

# Weekly Economic Update

## Imbalances keep growing

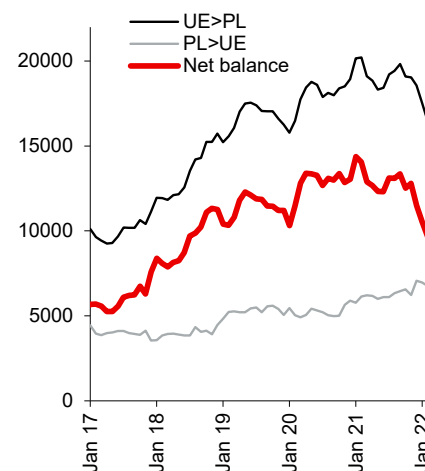
### Economy next week

- Just after the weekend the key issue for markets may be the results of the first round of presidential elections in France. The final verdict will be probably known after the second round in two weeks, but the result of weekend vote could change probabilities of different scenarios, thus affecting market sentiment. In recent weeks Emmanuel Macron's lead over Marine Le Pen has been shrinking and yesterday one poll was showing that their odds in the second round got even. News from France could have major impact on the euro, and indirectly also on the zloty.
- Agenda of economic data releases is not particularly busy, but there will be important numbers. Inflation data will be released in a number of countries: on Monday in Czechia, Tuesday in Germany and USA, Friday in Poland. Flash CPI print for Poland jumped to 10.9% y/y and we expect this level to be confirmed by the final data. Also, it should confirm that apart from spike in prices of fuel, energy and food, core inflation kept rising in March.
- Polish balance of payments for February (on Wednesday) is likely to show another big deterioration of current account – our forecast –€2.4bn, consensus –€2bn; 12M moving sum at c. -1.6% of GDP. Weak result is not only the effect of worsening trade deficit and lower services surplus, but also slowing inflow of EU funds to Poland. In February the net flow of EU money was negative (we paid more than received) at –€280m, the lowest since December 2015.
- Rising inflation, deepening current account deficit and looming fiscal imbalance are all reflecting the building macroeconomic imbalance, contradicting yesterday's claims of NBP president that the economy is very well balanced.
- At the end of the week market activity will stall due to looming Easter break; in some countries Thursday and Friday will be already market holidays.

### Markets next week

- EURPLN has been hovering in a range 4.61-4.66 for over a week. The zloty attempts to get stronger proved not very successful and short-lived, even the strong 100bp rate hike and NBP's hawkish message failed to move the equilibrium point persistently. It is to large extent the result of unfavourable environment (Czech koruna and forint fared even worse). We think that risks for the coming week are tilted more towards weaker than stronger zloty: weak balance of payments data, ECB delaying the policy tilt and earlier potentially negative for euro results of French elections – all those factors will not be supportive for the Polish currency. EURPLN may head again towards 4.70.
- On the bond market it is difficult to point what exactly could stop the upward trend in yields. Market expectations for NBP rate hikes have strengthened, bonds in the core markets are weakening. On Tuesday the Finance Ministry's bond auction takes place, which will be an important test of market sentiment. Planned supply is at PLN2-4bn, which seems a small amount given large redemptions later this month (over PLN20bn). However, the demand for Polish bonds has been weak as of late and it seems the ministry also feels this way, as it prefers to place increasing amounts of debt outside the market (by handing government bonds directly to the public institutions – already PLN8bn since the start of the year). The budget net borrowing needs for this year may be higher by c.PLN60bn vs the original plan, in our view. Sooner or later it will have to trigger higher supply of POLGBs. The question who buys later this year and at what price.

Financial flows between Poland and EU, 12M moving sum, EURm

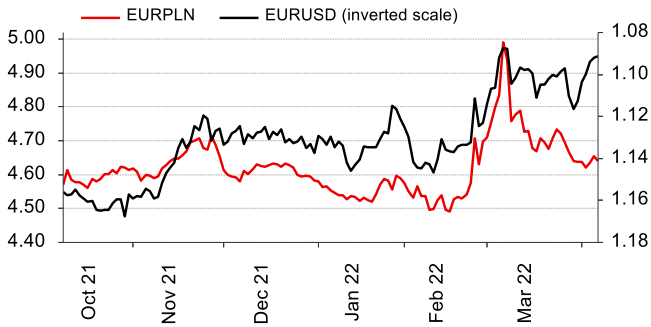


Source: Finance Ministry, Santander

### Economic Analysis Department:

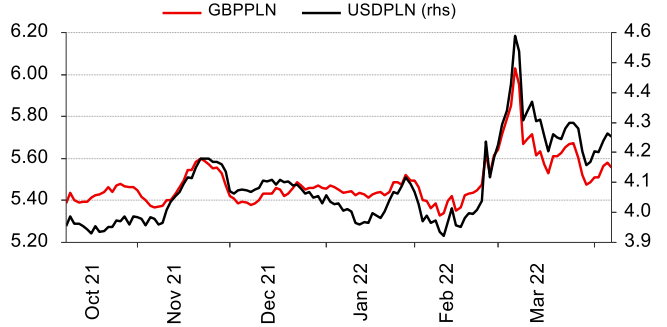
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### EURPLN and EURUSD



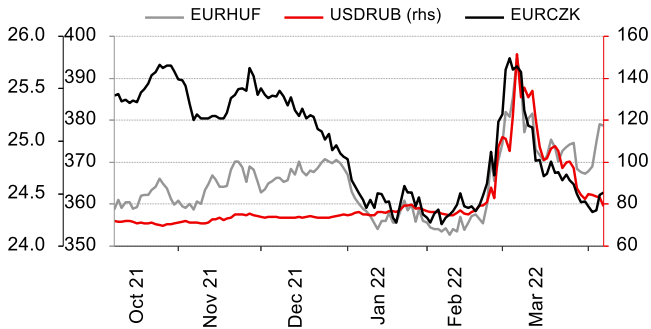
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



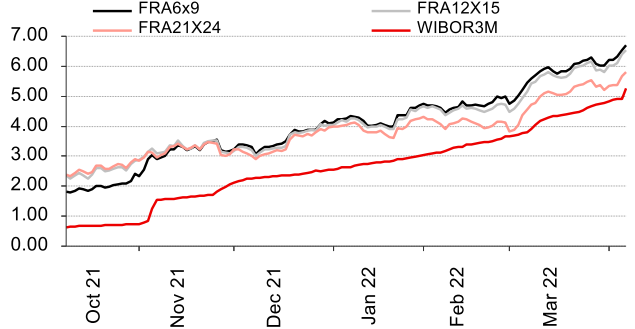
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



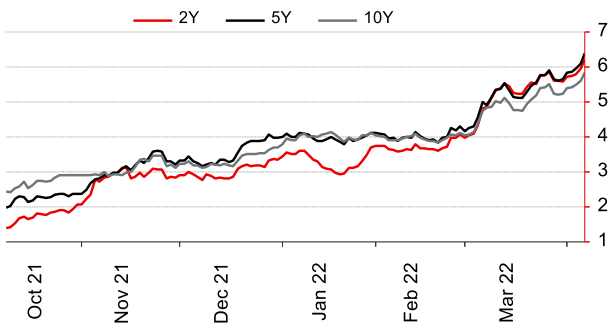
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



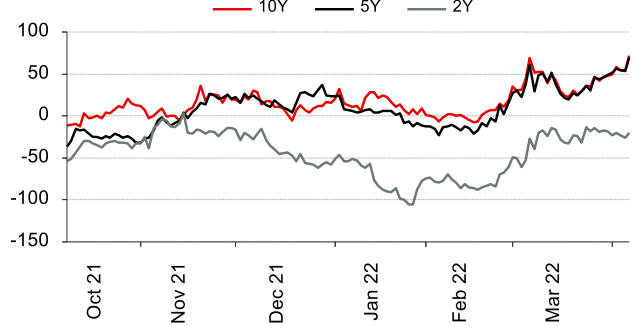
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



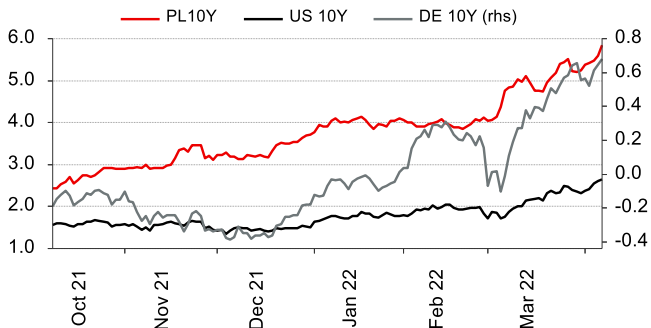
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



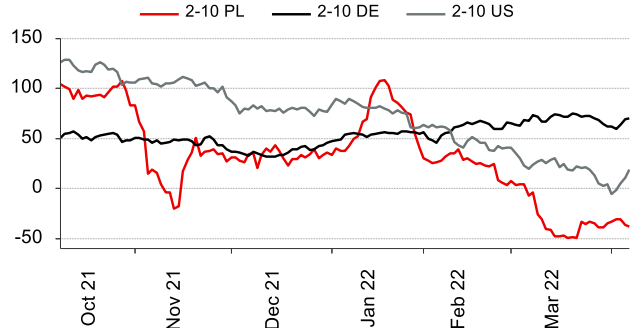
Source: Refinitiv Datastream, Santander Bank Polska

### 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 (11 April)</b>							
09:00	CZ	CPI	Mar	% y/y	12.2	-	11.1
<b>TUESDAY (12 April)</b>							
08:00	DE	HICP	Mar	% m/m	2.5	-	0.9
11:00	DE	ZEW Survey Current Situation	Apr	pts	-35.0	-	-21.4
14:30	US	CPI	Mar	% m/m	1.2	-	0.8
<b>WEDNESDAY (13 April)</b>							
11:00	EZ	Industrial Production SA	Feb	% m/m	0.0	-	0.0
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>Feb</b>	<b>€mn</b>	<b>-2049</b>	<b>-2395</b>	<b>-64</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>Feb</b>	<b>€mn</b>	<b>-1541</b>	<b>-1503</b>	<b>-1186</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Feb</b>	<b>€mn</b>	<b>26094</b>	<b>26368</b>	<b>24669</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Feb</b>	<b>€mn</b>	<b>27670</b>	<b>27871</b>	<b>25855</b>
<b>THURSDAY (14 April)</b>							
13:45	EZ	ECB Main Refinancing Rate	Apr.22	%	0.0	-	0.0
14:30	US	Initial Jobless Claims		k	200	-	166
14:30	US	Retail Sales Advance	Mar	% m/m	0.5	-	0.3
16:00	US	Michigan index	Apr	pts	58.8	-	59.4
<b>FRIDAY (15 April)</b>							
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Mar</b>	<b>% y/y</b>	<b>10.9</b>	<b>10.9</b>	<b>8.5</b>
15:15	US	Industrial Production	Mar	% m/m	0.4	-	0.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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