

17 February 2023

Weekly Economic Update

A flush of January data

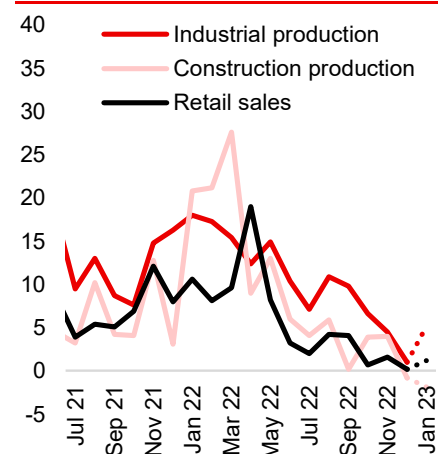
Economy next week

- There has been no shortage of surprises in recent days, introducing noise to the economic outlook: the referral of the Supreme Court Act to the Constitutional Tribunal, the CJEU's negative opinion for banks, the EC's complaint against Poland to the CJEU, disappointing Q4 GDP data, CPI below forecasts in January, while core inflation most likely above. Interestingly, although most of these are rather arguments for a downward revision of economic growth forecasts, there was a clear upward revision of expectations for future NBP interest rates. Most likely, the market has finally (and correctly!) realised that there is little rationale for lagging behind in the global trend of returning reflationary fears in the case of economy, which is perceived as resilient and faces the risk of slower disinflation than others.
- The coming week will see a large batch of domestic data for January and the potential for surprises is probably not exhausted. **On Monday, industrial production, PPI, wages and employment, on Tuesday, construction output and retail sales, on Wednesday, money supply and business climate indices, on Thursday, unemployment and a detailed Statistical Bulletin.** Our forecasts are above the consensus in some cases (wages, manufacturing and construction output), in others close to the median.
- Abroad, among others, preliminary PMI indices for February, Ifo, Eurozone inflation data, in the US PCE deflator, consumer income and spending, FOMC minutes.
- **Today after the market close, S&P is scheduled to review Poland's rating.** In January, S&P downgraded Hungary's rating on the grounds of, among other things, lack of progress in accessing EU funds. The downgrade was, however, preceded by a change in the outlook to negative three months earlier. Poland is also looking for a way to unblock these funds, but so far with little success - a key related law (following Friday's presidential decision) may potentially not take effect for a long time to come, and the EC has just sued Poland to the CJEU over the Constitutional Court's challenge to the principle of the primacy of EU law over national law in 2021. In the justifications for rating agencies' decisions, the argument on the positive side is often the health of the economy - and Tuesday's preliminary Q4 GDP data was a clear disappointment. On top of that, we have the opinion of the CJEU Advocate General, which could be an argument for a worse financial stability. We continue to see no rating change as the most likely outcome of today's review. However, the probability of the alternative scenario of the outlook worsening has increased somewhat.

Markets next week

- The climate for emerging market currencies remains unfavourable: the dollar is strengthening, there are growing concerns that the US interest rate target will need to go higher than thought due to the persistence of inflation and the declining risk of a global recession. Interestingly, despite the materialisation of potentially negative events for the domestic economy and the financial system, the PLN has shown relative resilience against other EM currencies in recent days. This may have been helped by the BGK activity, but also by a marked reduction in market expectations for rate cuts by the MPC. **The continuation of the downward trend in EURUSD may still weaken the zloty, so a break through the 4.80 level by EURPLN is still not ruled out,** although the impulse for this will not likely be domestic data, but global sentiment.
- The potential for an increase in bond yields is not yet exhausted either, in our opinion. This will be fostered by the repricing of interest rates expectations in Poland and abroad, which may trigger greater concerns that financing government's ambitious borrowing needs this year may prove challenging, especially with the prolonged freeze of EU funds and potential consequences of the CJEU ruling constraining domestic banks' ability to buy bonds. The second bond auction this month on Thursday with a supply of PLN4-8 billion will not be supportive as well. **Yields on domestic 10L bonds have already risen by around 80bp since the beginning of February and if the correction in the core markets does not stop soon, we could approach 7%.** We are also betting on a rise in ASW spreads.

Production and retail sales in Poland, constant prices, % y/y, with Santander forecast

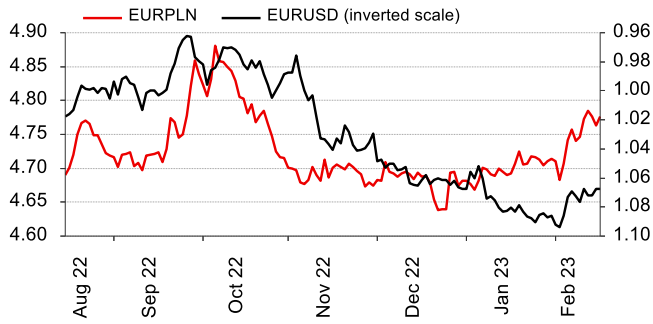


Source: GUS, Santander

Economic Analysis Department:

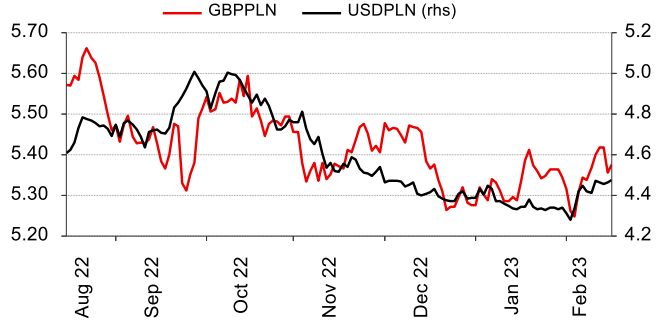
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EURPLN and EURUSD



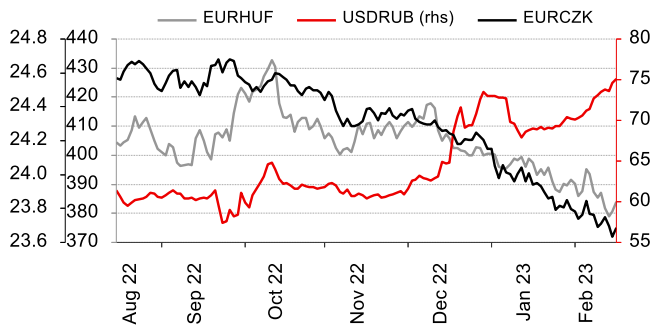
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



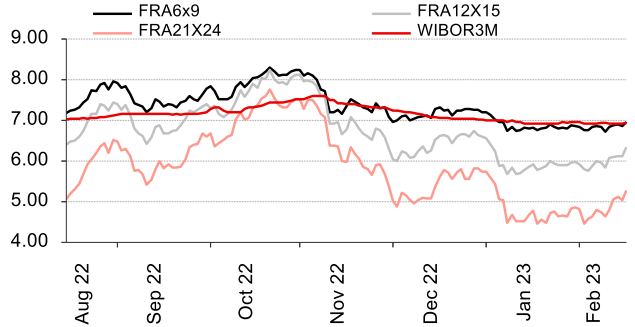
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



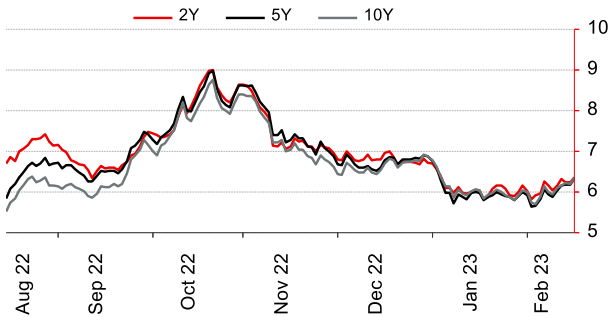
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



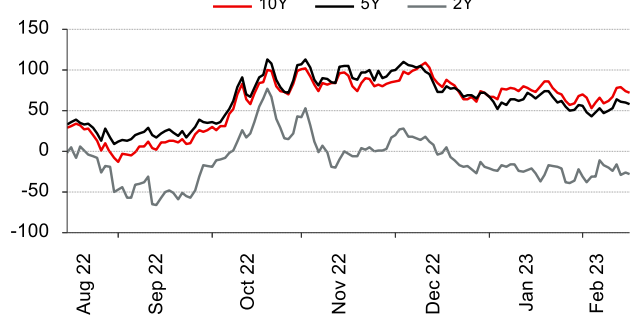
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



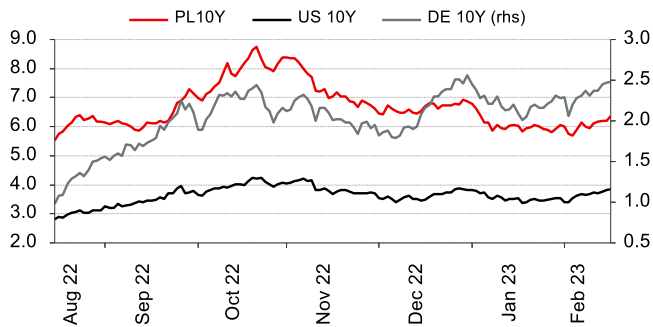
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



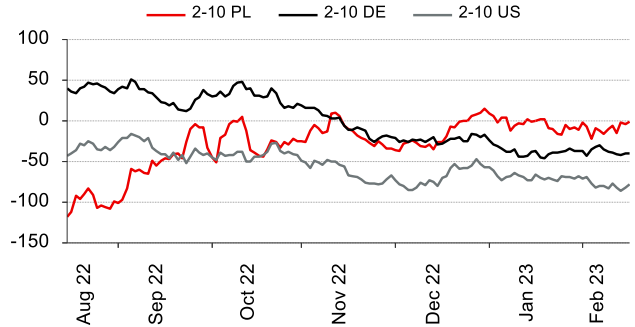
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTR Y	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	SANTANDER	
MONDAY (20 February)							
10:00	PL	Employment in corporate sector	Jan	% y/y	1.8	2.0	2.2
10:00	PL	Sold Industrial Output	Jan	% y/y	4.7	5.1	1.0
10:00	PL	PPI	Jan	% y/y	18.5	18.2	20.4
10:00	PL	Average Gross Wages	Jan	% y/y	12.7	13.8	10.3
TUESDAY (21 February)							
09:30	DE	Germany Manufacturing PMI	Feb	pts	48.0	-	47.3
09:30	DE	Markit Germany Services PMI	Feb	pts	51.0	-	50.7
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	49.3	-	48.8
10:00	EZ	Eurozone Services PMI	Feb	pts	51.3	-	50.8
10:00	PL	Construction Output	Jan	% y/y	-4.7	-1.9	-0.8
10:00	PL	Retail Sales Real	Jan	% y/y	1.1	1.2	0.2
11:00	DE	ZEW Survey Current Situation	Feb	pts	-52.0	-	-58.6
16:00	US	Existing Home Sales	Jan	% m/m	2.1	-	-1.5
WEDNESDAY (22 February)							
08:00	DE	HICP	Jan	% m/m	0.5	-	-1.2
10:00	DE	Ifo Business Climate	Feb	pts	91.0	-	90.2
14:00	PL	Money Supply M3	Jan	% y/y	6.1	5.6	5.4
20:00	US	FOMC Meeting Minutes	Feb.23				
THURSDAY (23 February)							
10:00	PL	Unemployment Rate	Jan	%	5.45	5.5	5.2
11:00	EZ	HICP	Jan	% y/y	8.6	-	9.2
14:30	US	GDP Annualized	4Q	% Q/Q	2.9	-	3.2
14:30	US	Initial Jobless Claims		k	200.0	-	194.0
FRIDAY (24 February)							
08:00	DE	GDP WDA	4Q	% y/y	1.1	-	1.4
14:30	US	Personal Spending	Jan	% m/m	1.0	-	-0.2
14:30	US	Personal Income	Jan	% m/m	1.0	-	0.2
14:30	US	PCE Deflator SA	Jan	% m/m	0.4	-	0.1
16:00	US	Michigan index	Feb	pts	66.4	-	64.9
16:00	US	New Home Sales	Jan	% m/m	0.7	-	2.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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