

25 March 2022

Weekly Economic Update

Inflation does not give up

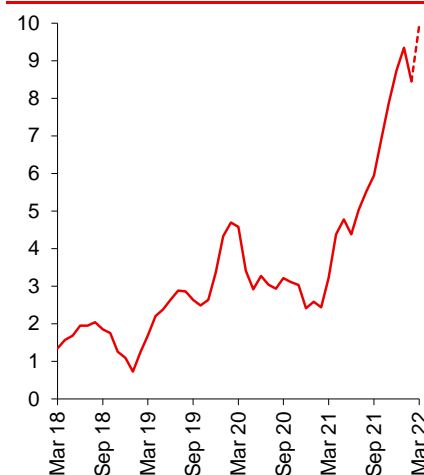
Economy next week

- This week we have to wait until Friday to see domestic data: **Manufacturing PMI index**, which is to show the impact of the war on business climate (we are expecting a major drop, but the index is likely to stay above 50pts, in our view), and **CPI inflation** in March. We bet on a jump in CPI to 10.0% r/r and fuel prices will be the main factor behind it, as they increased by about 30% m/m in March. Moreover, S&P is scheduled to review Poland's sovereign rating on Friday – at the end of February the agency signalled that the rating would be under pressure if EU transfers are blocked. This issue is still ongoing and the European Commission might soon make a conciliatory gesture towards the Polish government by approving the country's recovery plan. The local market will be eyeing potential news about the approval. Information about the war and sanctions against Russia can also be important.
- In the USA we will get to see key data on **non-farm payrolls** (NFP) and ISM for manufacturing (Friday), earlier PCE inflation (favourite Fed measure), personal incomes and spending (Thursday) as well as ADP report (recently it was not a good forecast of NFP), another GDP revision for 4Q21 (Wednesday) and Conference Board consumer optimism (Tuesday). In other words – a lot of data which can affect the market pricing of interest rates in the USA.
- Other macro releases this week are: final manufacturing PMIs in Europe, ESI optimism indices and some important data from Germany – retail sales and HICP inflation. We will also see the first estimate of **euro zone inflation** in March after its surprisingly strong jump in February to 5.8%. Range of forecasts for the March reading is huge: between 5.9% and 7.7%, twice as wide as in February. EU-China virtual summit is scheduled for Friday. Aim is to find political leverage to affect Russia.
- On Thursday **OPEC+** is making decision on supply plans for May. At the previous 2 March meeting, which was extraordinarily short, the issue of war in Ukraine and impact of sanctions on Russian oil supply were not even discussed. The cartel remained indifferent to Europe's and USA's diplomatic attempts as well as appeal of the International Energy Agency to increase output given oil market destabilisation. Markets are recently vulnerable to changes in oil prices, as this is an important factor for global stagflation risk assessment.
- On 30 March Jerzy Żyżyński's term in the MPC is coming to an end and we still do not know who the replacement is. Clearly, the Sejm is lagging behind with filling posts in the MPC. One of the seats vacated on 9 February still remains unfilled.

Markets next week

- In the passing week trading on CEE currencies was much quieter. It seems that despite the ongoing war in Ukraine, the market attention has started to move to other issues. The lack of Europe's will to immediately stop importing Russian energy commodities, mentioned on many occasions, was apparently read as a signal that the shock to the global economy caused by the conflict may not become any more harmful. The US president's visit and announcement of Europe's quick resupply in US natural gas may make investors even more convinced about this. The Thursday depreciation of the zloty by more than 0.05PLN vs. the euro and its Friday retracement were a reminder of how volatile the market is. The issue of Polish recovery plan approval is still live and in our view still creates potential for EURPLN to drop below 4.68. **We still think that in a relatively short time the exchange rate could fall inside the 4.60-4.65 range**, especially if inflation beats forecasts again.
- The wave of demand for POLGBs did not last long and the passing week was already dominated by yields going up again, by 60-70bp in total. The good part is that this time this was not a panic-driven sale of local assets, the bad part is – as we warned a week ago – that the issue of growing fiscal easing has started to weigh on bonds and the recent auctions are showing that it may not be that easy to get the additional financing. Our estimates of general government deficit are already slipping above 4% of GDP. **This week the upside pressure on yields** may also be caused by the upcoming March CPI print.

CPI inflation in Poland, % y/y

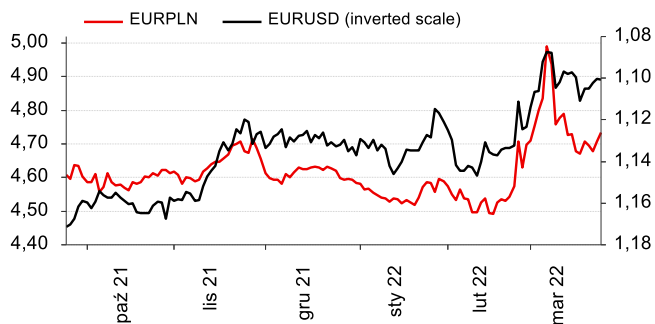


Source: GUS, Santander

Economic Analysis Department:

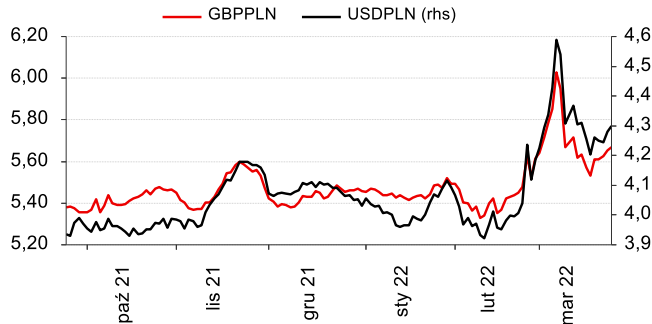
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Marcin Luźniński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



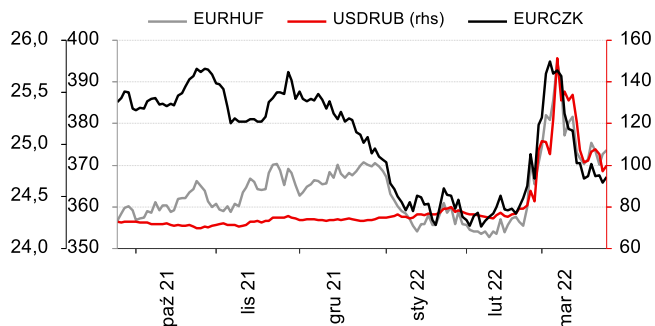
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



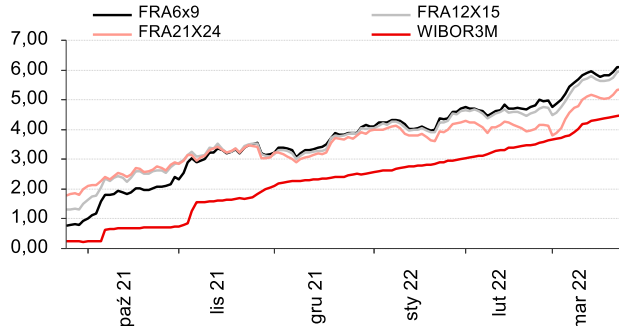
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



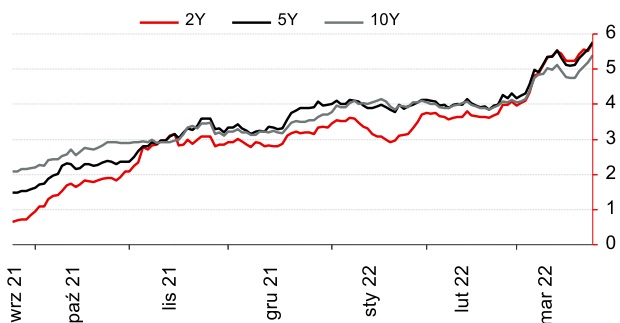
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



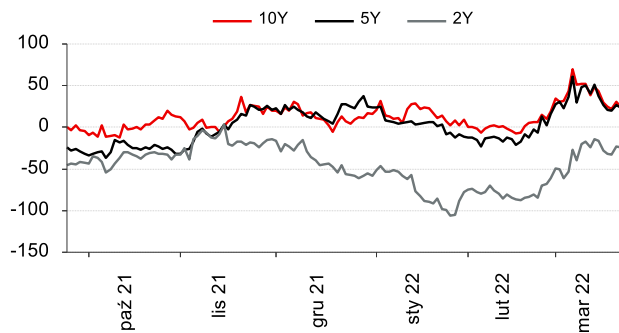
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



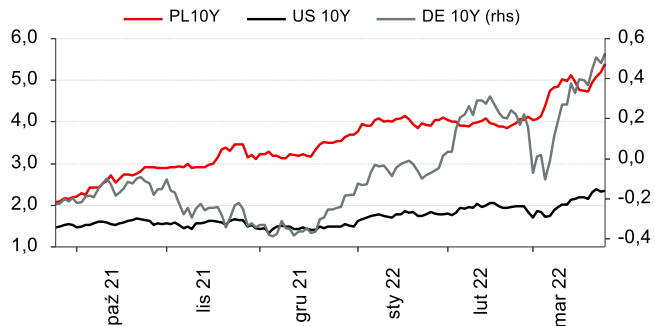
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



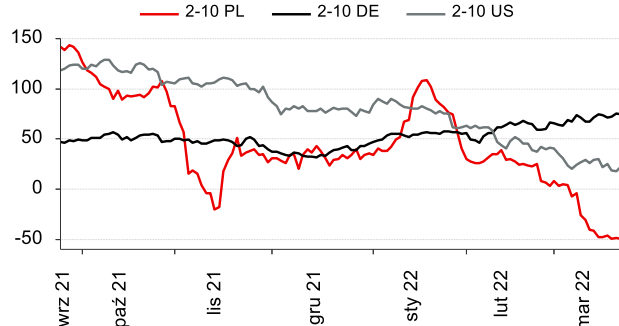
Source: Refinitiv Datastream, Santander Bank Polska

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		
TUESDAY (29 March)							
16:00	US	Consumer Conference Board	Mar	pts	107.8	-	110.5
WEDNESDAY (30 March)							
11:00	EZ	ESI	Mar	pct.	109.7	-	114.0
14:00	DE	HICP	Mar	% y/y	6.6	-	5.5
14:15	US	ADP report	Mar	k	425.0	-	475
14:30	US	GDP Annualized	4Q	% Q/Q	7.1	-	2.3
THURSDAY (31 March)							
03:30	CN	China Manufacturing PMI	Mar	pts	50.0		50.2
08:00	DE	Retail sales	Feb	% y/y	6.1		10.4
09:00	CZ	GDP SA	4Q	% y/y	3.6	-	3.5
11:00	EZ	Unemployment Rate	Feb	%	6.7	-	6.8
13:30	US	Initial Jobless Claims		k	200.0	-	187
14:30	US	Personal Spending	Feb	% m/m	0.5	-	2.1
14:30	US	Personal Income	Feb	% m/m	0.5	-	0.0
14:30	CZ	Central Bank Rate Decision			5.0	-	4.5
14:30	US	PCE Deflator SA	Feb	% y/y	6.4	-	6.1
FRIDAY (1 April)							
09:00	PL	Poland Manufacturing PMI	Mar	pts	52.7	52.0	54.7
09:30	DE	Germany Manufacturing PMI		pts	57.6	-	57.6
10:00	EZ	Eurozone Manufacturing PMI		pts	57.0	-	57.0
10:00	PL	CPI	Mar	% y/y	9.8	10.0	8.5
11:00	EZ	Flash HICP	Mar	% y/y	6.5	-	5.8
14:30	US	Change in Nonfarm Payrolls	Mar	k	475	-	678
14:30	US	Unemployment Rate	Mar	%	3.7	-	3.8
16:00	US	ISM manufacturing	Mar	pts	58.4	-	58.6
	PL	Poland's rating review by S&P					

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.