

10 February 2023

Weekly Economic Update

Fat week

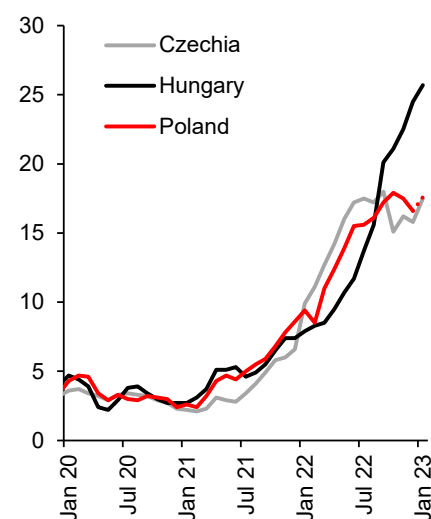
Economy next week

- It looks like the end of the carnival in Poland could be particularly interesting. While in the last few weeks the domestic market trends have been mainly determined by global sentiment, there are now several local events on the agenda that could be important triggers for market reaction. First of all, there will be three data releases: the most important of these, in our view, will be January inflation (Wednesday). Before that we will get to see the preliminary GDP estimate for 4Q22 (Tuesday) and the balance of payments for December (Monday).
- **Our inflation forecast for January is 17.6% y/y** (up 1 pp versus December) and is exactly equal to the median forecast in the Bloomberg and Parkiet surveys. However, the uncertainty surrounding this reading is high: the forecasts range is 16.5%-18.9% y/y, according to Bloomberg. The fresh January inflation readings from the Czech Republic and Hungary were above expectations, tilting the balance of risks for our inflation forecast slightly upwards.
- **We estimate 4Q22 GDP growth at 2.2% y/y** (also in line with the median forecast) - this is more or less implied by the already known reading for the entire year 2022 (4.9%) and the assumption that the first three quarters have not been revised (this actually implies a range between 2.1% and 2.4%, due to rounding inaccuracies, our point forecast is the middle of the range). According to our estimates, this would be consistent with a q/q change in seasonally-adjusted GDP around zero or marginally above it.
- **The current account balance in December was -€1.8bn according to our forecast** (the same as the consensus), with a rather pronounced deceleration in export and import.
- **On (Fat) Thursday, the Advocate General of the European Court of Justice is to publish an opinion** whether or not banks can sue clients whose mortgage contracts were canceled to seek remuneration for non-contractual use of capital. Should the opinion turn out to be negative for domestic banks, the deterioration of local sentiment could affect not only the Warsaw Stock Exchange but also the zloty. However, we do not exclude the possibility that the opinion may turn out to be inconclusive, shifting the responsibility on this issue to the domestic judiciary, in which case the reaction of the domestic market could even be positive.
- **S&P is scheduled to review Poland's rating on Friday after the market close.** We do not expect any change at this point. Even if S&P shares the views of Fitch and Moody's on the elevated risks for the CEE region, there seems to be no compelling reason for a change in the country's credit rating or outlook at this stage.
- In the background, further steps may be taken on the **Polish road to national recovery plan**: After the parliament has passed the amendment to the Supreme Court Law, the President Andrzej Duda still has to sign the legislation – if it happens, it would bring us closer to the decision on the unblocking of EU recovery funds. Formally, the president has 21 days for decision, but he does not have to wait until the end of the deadline, so a decision is possible anytime now. In December, the president warned that he would not agree to the proposed changes, but it cannot be ruled out that his opinion may have evolved since then, influenced by talks with the government and EC representatives.
- Another topic that may gain importance in the coming days/weeks is the **new phase of the Russian offensive in Ukraine** - there are many signs that Russia may soon escalate military activity in an attempt to tilt the course of the conflict to its side. This would clearly be a factor raising the risk premium (temporarily) in the region.
- **Abroad, US CPI inflation data (Tuesday) will be key**, apart from that, there are few indicators that could give markets a new direction.

Markets next week

- The past week has not been a good one for most EM currencies, which suffered in part due to the strengthening of the dollar against the euro. However, the PLN looked exceptionally poor relative to EM FX; only a few of other currencies weakened more (including the Russian ruble and the Brazilian real). The upcoming ECJ ruling and the possible escalation of the war in Ukraine might have already be partly priced in, but it seems to us that their potential to weaken the zloty is not yet exhausted, **should the risk factors start to materialise EURPLN could exceed 4.80**.
- In the fixed income market, we still feel that risks are not fully priced-in. This applies both to the probability of rate cuts this year (which we believe is lower than investors assume), but also to the geopolitical risk premium. The spreads of Polish bond yields vs Bund, ASW spreads, or CDS levels seem to us quite low for the scale of uncertainty associated with upcoming events. As a result, **the potential for yields to rise seems clearly greater than for them to fall further** - the short and long end of the POLGB curve could break through 6.20%.

Inflation in the CEE countries, % y/y

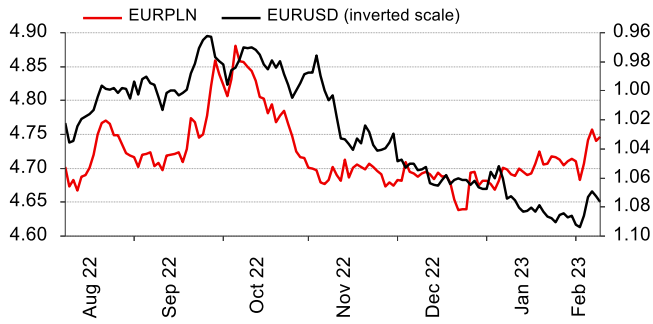


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

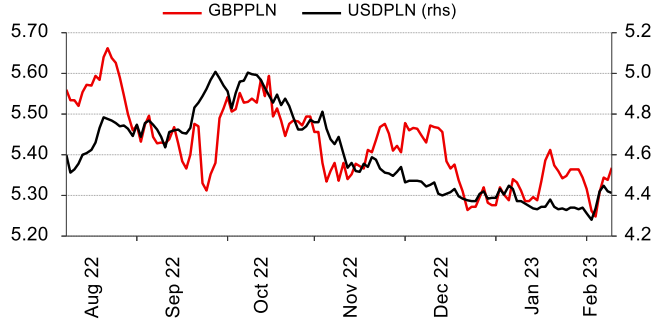
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EURPLN and EURUSD



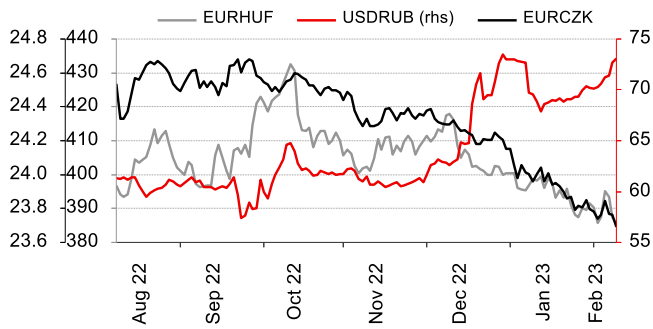
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



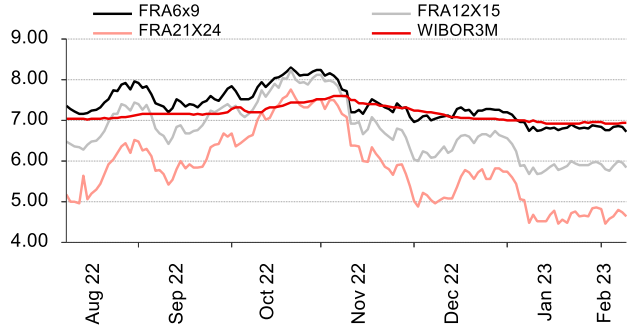
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



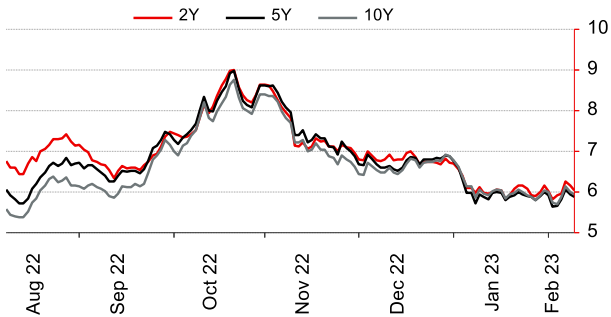
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



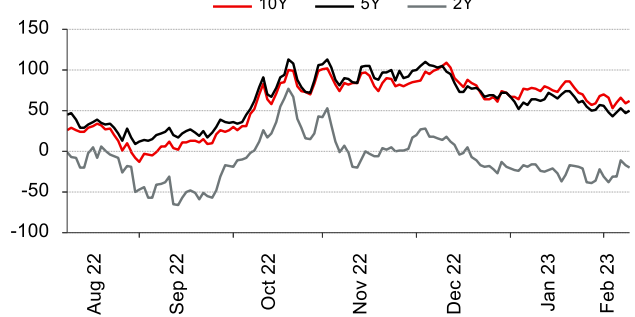
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



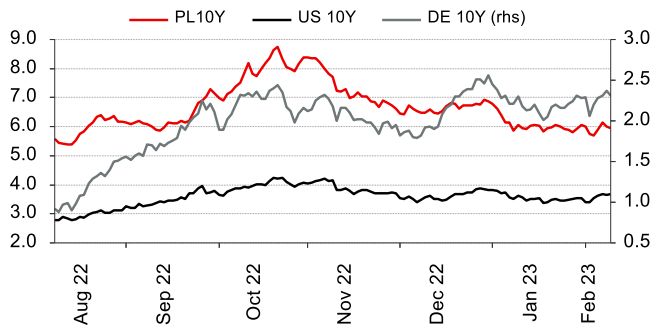
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



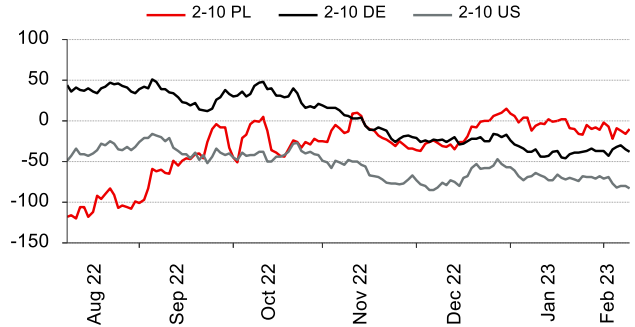
Source: Refinitiv Datastream, Santander Bank Polska

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 | | |
| MONDAY (13 February) | | | | | | | |
| 14:00 | PL | Current Account Balance | Dec | €mn | -1660 | -1764 | -422 |
| 14:00 | PL | Trade Balance | Dec | €mn | -1951 | -2148 | -1496 |
| 14:00 | PL | Exports | Dec | €mn | 27202 | 27011 | 30018 |
| 14:00 | PL | Imports | Dec | €mn | 29105 | 29159 | 31514 |
| TUESDAY (14 February) | | | | | | | |
| 09:00 | HU | GDP | 4Q | % y/y | 0.8 | - | 4.0 |
| 10:00 | PL | GDP | 4Q | % y/y | 2.2 | 2.2 | 3.6 |
| 11:00 | EZ | GDP SA | 4Q | % y/y | 1.9 | - | 2.4 |
| 14:30 | US | CPI | Jan | % y/y | 6.2 | - | 6.5 |
| WEDNESDAY (15 February) | | | | | | | |
| 10:00 | PL | CPI | Jan | % y/y | 17.6 | 17.6 | 16.6 |
| 11:00 | EZ | Industrial Production SA | Dec | % m/m | -0.7 | - | 1.0 |
| 14:30 | US | Retail Sales Advance | Jan | % m/m | 1.7 | - | -1.1 |
| 15:15 | US | Industrial Production | Jan | % m/m | 0.5 | - | -0.7 |
| THURSDAY (16 February) | | | | | | | |
| 9:30 | PL | ECJ advocate general: opinion on CHF mortgages | | | | | |
| 14:30 | US | Initial Jobless Claims | | k | 190.0 | - | 196.0 |
| 14:30 | US | Housing Starts | Jan | % m/m | -2.0 | - | -1.4 |
| 14:30 | US | PPI | Jan | % m/m | 0.4 | - | -0.5 |
| FRIDAY (17 February) | | | | | | | |
| | PL | S&P rating/outlook review | | | | | A-/stable |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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