

24 March 2023

Weekly Economic Update

Base effect will lower March inflation

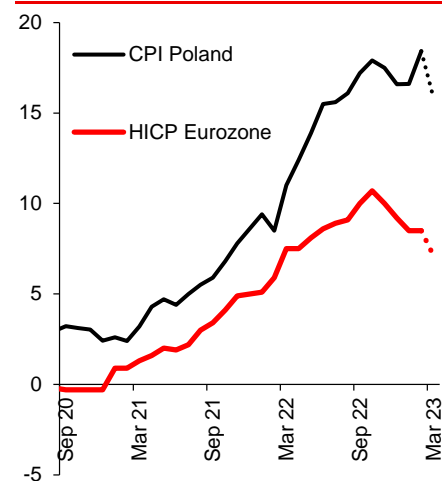
Economy next week

- A set of recently released economic data from Poland has formed a stagflationary pattern. Today, the German manufacturing PMI added to this, falling, among other things, due to weakness in new orders (which may weigh on Polish manufacturing). As regards stagnation, it is worth noting that the FOMC's new projection showed weaker expected GDP growth this year and next year than the December one although the data suggested more of an upward revision - the Fed took into account a potential credit weakness in the US. This may be also relevant for economic conditions in Europe.
- As regards inflation, the **flash CPI reading for March** will be released on Friday. The good news is that the inflation rate has to fall in y/y terms relative to February - in our view it will drop to c.15.8% (the median according to the Bloomberg is 16.2%) - and the bad news is that this will happen essentially for purely statistical reasons (the base period will be March 2022, when there was an incredibly rapid rise in prices due to the war outbreak, among other things, 3.3% m/m - a rate corresponding to the hyperinflation of the 1990s). For this reason, in assessing the inflation persistence, it is still better to analyse m/m than y/y price changes. In our view, March will bring hardly any improvement in this regard (we forecast 1.1% m/m in March after 2.5% in January and 1.2% in February), which will be one of the highest March readings of the last 20 years, indicating strong price momentum. If this process does not decelerate quickly, already in May the cumulative year-to-date price growth will exceed 6%, which will derail the chances of reaching the year-end CPI inflation level announced by the NBP President (6-7% y/y).
- Preliminary estimates of March inflation will also be shown by Germany and the euro area, and here too there should be a decline. However, the ECB will probably not be as focused on this data as it was a few weeks ago, as it now also has to keep an eye on the stability of the European banking sector. On top of this, PCE inflation for February will be released in the US on Friday.
- In Poland, we will also look at the quarterly balance of payments data and the ESI business cycle indicators.
- Later today **Moody's** may publish the outcome of Poland's rating review, but judging by the agency's representative's remarks at the beginning of March nothing will happen here.

Markets next week

- The passing week began with a gradual calming down of the financial markets after it was determined that a takeover would take place in the Swiss banking sector. As a result, asset swap spreads began to narrow and interest rate expectations rose slightly toward levels more in line with the fundamentals of the real economy. In the CE3 markets, this translated into a marked strengthening of the CZK and HUF, which previously, as relatively small markets, had lost heavily due to the deterioration in global investment sentiment. However, the positive trends in the markets were dampened in the middle of the week by the Fed, which, unlike the ECB, presented a much more cautious rhetoric. It signalled the imminent end of the rate hike cycle and hinted at a potentially significant tightening of market financial conditions in future periods, which, by spilling over into lower credit supply, could lead to a faster slowdown in the economy. As a result, at the end of the week, yields began to fall again both in Poland and in the core markets, and the zloty, which has so far weathered the turmoil of recent weeks well, began to weaken slightly.
- In the coming week, we expect further gradual weakening of the zloty against the euro. In our opinion, the **EURPLN exchange rate may try to return above 4.70**, under the influence of growing concerns about the faster pace of slowing of the global economy. This should be supported by data coming from the Eurozone and the US. The scale of strengthening of domestic debt in recent weeks was, in our opinion, too strong and inadequate to the state of the domestic economy's fundamentals, including, above all, the visible and still persistent stubbornness of inflationary processes. Therefore, while we consider the flattening processes of the domestic yield curve to be justified, at this point we do not see much room for a further decline in the yields of Polish government bonds. As a result, we now consider **further fluctuation of domestic yields in the range of 5.85 - 6%** as the most likely scenario. A sustained breach of the 6% level by the domestic yield curve is not supported by the high level of uncertainty in global markets regarding the condition of other major banks. If this situation continues in the coming weeks then domestic yields will remain closer to the lower bound of the indicated range.

Inflation in Poland and Eurozone, % y/y

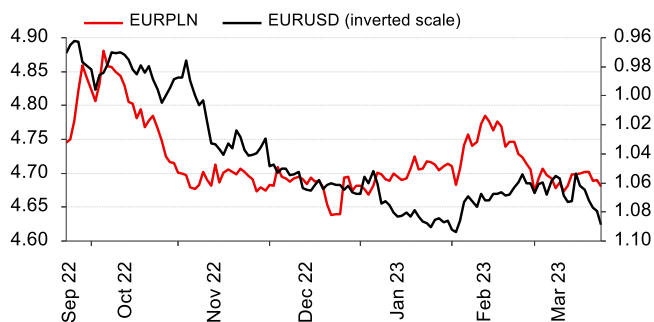


Source: GUS, Santander

Economic Analysis Department:

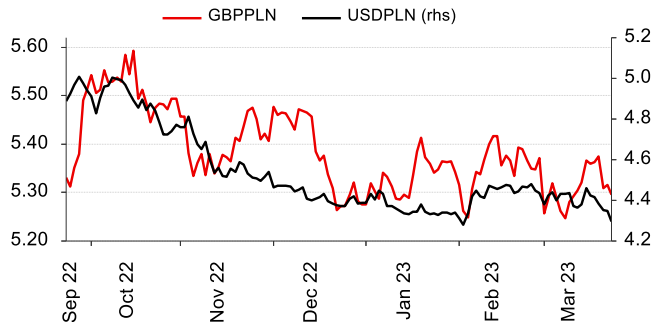
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EURPLN and EURUSD



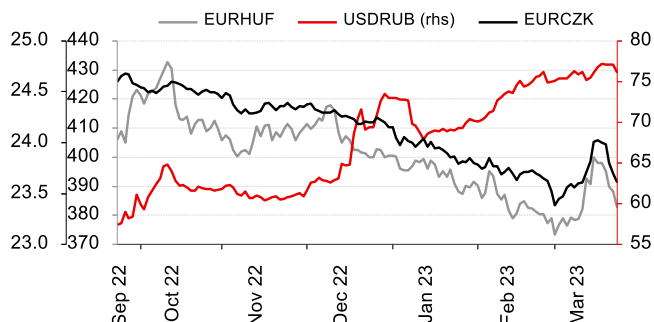
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



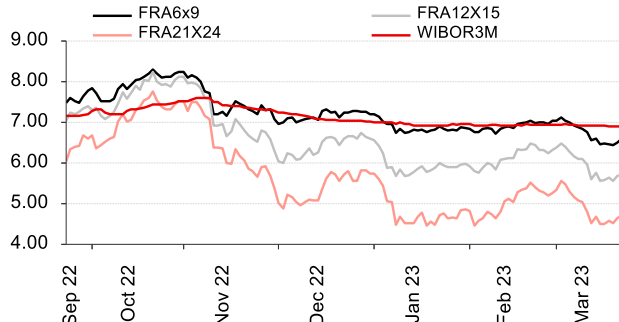
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



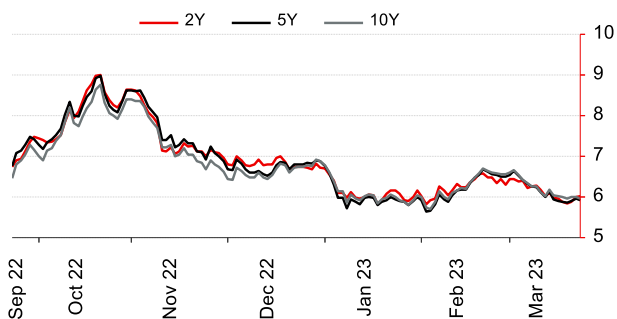
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



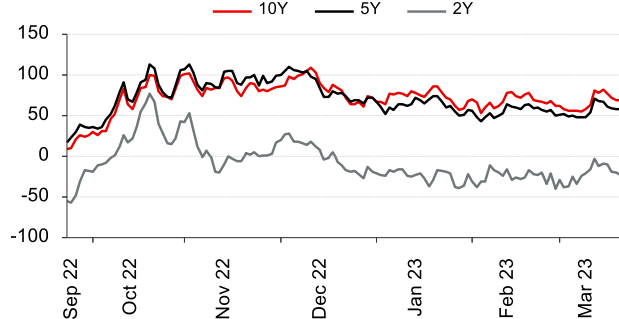
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



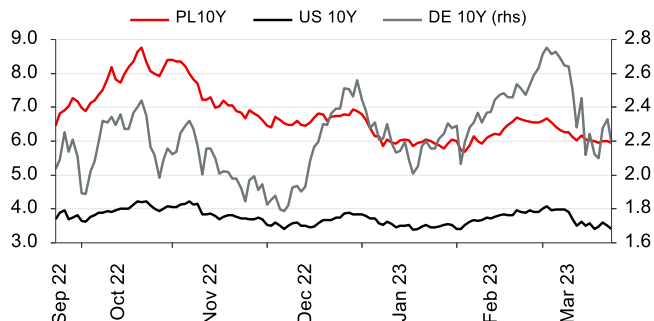
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



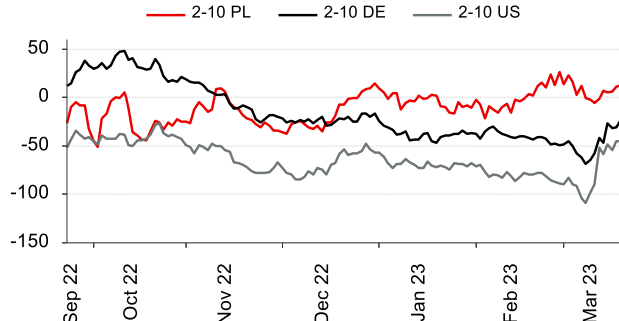
Source: Refinitiv Datastream, Santander Bank Polska

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 (27 March)							
10:00	DE	IFO Business Climate	Mar	pts	91.0	-	91.1
TUESDAY (28 March)							
14:00	HU	Central Bank Rate Decision		%	13.0	-	13.0
16:00	US	Consumer Conference Board	Mar	pts	101.5	-	102.9
WEDNESDAY (29 March)							
14:30	CZ	Central Bank Rate Decision			7.0	-	7.0
16:00	US	Pending Home Sales	Feb	% m/m	-2.3	-	8.1
THURSDAY (30 March)							
11:00	EZ	ESI	Mar	pct.	99.8	-	99.7
14:00	DE	HICP	Mar	% m/m	0.8	-	1.0
14:30	US	GDP Annualized	4Q	% Q/Q	2.7	-	3.2
14:30	US	Initial Jobless Claims	week	k	196	-	191
FRIDAY (31 March)							
08:00	DE	Retail Sales	Feb	% m/m	0.5	-	0.0
09:00	CZ	GDP SA	4Q	% y/y	0.2	-	1.5
10:00	PL	CPI	Mar	% y/y	16.1	15.8	18.4
11:00	EZ	Flash HICP	Mar	% y/y	7.1	-	8.5
11:00	EZ	Unemployment Rate	Feb	%	6.6	-	6.6
14:30	US	Personal Spending	Feb	% m/m	0.3	-	1.8
14:30	US	Personal Income	Feb	% m/m	0.3	-	0.6
14:30	US	PCE Deflator SA	Feb	% m/m	0.3	-	0.6
16:00	US	Michigan index	Mar	pts	63.4	-	67.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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