

Weekly Economic Update

MPC to remain on pause

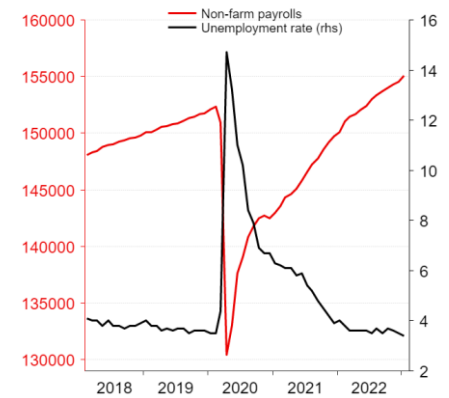
Economy next week

- The calendar of events over the next week will be rather light. On the domestic front, the MPC decision (Wednesday) will be in the spotlight, followed by the conference of the NBP president (due probably on Thursday at 15:00 CET). On Tuesday, the Sejm session begins, at which the Senate's amendments to the Supreme Court Act will be considered (its enactment is a key milestone to unlock the EU financing of the National Recovery Plan).
- **Interest rates are likely to remain unchanged** for the fifth consecutive time and the Council will remain in a wait-and-see mode, looking out for more reliable signals from the economy on growth and inflation trends. The information that emerged recently has been mixed: the economy is decelerating more slowly than expected and a recession may be avoided, but at the same time, consumption dynamics have faded significantly and wage growth has disappointed, and the question is for how long. Commodity and energy prices are retreating, encouraging a descent from the peaks of the main inflation indicators in many countries, but at the same time measures of core inflation are generally showing much greater persistence. Analysts' forecasts for Polish inflation in January (publication in mid-February) are highly scattered (ranging from 16.1% to 20.5% y/y according to a Parkiet survey), which shows that uncertainty about how high the peak reading in February will be is also very high. On the part of MPC members (not only the ones chosen by the Senate), there have been signals in recent weeks cooling somewhat market expectations of possible interest rate cuts this year. On the other hand, the recent Fed and ECB conferences, interpreted by the markets as less hawkish, plus [Prime Minister Morawiecki's statement](#), on rate cuts being quite likely in 2023, pushed the market towards pricing in a renewed higher chance of a start of monetary easing before the end of this year. In our view, the NBP president will continue to avoid declaring the end of the monetary tightening phase, stressing that future MPC decisions will depend on incoming data and information.
- Abroad, the weekly schedule includes the publication of production and retail sales data in Europe, but also inflation data: from Czechia, Hungary and the publication from Germany, postponed by a week.
- On Thursday, the European Commission will publish the winter edition of its economic forecasts for Europe.

Markets next week

- The message from the press conferences of the major central banks reinforced the optimistic mood in global markets, strengthening the zloty and bonds. Yields fell to new local minima, contrary to the unwinding we had expected for some time. Only Friday's publication of US labour market data (much better than forecasts) triggered a correction, undermining market conviction in a rapid policy pivot by major central banks.
- **We see room for an increase in bond yields** in the coming week, firstly as a continuation of the markets' (including core markets) reaction to today's super-strong US labour market report, secondly on the potential wave of correction of, in our opinion, exaggerated market expectations for NBP interest rate cuts (provided that NBP President Glapiński's speech does not suddenly turn towards announcing cuts), and thirdly possibly in reaction to the delayed publication of German inflation data.
- Positive global sentiment and signs of the Polish economy's resilience to the slowdown helped EURPLN drop below 4.70, but now **we see potential for another upward move of EURPLN**, not least due to the dollar's appreciation against the euro. The outcome of the legislative process of the Supreme Court law could also be an important factor for the currency. If the Sejm passes the bill and the President signs it, it will be an important step forward towards unblocking the National Recovery Plan, which should support the PLN. In contrast, a disruption of the legislative process (e.g. in the form of a presidential veto) would work in the opposite direction.

US non-farm payrolls and unemployment rate

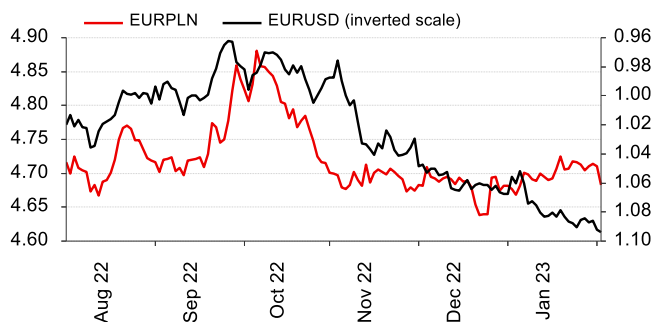


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

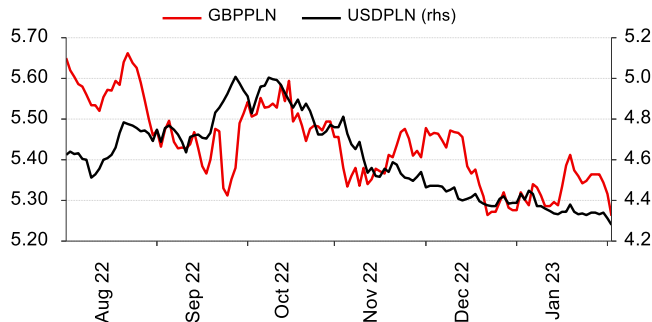
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EURPLN and EURUSD



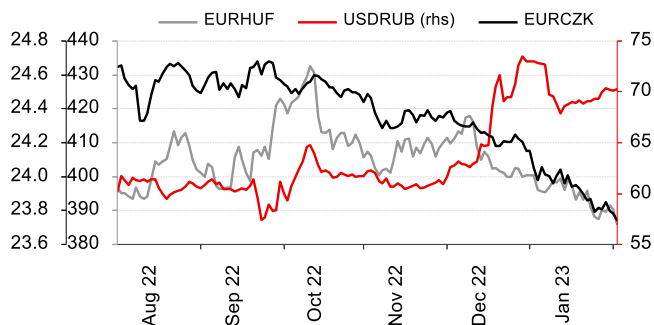
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



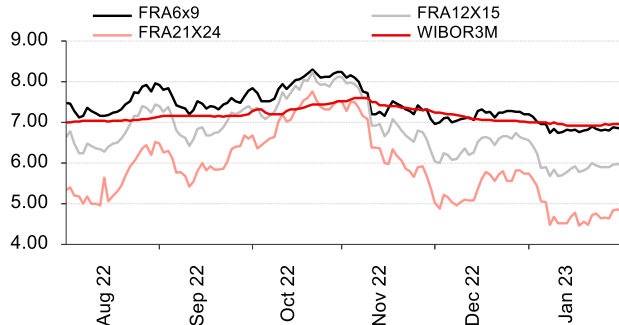
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



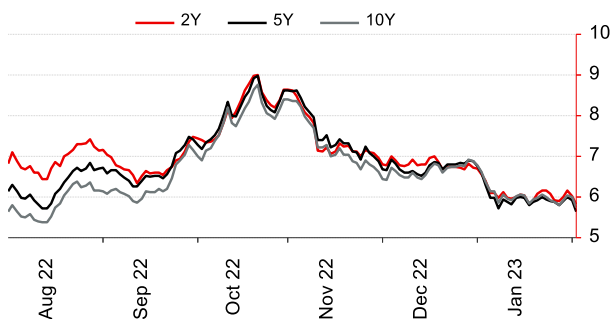
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PLN FRA and WIBOR3M



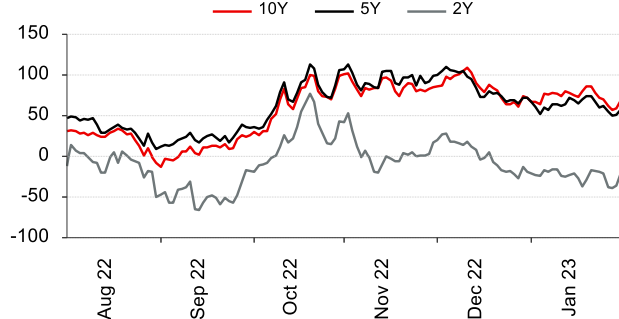
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Polish bond yields



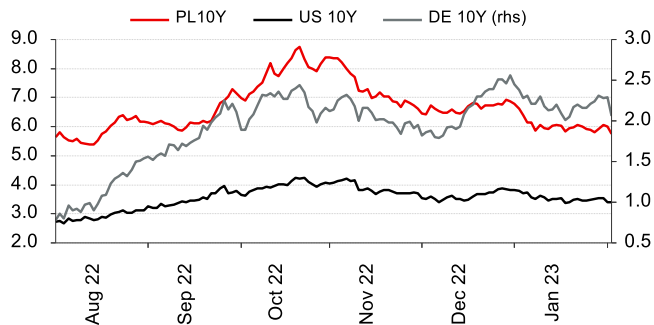
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



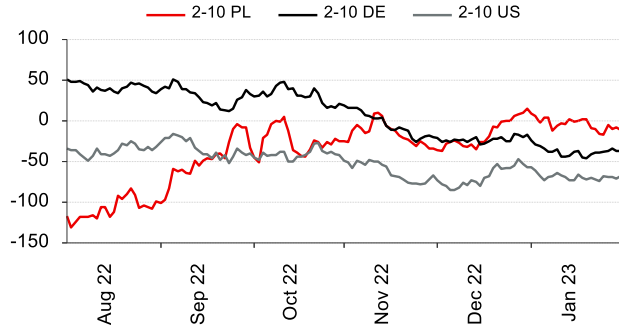
Source: Refinitiv Datastream, Santander Bank Polska

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 | | |
| MONDAY (6 February) | | | | | | | |
| 08:00 | DE | Factory Orders | Dec | % m/m | 2.0 | - | -5.3 |
| 09:00 | CZ | Industrial Production | Dec | % y/y | 3.3 | - | 0.5 |
| 11:00 | EZ | Retail Sales | Dec | % m/m | -2.5 | - | 0.8 |
| TUESDAY (7 February) | | | | | | | |
| 08:00 | DE | Industrial Production SA | Dec | % m/m | -0.8 | - | 0.2 |
| 08:30 | HU | Industrial Production SA | Dec | % y/y | -0.5 | - | 0.8 |
| WEDNESDAY (8 February) | | | | | | | |
| | PL | MPC decision | | % | 6.75 | 6.75 | 6.75 |
| THURSDAY (9 February) | | | | | | | |
| 08:00 | DE | HICP | Jan | % m/m | 1.4 | - | -1.2 |
| 14:30 | US | Initial Jobless Claims | | k | 195 | - | 183 |
| FRIDAY (10 February) | | | | | | | |
| 08:30 | HU | CPI | Jan | % y/y | 25.1 | - | 24.5 |
| 09:00 | CZ | CPI | Jan | % y/y | 17.1 | - | 15.8 |
| 16:00 | US | Michigan index | Feb | pts | 65.0 | - | 64.9 |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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