

18 February 2022

Weekly Economic Update

Strong economy in the shadow of (geo)politics

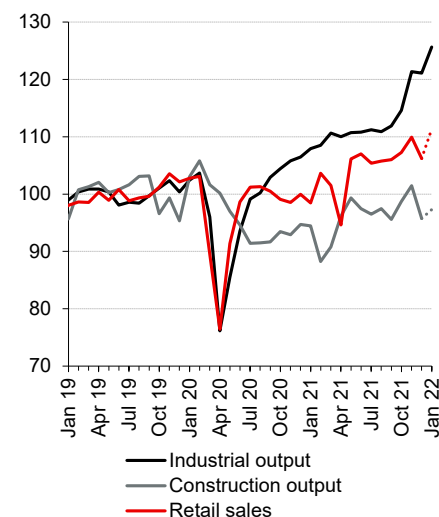
Economy next week

- The week full of emotions is just coming to its end and the next one will be probably quite interesting as well. There are new important economic data releases in the agenda. In Poland: **January construction output, retail sales, money supply, unemployment** and even more detailed indicators in the monthly Statistical Bulletin. The [data on industrial production, PPI, wages and employment](#) released today show a strong start of the year in the economy. We expect to see next strong prints after the weekend, supporting forecasts of GDP growth in 1Q22 still close to 7% y/y and confirming expectations that more interest rate hikes from the NBP are still to come. Abroad: numerous leading indicators, including flash PMIs, Ifo, ESI, Conference Board. Hungarian central bank (MNB) will meet on Tuesday and most likely will hike interest rates again.
- When it comes to the Polish central bank, **the new MPC members nominated by the President will be Ireneusz Dąbrowski (professor of economics from SGH, Mr. Glapiński's associate in the NBP) and Henryk Wnorowski (PiS deputy, professor of economics from Białystok University)**. We expect to see one more candidacy from Sejm in the coming days, to be voted on Wednesday-Thursday at the Sejm meeting. The nominations that have been revealed so far have not changed our conviction that NBP governor Adam Glapiński will retain full control over the shape of monetary policy in Poland after the replacement of MPC members.
- After the ECJ verdict on the conditionality mechanism we can see some signals from the ruling party that they are interested in making a deal with the EU on the rule of law, which on the other hand can (but does not have to) destabilise the ruling coalition. If these signals about possible compromise will be confirmed, the market should react positively, pricing in higher chances for disbursement of the Recovery Funds.
- **The Russia-Ukraine conflict** remains the main source of uncertainty. Risk of escalation is still present and can fuel elevated market volatility.
- For today's evening **Fitch planned review of Poland's sovereign rating**. We are expecting neither a change of the rating score nor of the outlook.

Markets next week

- One more time it is hard to make a high conviction directional call on market moves in the coming week, but one can safely bet on high volatility. Short-term trends will most likely continue to be shaped by the newsflow on the conflict in the East. The week ends with information from Western intelligence that Russia not only failed to pull back its troops despite declaring to do so, but even increased the presence near the Ukrainian border, which means high escalation risk.
- **If there were reasons to think that the threat of Russian invasion was decreasing we would see potential for zloty appreciation:** the currency is supported by strong macro data and (as we think) signals from Polish authorities about a possible compromise with the EU on rule of law. If EURPLN gets below 4.50, the next important level could be 4.45. But it is too early to say if the geopolitical tension recedes.
- The debt market can also be affected by the geopolitical risk, last Monday trading may serve as an example (domestic yields went up while core market yields fell). If tension around Ukraine decreases, local factors will start playing role, leading to further flattening of the curves, in our view.

Production in industry and construction, retail sales (constant prices, s.a., 2019=100)

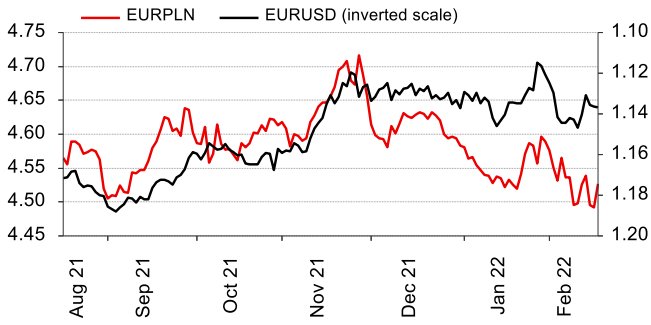


Source: GUS, Santander

Economic Analysis Department:

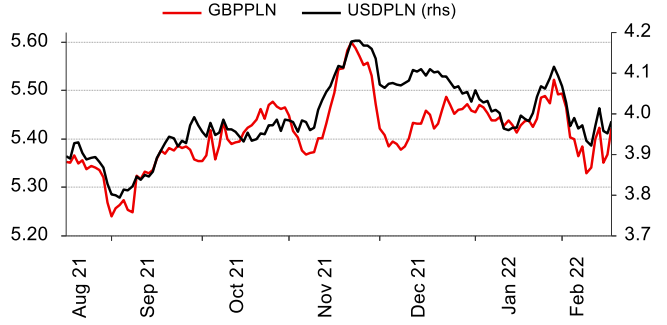
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EURPLN and EURUSD



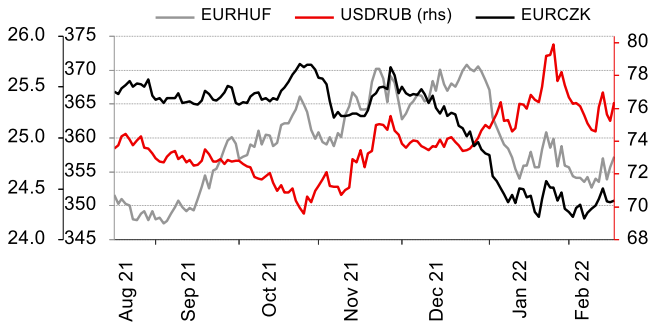
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



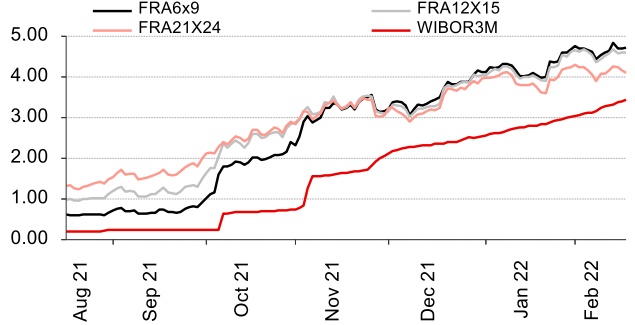
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



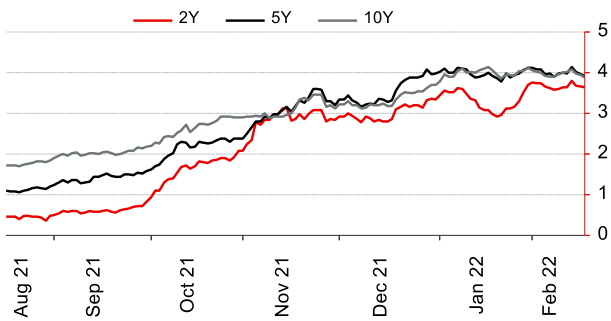
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



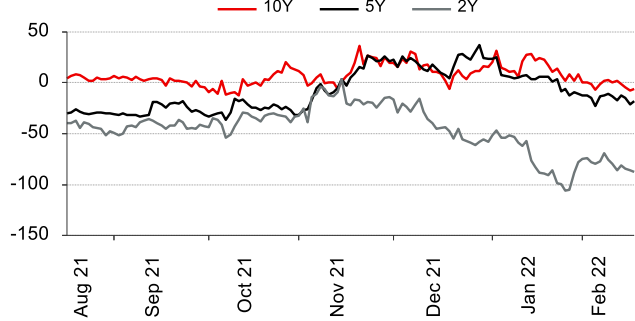
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



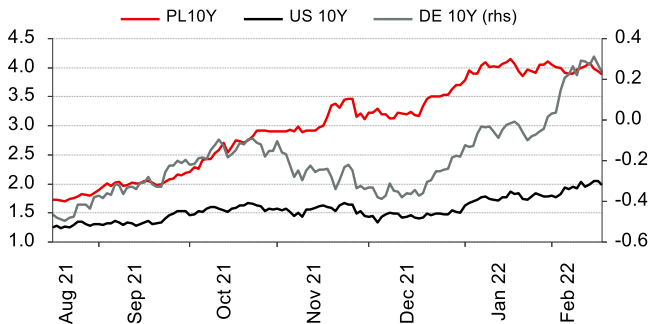
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



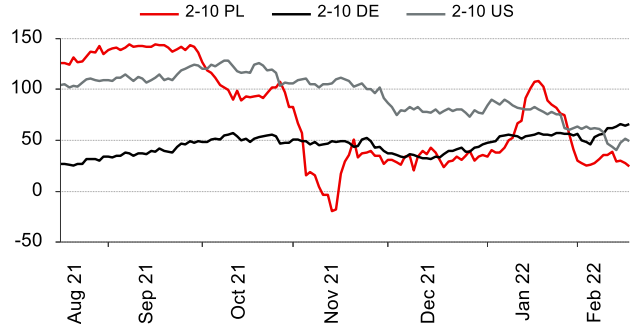
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTR Y	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (21 February)							
09:30	DE	Germany Manufacturing PMI	Feb	pts	59.4	-	59.8
09:30	DE	Markit Germany Services PMI	Feb	pts	54.0	-	52.2
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	58.6	-	58.7
10:00	EZ	Eurozone Services PMI	Feb	pts	52.3	-	51.1
10:00	PL	Construction Output	Jan	% y/y	4.3	2.9	3.1
10:00	PL	Retail Sales Real	Jan	% y/y	10.5	13.1	8.0
TUESDAY (22 February)							
10:00	DE	Ifo Business Climate	Feb	pts	96.5	-	95.7
14:00	HU	Central Bank Rate Decision	Feb/22	%	3.40	-	2.90
14:00	PL	Money Supply M3	Jan	% y/y	8.6	8.7	8.9
16:00	US	Consumer Conference Board	Feb	pts	110.0	-	113.8
WEDNESDAY (23 February)							
10:00	PL	Unemployment Rate	Jan	%	5.6	5.6	5.4
11:00	EZ	HICP	Jan	% y/y	5.1	-	5.1
THURSDAY (24 February)							
14:30	US	GDP Annualized	4Q	% Q/Q	7.0	-	6.9
16:00	US	New Home Sales	Jan	% m/m	-0.3	-	11.9
FRIDAY (25 February)							
08:00	DE	GDP WDA	4Q	% y/y	1.4	-	1.4
11:00	EZ	ESI	Feb	pct.	113.0	-	112.7
14:30	US	Durable Goods Orders	Jan	% m/m	0.6	-	-0.7
14:30	US	Personal Spending	Jan	% m/m	1.5	-	-0.6
14:30	US	Personal Income	Jan	% m/m	-0.3	-	0.3
14:30	US	PCE Deflator SA	Jan	% m/m	0.6	-	0.4
16:00	US	Pending Home Sales	Jan	% m/m	-	-	-3.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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