

04 March 2022

# Weekly Economic Update

## The war remains a crucial factor for the markets

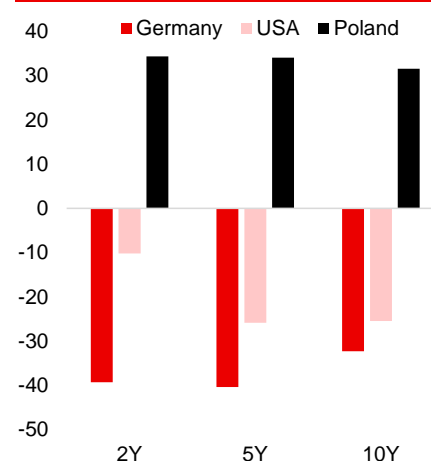
### Economy next week

- The war in Ukraine and its consequences, including the sanctions imposed on Russia and disturbance of commodity markets remain the key factor for the markets. Global risk aversion prevails and data that would normally affect the markets go unnoticed or have marginal impact. It seems next week will look the same.
- When it comes to the impact of the conflict on the Polish economy, in the new edition of our [monthly report MACROscope](#), titled "New month – new reality" we showed updated forecasts including 2022 GDP growth reduced to 3.5% from 4.7%. At the same time we have kept the assumptions about monetary policy outlook unchanged.
- In general, a division has appeared among major central banks of late: some are registering higher uncertainty due to the war in Ukraine, but decide to follow the preset path anyway, others are considering a delay in their policy normalisation plans, even fater taking into account that the conflict means higher inflation. The first group includes the Fed, which is focusing on fight against inflation, still plans to start hiking rates in March and according to Jerome Powell may even consider moves larger than 25bp in the following months (this is why Thursday US CPI for February and Friday flash reading of Michigan consumer confidence index for March may be interesting). The first rate hike was approved in the passing week by Canada. The second group comprises the ECB, judging by recent remarks by its speakers, stressing the need for flexible approach and as Philip Lane put it, ready to do whatever is needed due to the conflict. We do not expect to see at the **ECB meeting** on Thursday a further preparation of the markets for withdrawal of the bank from ultra-loose monetary policy but instead we may hear about the need to remain cautious.
- The only important local event of the coming week will be the **MPC meeting**. In our view a 50bp rate hike will be delivered. On the one hand weaker growth prospects support a lower interest rate path, on the other hand the risk of the depreciation of the zloty supports higher rates. We think with these two opposing forces it still makes sense to follow the path set earlier. We cannot however exclude that the MPC may see one of these risks as superior and would thus change the current stance. This time the Council will get a new NBP staff projection, possibly including an assessment of the macroeconomic impact of the war.

### Markets next week

- This week's quickly growing depreciation of the CEE currencies was mostly the result of developments in Ukraine. Central banks tried to protect their currencies with FX interventions (Poland, Czechia) and rate hikes (Hungary unexpectedly hiked 1W deposit rate by 75bp). While most likely without these actions the CEE currencies would have it even worse, it is hard to expect an end to their sell-off when the factor causing it is likely to still be present next week. **We have to consider that EURPLN will be pushed further up towards 5.00**, but at the same time we assume that any positive news regarding the war (e.g. coming after the third round of Russia-Ukraine negotiations to be held during the weekend) there may be a sudden strengthening of the zloty. We think the zloty may also get some support from the central bank communication stressing the scope for more rate hikes and continued readiness to intervene on the FX market.
- The whole domestic yield curve moved higher during the passing week by more than 30bp, with more than 20bp added on Friday alone. At the same time yields on core markets dropped substantially (10-25bp in the US, 30-40bp in Germany). The shift of the domestic market occurred in very poor liquidity conditions and **a potential return of normal trading should allow for a reversal of a large part of the recent rise of yields. However in this case too a signal is needed in the form of positive news regarding the conflict.**

Change of government bond yields, 25 February – 4 March (bp)

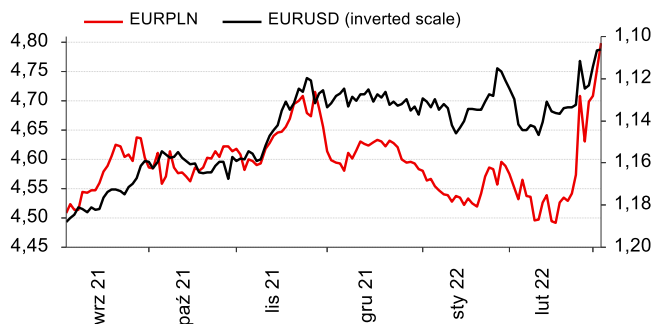


Source: Bloomberg, Santander

### Economic Analysis Department:

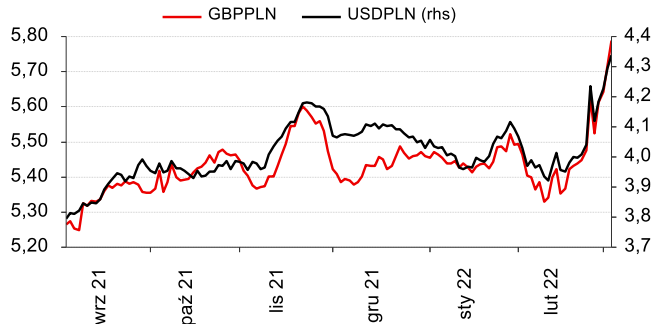
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### EURPLN and EURUSD



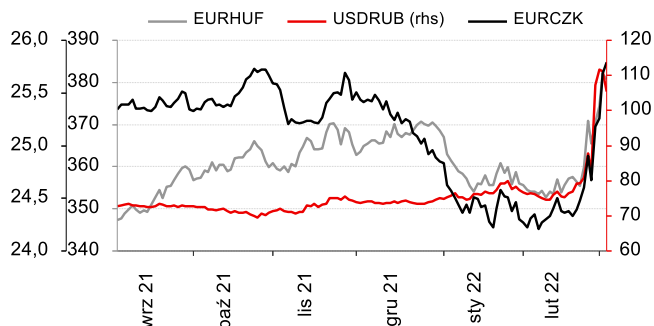
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



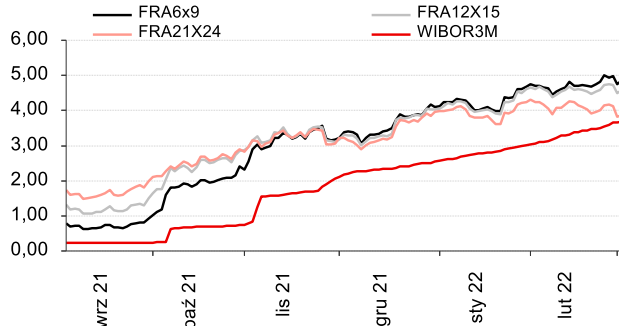
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



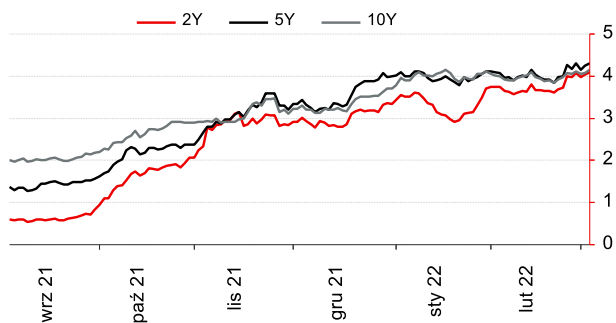
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



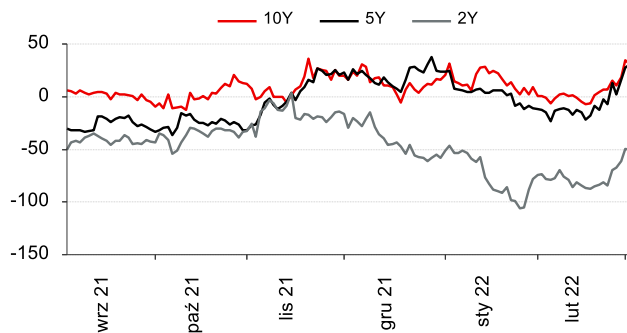
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



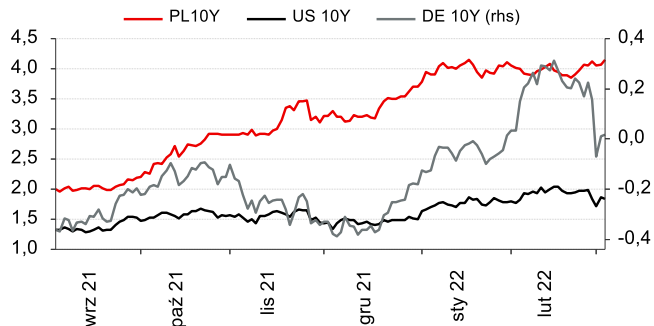
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



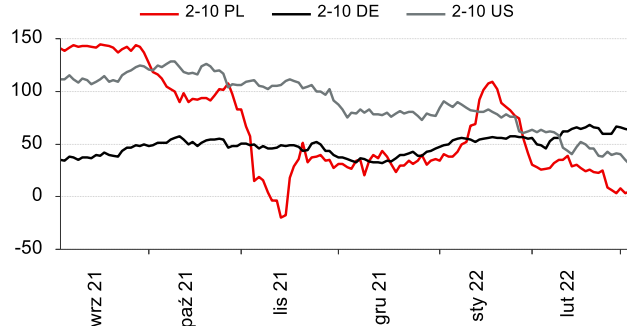
Source: Refinitiv Datastream, Santander Bank Polska

### 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 (7 March)</b>						
08:00	DE	Factory Orders	Jan	% m/m	1.0	2.8
08:00	DE	Retail Sales	Jan	% m/m	1.5	-4.6
<b>TUESDAY (8 March)</b>						
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>3.25</b>	<b>3.25</b>
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	-0.3
11:00	EZ	GDP SA	4Q	% y/y	4.6	4.6
<b>WEDNESDAY (9 March)</b>						
09:00	HU	CPI	Feb	% y/y	8.1	7.9
<b>THURSDAY (10 March)</b>						
09:00	CZ	CPI	Feb	% y/y	10.4	9.9
09:30	HU	1W deposit rate		%	-	5.35
13:45	EZ	ECB Main Refinancing Rate		%	0.0	0.0
<b>14:00</b>	<b>PL</b>	<b>MPC minutes</b>	<b>8.02.2022</b>			
14:30	US	CPI	Feb	% m/m	0.8	0.6
14:30	US	Initial Jobless Claims	week	k	225.0	215.0
<b>FRIDAY (11 March)</b>						
08:00	DE	HICP	Feb	% m/m	0.9	0.9
09:00	CZ	Industrial Production	Jan	% y/y	-	0.4
16:00	US	Michigan index	Mar	pts	62.8	67.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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