

Weekly Economic Update

Gas and electricity prices pierce through “Shield”

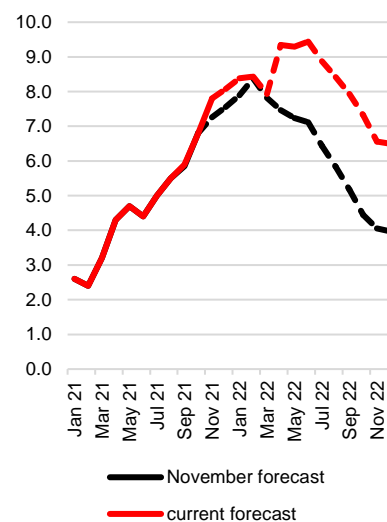
Economy next week

- In the coming week we will get a set of real data from Poland: industrial output (Monday), construction output and retail sales (Tuesday). Stronger-than-expected November data on wages and employment support a high reading of retail sales (our forecast was much above the consensus even before labour market data release). They may also signal a solid print by industry (our relatively low output forecast was based on an assumption that the huge October rise in energy generation did not hold). We will also see the quickly and relentlessly growing PPI inflation (Monday) and most likely a further recovery of credit in M3 data (Wednesday). On Thursday Statistical Bulletin will be out. December business and consumer sentiment indicators are also due this week. When it comes to data releases, the week after Christmas will be much more silent (only 3Q C/A). **December flash CPI will come out only on 7 January.**
- On 20 December the first element of the Anti-inflation Shield will come into force (fuel excise cut), other elements will be added on 1 January. In the meantime the Polish energy market regulator (URE) has approved new tariffs for gas (average bill up 54% for households) and electricity (average bill up 24%), which means a several times higher rise of energy costs in January than we had anticipated. As a result, **despite the government shield inflation is not going to drop with the start of the new year and our inflation forecast for 2022 has gone up significantly: in January CPI, instead of falling to c.6.5%, will go up to 8.4% y/y (or higher if the actual impact of the “shield” is smaller, as we assumed the best-case scenario of -1.5pp). In April, when the biggest impact of the “shield” fades, inflation may jump further – above 9%.** Even if it starts descending slowly later in 2H22, average 2022 inflation rate may be around 8% (after c.5% in 2021).
- Such a significant change to the inflation outlook (upwards) on top of the upcoming decent macroeconomic data in Poland should constitute a solid argument in favour of further decided monetary policy tightening. The next MPC meeting is scheduled for 12 January 2022.
- Among the economic publications from abroad next week one should point to PCE inflation in the US as well as consumer income and spending data and their sentiment in December (published on Thursday)

Markets next week

- The change of global markets sentiment in the passing week (filled with central bank decisions) might well be summed up with EURUSD exchange rate movements. Despite EURUSD is almost unchanged on a weekly basis (near 1.1320), it was drifting lower in the days prior to the FOMC meeting, falling 0.8% to 1.1230, after which - while awaiting the ECB meeting - it moved higher by 1.2% to 1.1360; and corrected lower only at the end of the week. Both central banks have not changed interest rates, but pretty precisely described the process of withdrawing pandemic liquidity (which, once finished, might enable proper interest rates hikes). First rates increases in the US are possible in 2Q22, while ECB does not plan to increase interest rates in 2022 at all. The EURPLN exchange rate was pretty immune to volatility coming from core markets – it remained within a narrow 4.62-4.64 range for most of the week. **We reckon, the exchange rate might rise towards 4.65 before the year end.**
- The 10Y UST yield finish the week near 1.40% (-8bp w/w), Bunds at -0.37% (-3bp w/w) which perhaps reflects slight disappointment regarding the outcomes of FOMC and ECB meetings in the context of high and accelerating inflation rates in the US and Eurozone. Polish bond curve behaved in a similar fashion (2Y closes the week at 2.77% down 5bp, 10Y at 3.10% down 10bp) and this despite the shocking energy price increases. In the remaining days of 2021, despite many macroeconomic releases in Poland, we expect, lower volatility amid lower liquidity and relatively stable yields. It seems, that in the New Year the prospect of much higher inflation might start to move the markets towards pricing of much higher target NBP rate (currently near 3%).

CPI forecast, % y/y



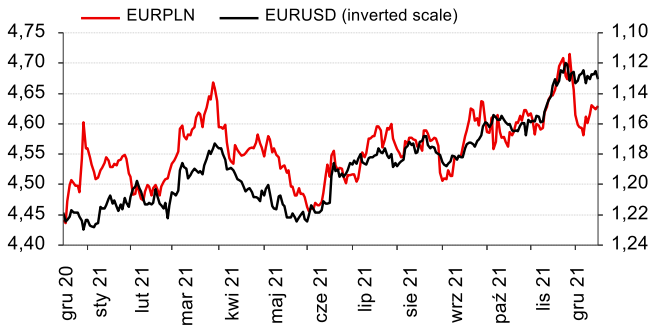
Source: GUS, Santander

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
 Marcin Luźniński +48 510 027 662
 Wojciech Mazurkiewicz +48 887 842 480
 Grzegorz Ogonek +48 609 224 857

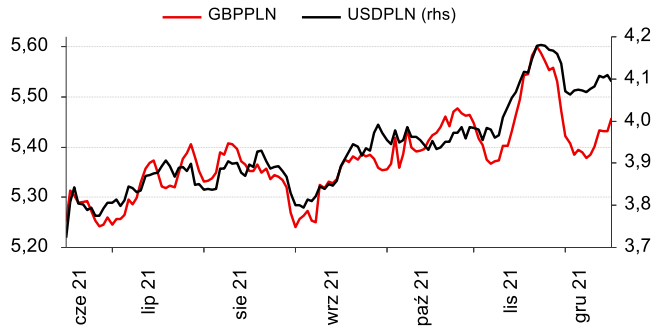
FX and FI markets

EURPLN and EURUSD



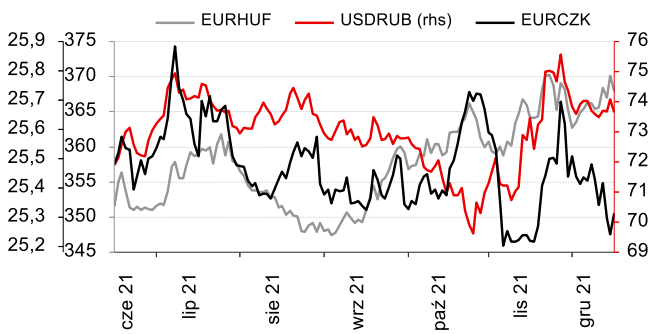
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



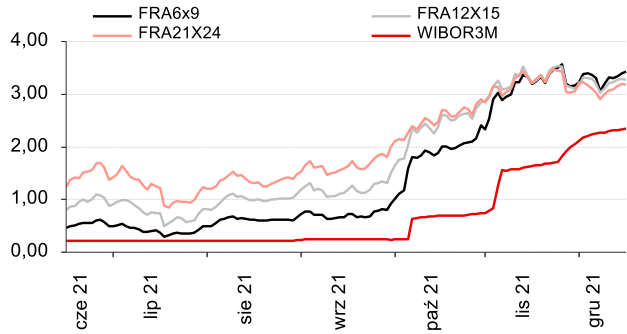
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



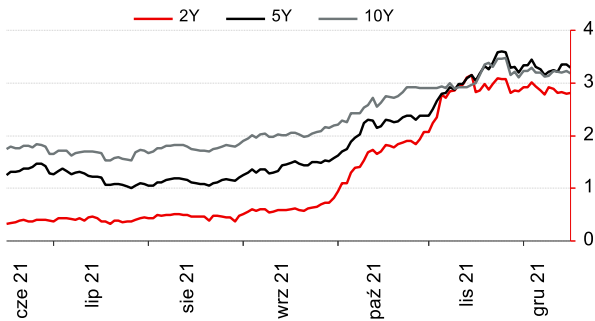
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



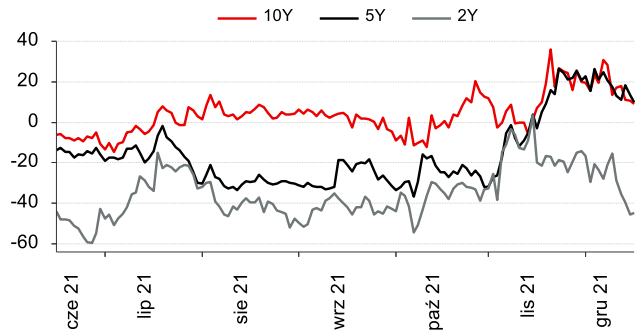
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



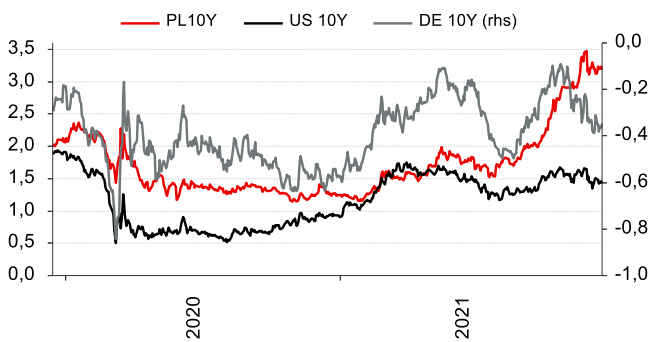
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



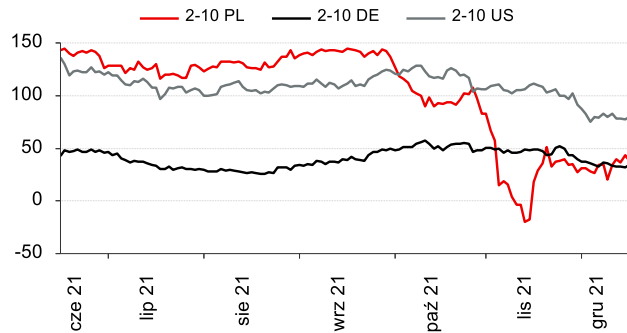
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (20 December)						
10:00	PL	Sold Industrial Output	Nov	% y/y	8.8	7.8
10:00	PL	PPI	Nov	% y/y	12.9	11.8
TUESDAY (21 December)						
10:00	PL	Construction Output	Nov	% y/y	6.0	4.2
10:00	PL	Retail Sales Real	Nov	% y/y	8.2	6.9
WEDNESDAY (22 December)						
14:00	PL	Money Supply M3	Nov	% y/y	9.0	8.6
14:30	US	GDP Annualized	3Q	% Q/Q	2.1	2.1
14:30	CZ	Central Bank Rate Decision	Dec/21		3.5	2.75
16:00	US	Consumer Conference Board	Dec	pts	110.6	109.5
16:00	US	Existing Home Sales	Nov	% m/m	2.8	0.8
THURSDAY (23 December)						
10:00	PL	Unemployment Rate	Nov	%	5.4	5.5
14:30	US	Durable Goods Orders	Nov	% m/m	2.0	-0.4
14:30	US	Initial Jobless Claims	Dec/21	k		206.0
14:30	US	Personal Spending	Nov	% m/m	0.5	1.3
14:30	US	Personal Income	Nov	% m/m	0.5	0.5
14:30	US	PCE Deflator SA	Nov	% m/m	0.6	0.6
16:00	US	Michigan index	Dec	pts	70.4	70.4
16:00	US	New Home Sales	Nov	% m/m	3.2	0.4
MONDAY (27 December)						
	DE	Retail Sales	Nov	% m/m		-0.3
16:00	US	Pending Home Sales	Nov	% m/m		7.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.