

# Weekly Economic Update

## Markets in times of conflict

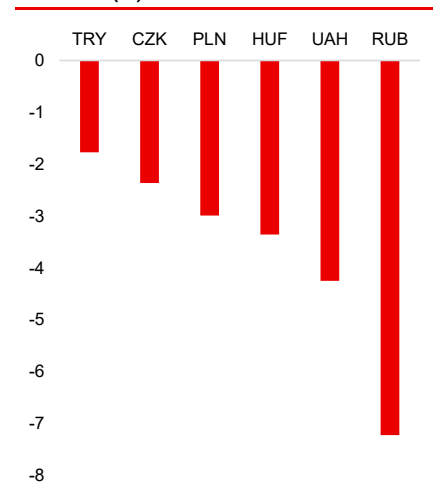
### Economy next week

- Already one month ago [we have argued](#) that the shelf life of economic forecasts has dramatically decreased. The Russian invasion on Ukraine caused that even predicting market trends one week ahead is a big challenge. The key issue is what happens next with Russia-Ukraine conflict. We know that Russia is trying to capture Kyiv and probably would try to install the new government, but predicting next developments is difficult. More sanctions from the West are likely but we do not know what will be Russia's response.
- As regards the possible impact of Russian aggression on the Polish economy, it is still too early for precise numbers in our view, but the direction seems obvious: **weaker economic growth and higher inflation**. One consequence, already visible, will be higher prices of energy commodities and food. We can also assume with high probability that trade with Ukraine and Russia will suffer (our exports to these countries is worth c.3% of GDP, imports c.5% of GDP). Poland exports to those countries lots of chemical products (perfumes in particular), medical equipment, machinery for agriculture. Poland receives energy commodities, metals, food and wood. During the previous conflict in 2014 the scale of the decline in foreign trade was 10-20%. This time it can be larger due to broader military activity and tougher sanctions. Next week we plan to release the update of MACROscope Lite report with the new forecasts for Polish economy.
- Next week two major data releases in Poland are scheduled: **4Q21 GDP (Monday) and manufacturing PMI (Tuesday)**. According to flash data GDP growth reached 7.3% y/y and 1.7% q/q (s.a.) and now we will see its breakdown. The data for the entire year (which we [commented here](#)) suggested that the breakdown was somewhat disappointing, in particular as regards private consumption; more than half of GDP growth was generated by stockbuilding. PMI index may increase slightly, in our view, just like other indices of economic climate in February, confirming strong momentum in Polish industry (survey was probably completed before Russian invasion).
- There are numerous macro releases abroad: GDP, PMI, inflation in Europe; industrial orders, non-farm payrolls in the USA. Given the ongoing war in Ukraine the meaning of pre-invasion data will be lower than news regarding future developments, especially on energy and financial markets, and signals from central banks. Meeting of the **Bank of Canada** (Wednesday) may probe an important signal – no hike or a lower scale (market is pricing in over +25bp) could support expectations that other big banks will follow suit.

### Markets next week

- After a strong negative reaction on Thursday, the CEE currencies managed to stabilise. We are not convinced that the worst for the FX market is over – much depends on further actions of Russia and markets' reaction. If the geopolitical tension escalates, the zloty may be vulnerable to a further sell-off, in our view. Firstly, Polish currency is often treated as a proxy for the region (due to the relatively high liquidity of the market), so it's an obvious candidate to short for those who bet on conflict escalation, especially if ruble trading is compromised by sanctions. Secondly, the current account has just moved from record-high surplus to record-high deficit (€4bn in December), making the economy more vulnerable to capital outflows. **We assume that EURPLN may remain in 4.60-4.70 range in the coming weeks**, with volatility likely to remain elevated.
- Yields of domestic bonds jumped higher despite stronger core bond markets and we assume that to see a recovery we will have to wait for a significant decrease of geopolitical risk. **There is a natural tendency for domestic curves to flatten or even invert**, due to rising market expectations for rate hikes in the short term (FRA3x6 above 5.0%) and the growing probability of rate cuts later, when the economy starts to slow down.

Emerging markets currencies with the highest loss of value vs USD, in the period 18-25 Feb (%)

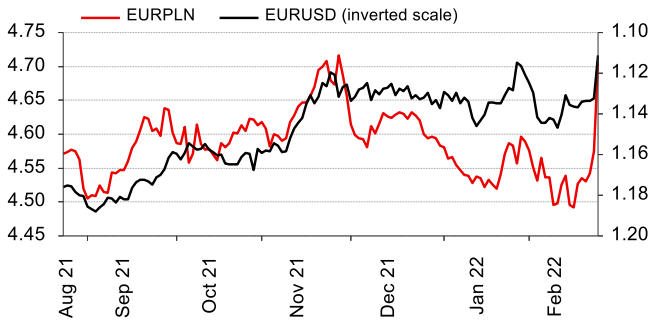


Source: Bloomberg, Santander

### Economic Analysis Department:

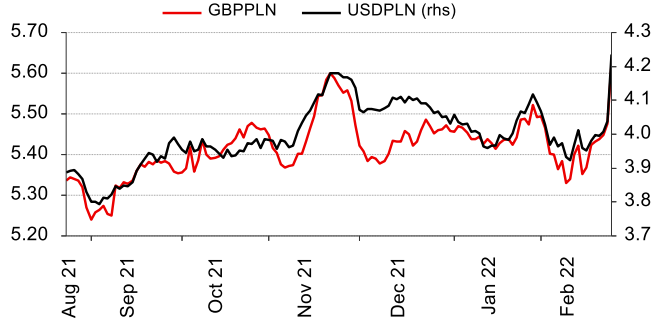
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### EURPLN and EURUSD



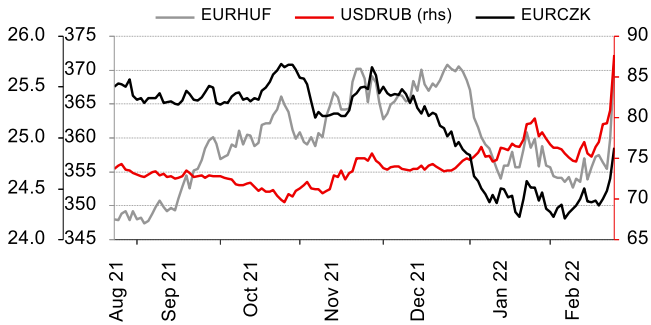
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



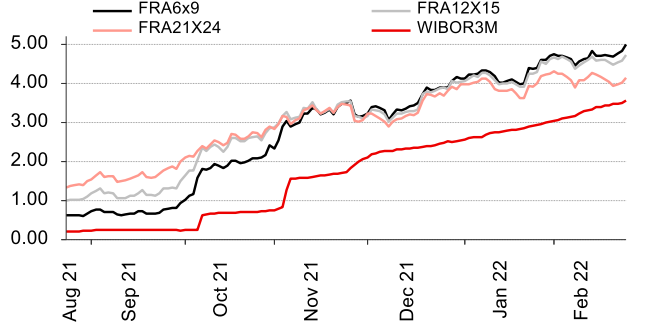
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



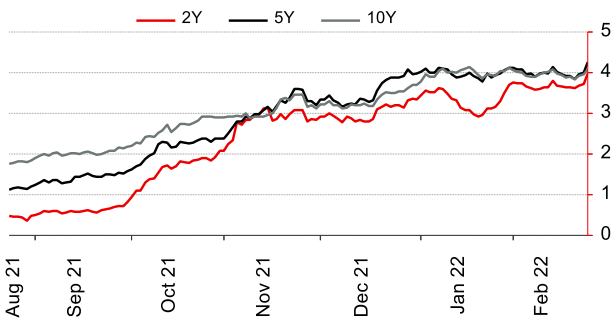
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



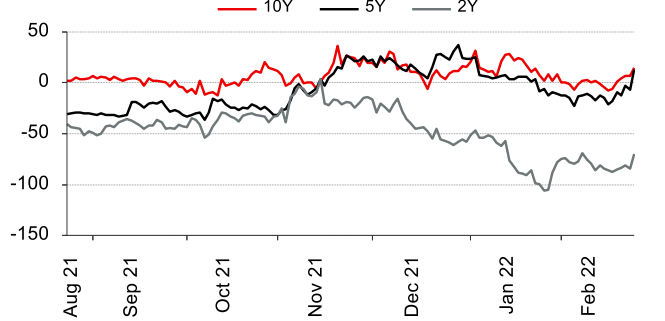
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



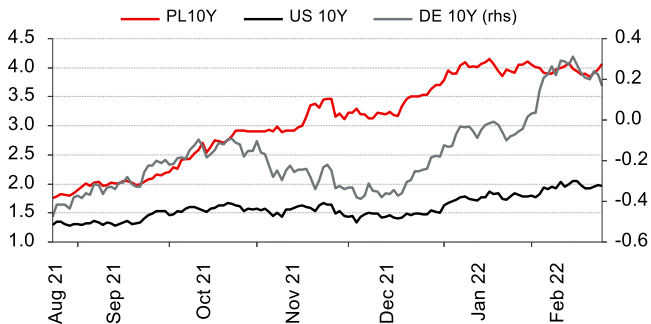
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



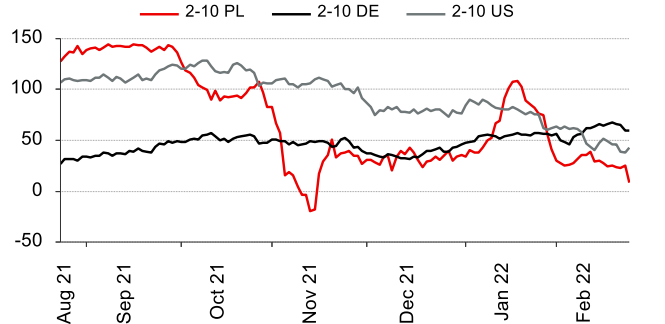
Source: Refinitiv Datastream, Santander Bank Polska

### 10Y bond yields



Source: Refinitiv Datastream, Santander

### Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
<b>MONDAY (28 February)</b>							
10:00	PL	GDP	4Q	% y/y	7.3	7.3	5.3
<b>TUESDAY (1 March)</b>							
09:00	CZ	GDP SA	4Q	% y/y	3.6	-	3.6
09:00	PL	Poland Manufacturing PMI	Feb	pts	-	54.9	54.5
09:55	DE	Germany Manufacturing PMI	Feb	pts	58.4	-	59.8
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	57.7	-	58.7
14:00	DE	HICP	Feb	% m/m	0.7	-	0.9
16:00	US	ISM manufacturing	Feb	pts	58.0	-	57.6
<b>WEDNESDAY (2 March)</b>							
09:00	HU	GDP	4Q	% y/y	7.2	-	6.1
11:00	EZ	Flash HICP	Feb	% y/y	5.3	-	5.1
14:15	US	ADP report	Feb	k	310.0	-	-301.0
<b>THURSDAY (3 March)</b>							
02:45	CN	Caixin China PMI Services	Feb	pts	50.8	-	51.4
09:55	DE	Markit Germany Services PMI	Feb	pts	56.6	-	52.2
10:00	EZ	Eurozone Services PMI	Feb	pts	55.8	-	51.1
11:00	EZ	Unemployment Rate	Jan	%	7.0	-	7.0
14:30	US	Initial Jobless Claims		k	235.0	-	232.0
16:00	US	ISM services	Feb	pts	60.9	-	59.9
16:00	US	Factory Orders	Jan	% m/m	0.5	-	-0.4
<b>FRIDAY (4 March)</b>							
08:00	DE	Exports SA	Jan	% m/m	1.0	-	0.9
09:00	HU	Industrial Production SA	Jan	% y/y	-	-	3.6
11:00	EZ	Retail Sales	Jan	% m/m	1.5	-	-3.0
14:30	US	Change in Nonfarm Payrolls	Feb	k	400.0	-	467.0
14:30	US	Unemployment Rate	Feb	%	3.9	-	4.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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