National Bank of Poland preview: 50bp rate hike and terminal rate at 2.5%

Our non-consensus view on NBP hikes in 4Q21 was matched with a 40 basis point lift-off in October. We see another 50bp on 3 November, due to the rising inflation risk, eg, CPI above 7% YoY with the first signs of second-round effects. New NBP projections should present 2023 average CPI above the upper bound. We see the main rate at 2.5% in 2022/23 with upside risk

GDP prospects remain strong. Poland is more resilient to supply chain disruptions, eg, given the much smaller share of carmakers in GDP (circa half the level of Hungary), compared to CEE peers. Consumption should also remain strong, buoyed by high growth in wages, outpacing inflation, and fiscal changes of the Polish Deal in 2022, reinforcing disposable incomes of poorer households. The overall structural balance is expected to worsen by around 1 percentage point of GDP.

While supply-side factors drive CPI up this year, demand and wage pressures should be important inflationary factors in 2022. We also see the first signs of second-round effects. High inflation is also caused by structural factors, ie, consumption-driven GDP. Thus, CPI is likely to remain elevated even longer than expected. In 2022 average inflation should reach 5.3% YoY (with upside risk), c.4% in 2023. The upward revision of the NBP's CPI projection in November is a key argument behind our hike call.

The stand-off with the European Commission may be temporarily overshadowed by expectations for a European Court of Justice ruling. In early December the ECJ should answer whether the conditionality rule is compliant with Treaties. The conflict is far from over though. The debate on Poland in the European Parliament ended with a resolution calling the EC to put Poland's access to Next Generation EU Plan on hold, until the government implements the ECJ's verdicts on the judiciary system. The conflict imposes a risk of delayed access to the Recovery Fund and poses a threat to other EU payments.

FX and Money Markets

We expect the zloty to remain weak in the remainder of 2021. €/PLN should end the year around 4.60, but we see a substantial risk of a temporarily weaker PLN. The ongoing problems in Asia may continue to strain the overall Central and Eastern European sentiment, as seen in previous weeks. Also, the political stand-off with the European Commission seems far from over. And this factor seems not fully priced in, as PLN tracked its CEE counterparts relatively closely in the past weeks.

Domestic Debt and Rates

We expect a 50bp hike in November, but 100bp hikes priced till the end of the year seems to be a stretch. Long end bonds should track core markets. The Fed moving towards policy normalisation suggests a further rise in yields, but risks for growth are clearly rising, as supply chain disruptions grow and may temporarily undermine global GDP at the turn of 2022-23. The PLN idiosyncratic factors are low liquidity and some local Polish government bond holders who may trim their holding due to outflows from funds.

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