

Weekly Economic Update

What does MPC say to double-digit CPI?

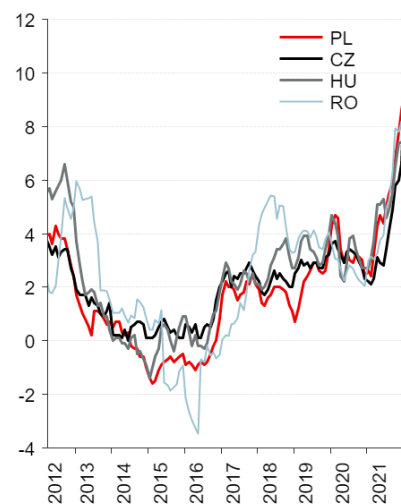
Economy next week

- After Polish inflation went through the roof, going up to 10.9% y/y in March (the m/m inflation exceeded 3% for the first time since mid-90s) the focus will be back to monetary policy. The **MPC** decides on Wednesday (as always, the decision time is unknown) and the governor will likely hold a press conference on Thursday afternoon. Another strong upside surprise from CPI, which was based not only on the shocking rise of fuel, energy and food, but also on a further increase of core inflation (our estimates point to 6.8-6.9% y/y in March) leaves no doubt that rate hikes will be continued at the meeting. What will be important however, is the scale of the move and communication regarding further actions. A month ago when the zloty was under heavy pressure due to risk aversion just after the outbreak of the war in Ukraine, the MPC hiked rates by 75bp and governor Glapiński called himself 'a hawk leading a kettle of hawks'. As the zloty was getting stronger in the weeks that followed, the kettle got more dovish – some members considered returning to smaller steps of 50bp. We think that the very high inflation and the growing scale of fiscal expansion with every government announcement advocate the continuation of rate hikes by 75bp (this is our call for this meeting). FRA market seems also to be pricing such scenario, but the consensus among analysts is +50bp.
- The **MPC will meet** in reduced numbers, as the Sejm failed to fulfil its obligation to fill in two vacancies. Still, the power balance remains unchanged in the Council.
- Apart from interest rate, also the fate of **Polish Recovery Plan** may be important for the market. Recently media informed that the Commission might accept the Plan on 9 April during Ursula von der Leyen's visit in Poland. Today this information was denied by deputy minister Waldemar Buda, who saw end of June as viable deadline for the Plan's approval. Let us once again remind that the approval itself is not enough to disburse the funds – the parliament has to approve several bills, and e.g. dismiss the Disciplinary Chamber of the Supreme Court. The legislative process in this matter should be eyed. So far, instead of getting on a fast track it got side-lined again (e.g. meeting of justice committee on Thursday was cancelled). Sejm is meeting on 6-7 April and maybe this event will show whether there is any change in this issue.
- **Parliamentary election in Hungary** this weekend. The ruling party has increased its lead against united opposition and is headed for another victory. Election results will be important for the development of EU – Hungary/Poland conflict on rule of law. It can also affect Polish government's strategy in this matter.
- The only domestic data release is **NBP reserve assets** in March. These numbers may help assess the scale of NBP interventions in defence of the zloty. Abroad we will get to see services PMIs, data on output and orders in Europe, Fed minutes.

Markets next week

- The FX market has stabilised over the last few days and such a situation can last until the MPC meeting (given no escalation in Ukraine). **EURPLN can attempt to reach the lower boundary of 4.60-4.65 range**, especially if there are any signals that the works on bill dismissing the Disciplinary Chamber are advancing. A hike by 50bp can be a temporary disappointment, but even if, then – similarly as one month before – on Thursday we are likely to see a very hawkish message of the NBP president. The question is whether the NBP president will be able to convince the market after a disappointing hike.
- After the temporary relief on the bond market we expect a **return of yields to the upside trend**, following core markets, pressured by the CPI print and expectations regarding the upcoming MPC meeting. The 2Q POLGB issuance plan announced by the Finance Ministry does not look excessive, especially when considering large redemptions. In April alone the redemptions will be worth PLN22bn of which PLN7.3bn are papers held by the NBP. At the same time the MinFin wants to offer a total of PLN5-12bn at two auctions. It would be nice to hear from Adam Glapiński a hint of what the NBP wants to do with the maturing part of its QE portfolio. We think the central bank will not to a rollback.

CPI inflation in CEE countries, % r/r

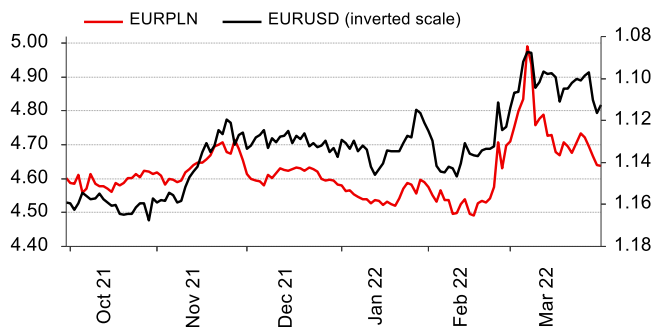


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

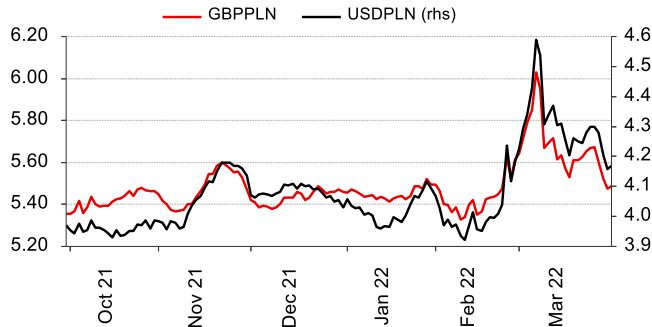
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Marcin Luźniński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



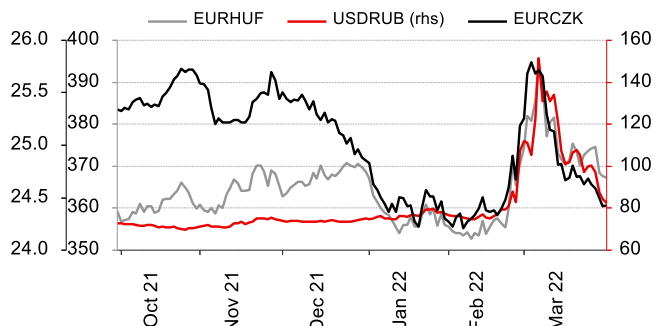
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



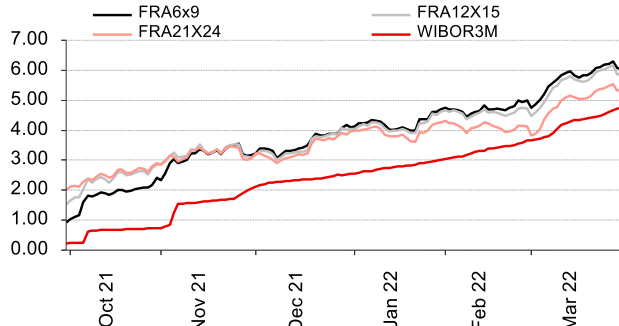
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



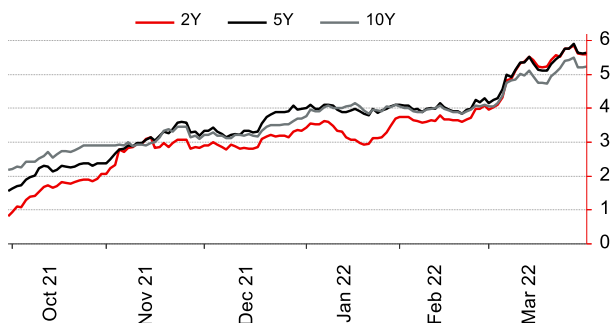
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



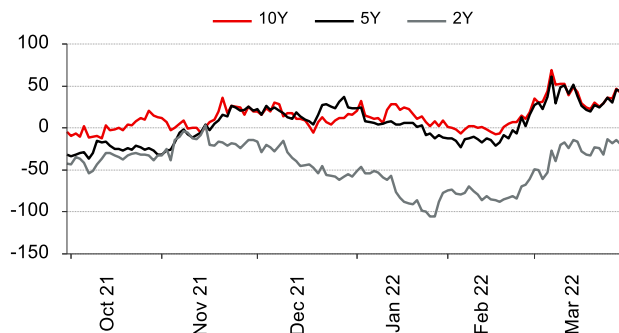
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



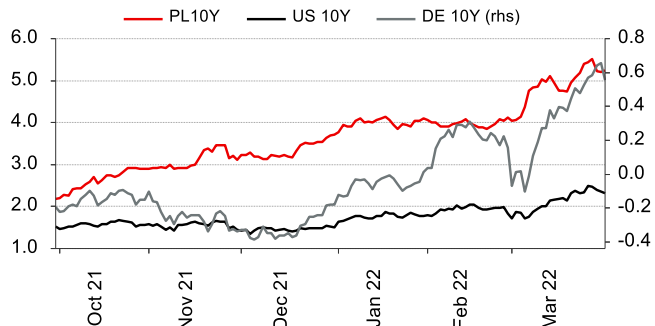
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



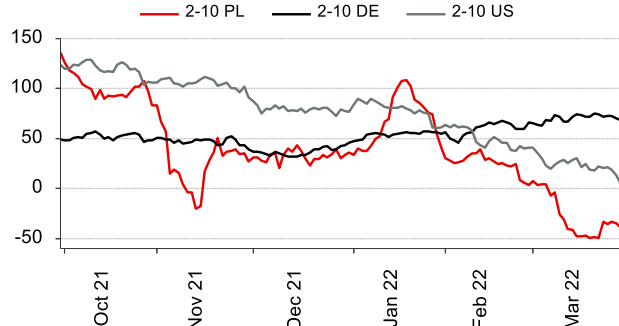
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTR Y	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (4 April)							
08:00	DE	Exports SA	Feb	% m/m	-	-	-3.0
16:00	US	Durable Goods Orders	Feb	% m/m	-2.2	-	-2.2
16:00	US	Factory Orders	Feb	% m/m	-0.6	-	1.4
TUESDAY (5 April)							
09:00	HU	Industrial Production SA	Feb	% y/y	-	-	7.1
09:55	DE	Markit Germany Services PMI	Mar	pts	55.0	-	55.8
10:00	EZ	Eurozone Services PMI	Mar	pts	54.8	-	55.5
16:00	US	ISM services	Mar	pts	58.6	-	56.5
WEDNESDAY (6 April)							
	PL	MPC decision		%	4.0-	4.25	3.50
03:45	CN	Caixin China PMI Services	Mar	pts	49.8	-	50.2
08:00	DE	Factory Orders	Feb	% m/m	-0.4	-	1.8
09:00	CZ	Industrial Production	Feb	% y/y	-	-	3.7
20:00	US	FOMC Meeting Minutes	16 Mar				
THURSDAY (7 April)							
08:00	DE	Industrial Production SA	Feb	% m/m	0.1	-	2.7
11:00	EZ	Retail Sales	Feb	% m/m	0.6	-	0.2
14:30	US	Initial Jobless Claims	Apr.22	k	-	-	202
FRIDAY (8 April)							
09:00	HU	CPI	Mar	% y/y	8.9	-	8.3

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.