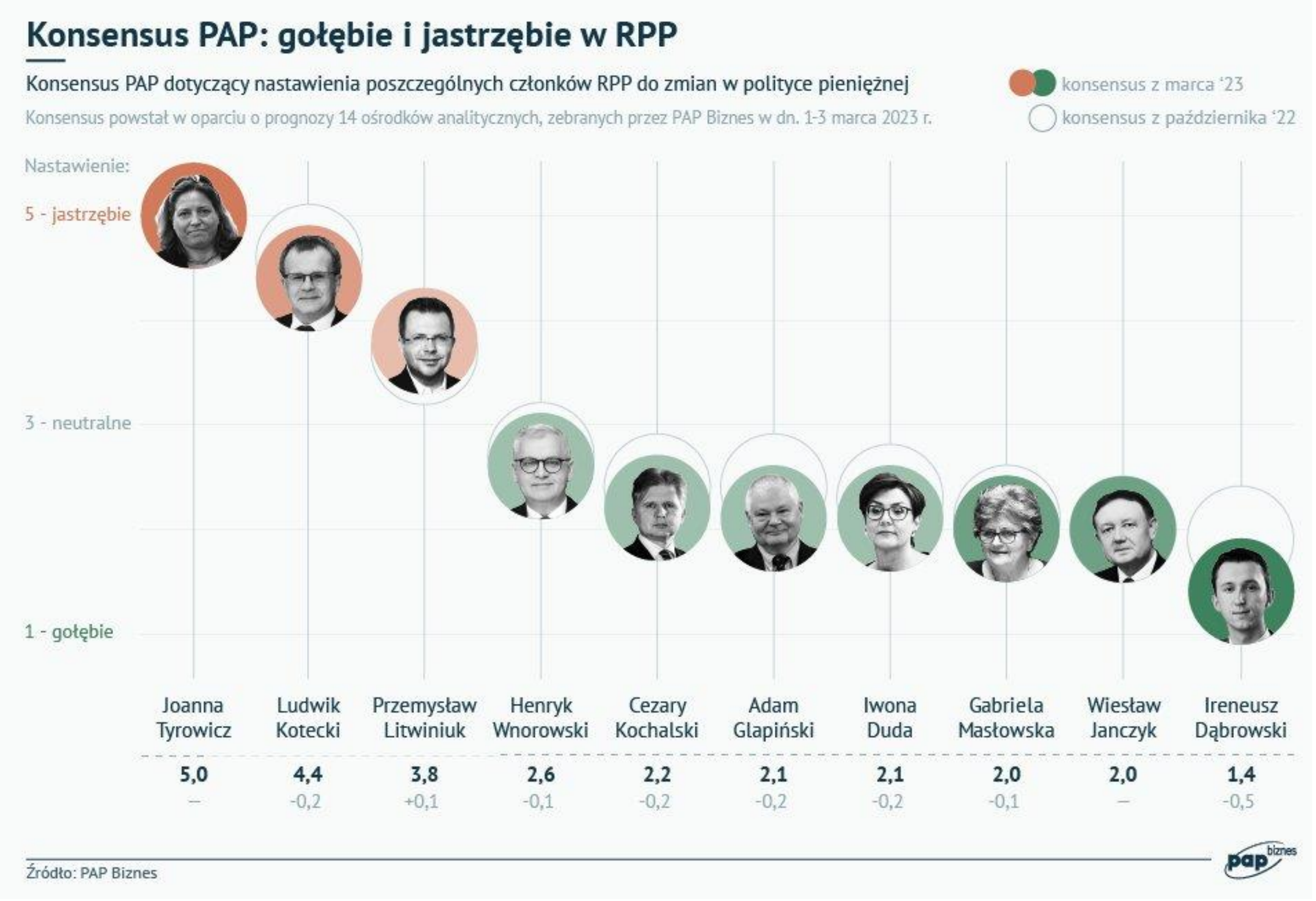
CPI inflation y/y (%)	GDP y/y (%)
	

	2022	2023	2024	2025
CPI inflation y/y (%)	14.5	13.1	5.9	3.5
GDP y/y (%)	4.6	0.7	2.0	3.1
interest rate WIBOR 3M*(%)	5.94	6.95	6.95	6.95

Source: NBP

MPC Members – Hawks & Doves Spectrum

In the lead-up to the NBP's meeting this week, local newswire PAP released an updated poll of 14 analysts on the perceived monetary policy stance of each MPC member. Policymakers were rated on a scale from 1 (most dovish) to 5 (most hawkish). The empty circles represent the results of the previous poll taken in October 2022.



Source: PAP Biznes

Sell-Side Views

Bank of America: On Lookout For Dovish Signals

- The NBP is widely expected to hold rates unchanged, but they would watch out for any dovish signals from Governor Glapinski's press conference.

Barclays: NBP To Revise CPI Outlook, Hold Rates Steady Through End-2023

- For the upcoming meeting, Barclays believe that the NBP's published inflation trajectory is likely to show a downward revision to CPI for the rest of the year.
- Even so, they expect the MPC to maintain a cautious stance while holding rates steady at 6.75% until the end of 2023.

Goldman Sachs: Dovish Forecast Revisions Could Be Met With More Dovish Guidance

- Goldman expect the NBP to keep interest rates unchanged this week. At the same time, they think that the updated macro projections will largely consist of dovish forecast changes, given that inflation has surprised the NBP's previous projections to the downside and the sharp fall in wholesale energy prices, although growth was stronger than expected.
- Despite the still strong underlying inflation, the NBP could use the downward forecast revisions to headline inflation to embrace stronger dovish guidance, and state that no further tightening is necessary and guide towards rate cuts later this year.
- Goldman Sachs have a more hawkish view on inflation than the NBP and continue to think that monetary policy has a greater role to play in bringing inflation back to target in Poland. However, incoming data is unlikely to change the NBP's stance in the near term. Instead, Goldman think the main factor that could cause the NBP to take a more hawkish stance would be pressures on the exchange rate, whereas the recent appreciation of the Zloty gives more room for the central bank to sound more dovish next week.

ING: Updated Forecasts May Show Lower Inflation Path

- ING expect Poland's central bank to keep interest rates unchanged and suggest that the new forecasts may show a lower path of inflation due to a more favourable starting point and lower energy price index.
- Although recent CPI readings have been lower than expected, the pace of disinflation is highly uncertain and price growth may turn out to be persistently high (especially core inflation) as seen in the recent data from core markets.
- They note that the persistence of core inflation will likely leave no room for interest-rate cuts this year.

JP Morgan: NBP To Stay On Hold Without Any Major Shift In Stance

- They expect the NBP to remain on hold this week, without any major hints of shift in stance.
- With inflation this high, especially after January's reacceleration in Core CPI momentum, and more hawkish signal from DM central banks, it would be quite adventurous to signal any dovish shift this early.

mBank: All Eyes On Macroeconomic Projection

- They do not expect the monetary policy decision to bring any major surprises, with interest rates set to remain unchanged. Much more interesting will be the NBP's updated macroeconomic forecasts.
- They remind that the November projection significantly underestimated wage growth, which may add upside pressure to core inflation path. On the other hand, inflation itself was lower than projected by the NBP.
- According to mBank, the risks to headline CPI path are balanced, while the risks to core CPI outlook are slightly tilted to the upside.

Morgan Stanley: Risk Of Formal End To Tightening Cycle

- With weaker growth and inflation data, they see the NBP keeping its policy rate unchanged, but with a chance of it also turning the page by officially announcing the end of the hiking cycle.

NatWest: Rates To Stay Unchanged

- They note that the NBP is likely to keep interest rates and policy guidance unchanged.

- Before making any policy changes, the MPC will want reassurance that inflation trends lower from March after the expiry of tax cuts mechanically pushed up annual CPI in January. A re-weighting of the inflation basket, not due until March 15, also argues against any policy changes right now.
- The updated inflation projections will also be a market focus. A downward revision to the previous 2023 forecast for 13.1% annual price growth could signal growing momentum behind H2 rate cuts.
- NatWest see upside risks to PLN going into the meeting, given market rumours that the NBP will officially call the end of its tightening cycle at its March meeting.

PKO BP: Rates Unchanged, Rhetoric To Emphasise Stability

- They note that economists unanimously expect the NBP to keep the key policy rate unchanged at 6.75%. From the market perspective, the accompanying communique will be much more important, as it will take into account the updated CPI and GDP projections.
- Expected rhetoric suggesting keeping rates unchanged through the end of 2023 would stabilise POLGB yields and calm investors who have started to price the risk of tightening monetary policy this year.
- The updated economic forecasts should not have much market impact and the potential downward revisions to CPI and GDP outlooks may be balanced by moderate rhetoric.

TD Securities: Sticky Core Inflation Should Remove Rate-Cut Speculation This Year

- TD note that implied rate expectations recently edged closer towards their forecasts for an unchanged base rate through 2023 (previously as much as 50bps of cuts were priced).
- The focus will be on the inflation report. It may show lower headline inflation due to a more favourable energy prices outlook, but they think the sticky core will remove any speculation for rate cuts this year.

Unicredit: Rates To Stay On Hold Wednesday

- They expect the NBP to leave rates unchanged on Wednesday, in line with recent communication from a majority of MPC members.
- They expect disinflation to start in March, with headline inflation ending this year at around 10% (NBP November forecast: 8%). Neither forecast leaves room for rate cuts this year, in their view, with a majority of MPC members holding the same opinion.
- They see two reasons why the NBP could cut rates by the end of the year: (1) the risk of a full-year recession; and (2) faster disinflation. They note that faster disinflation is unlikely, due to the expected transfers to households ahead of parliamentary elections.