

31 March 2023

## Weekly Economic Update

### Will MPC acknowledge higher inflation persistence?

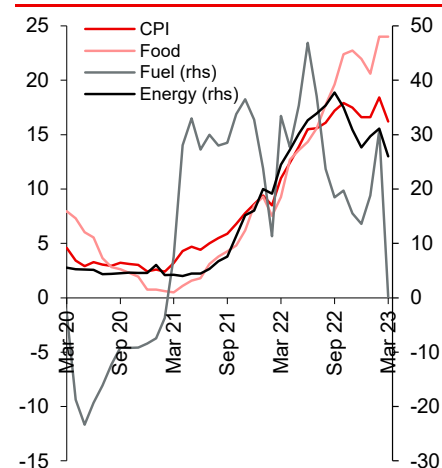
#### Economy next week

- After a few weeks of focus on banks' stability, fears of an escalation of the banking crisis seem to have dimmed (helped, among other things, by weekly data from the US banking sector, which do not indicate a spillover of dangerous trends). This allows investors to interested once again on topics related to economic growth and inflation. The [preliminary Polish CPI data](#) published today again surprised on the upside and shows that although the annual inflation rate has started to decline (16.2% in March), this is mainly due to statistical effects, while the price momentum remains very high and is increasingly concentrated in the core inflation component. The surprising persistence of core inflation can also be seen in other countries, including the euro area. In March, the Polish CPI rose by 1.1% m/m and the core CPI by 1.2% m/m. In Q1 alone, prices have already risen by almost 5%, and by June cumulative price growth will probably exceed 7%, which would mean that President Glapiński's scenario of inflation falling to 6-7% by the end of the year will become very unrealistic. We expect inflation of around 10% y/y in December.
- We will find out what the Polish central bank thinks about the situation next week: **the MPC decision is due on Wednesday, the NBP President's conference probably on Thursday at 15:00.** Interest rates will remain unchanged - there is no doubt about that. The key will be, as usual, whether there will be any guidance on monetary policy outlook. Last week, there were two interesting signals from the central bank: first, MPC member Ireneusz Dąbrowski (the same one who in the autumn heralded rate cuts in 2023 and whom we consider to be expressing views close to those of President Glapiński) said that it was way too early for interest rate cuts, justifying this, among other things, by the uncertainty related to the effects of banking turmoil abroad. In a way, this dovetailed with the statements of Ludwik Kotecki, who noted a change in the attitude of the 'dovish' part of the MPC (the disappearance of calls for rate cuts) and pointed to the risk that the lower propensity of central banks abroad to raise rates related to concerns about financial stability could make it more difficult to extinguish inflation globally and in Poland. Three days later, a very different message came from the NBP vice-president Marta Kightley: according to her, the turbulence related to the collapse of banks abroad means that "more risks have emerged that could lead to a deeper economic slowdown and, at the same time, to faster disinflation". Which message is closer to President Glapiński's heart - we will perhaps find out on Thursday. In our view, the chances of NBP interest rate cuts this year are increasingly remote.
- Before we get to the MPC, we will already know the **March PMI for Polish industry** on Monday. Our forecast and market consensus is 47.9 - a slight decline from 48.5 in February following the German index, which dipped rather sharply according to the flash reading. However, other economic surveys (GUS, ESI) improved slightly in March and, overall, an improvement of activity is rather on the horizon, consistent with the gradual economic recovery we expect.
- On the same day, the statistical office will report the **public sector deficit and debt for 2022**. The deficit is likely to be around 3% of GDP and public debt around 50% of GDP.
- Abroad, in addition to the final PMIs for manufacturing and services, **data from the US labour market** will be key. Another positive surprise could move the market towards greater concerns about whether the Fed's interest rate expectations have been rightly reduced under the influence of US regional bank perturbations.

#### Markets next week

- **EURPLN has been moving in a fairly narrow range around 4.70 for the past few weeks and we assume that this will not change for the time being.** The zloty is supported by the strengthening euro against dollar, but on the other hand investors are still betting on a rather dovish stance of the MPC and rate cuts later this year. If the latter factor were to change (e.g. under the influence of President Glapiński's speech, decisively cutting off speculation about rate cuts), the zloty could strengthen more clearly. But such a scenario is probably not the most likely one for this week.
- **Bond yields have room for upward move in the coming week**, in our view, reflecting trends in core debt markets (fears of a bank stability crisis scenario are evaporating) and influenced by recent data. The move could be more pronounced (especially at the short end) if a hawkish message comes out of the central bank, but after the recent NBP Kightley's interview we would not bet heavily on this scenario.

Inflation in Poland, % y/y

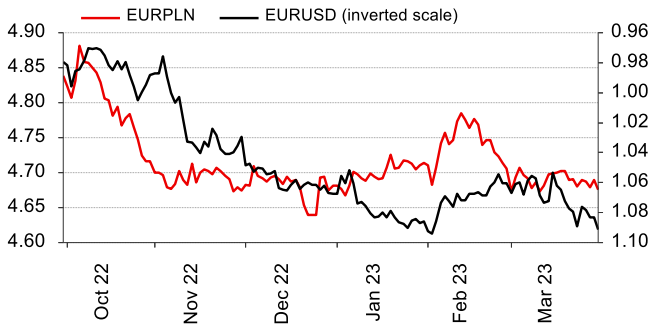


Source: GUS, Santander

#### Economic Analysis Department:

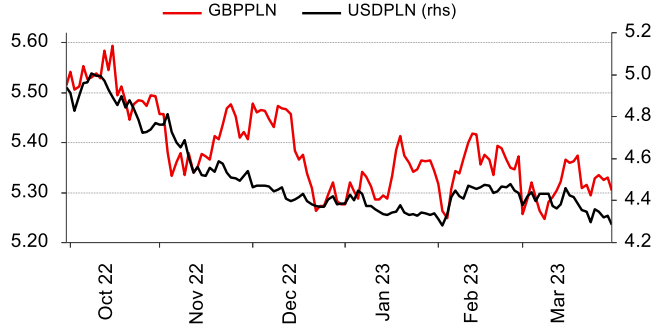
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**EURPLN and EURUSD**



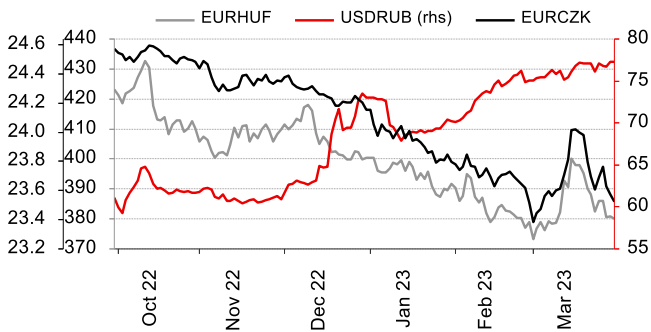
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



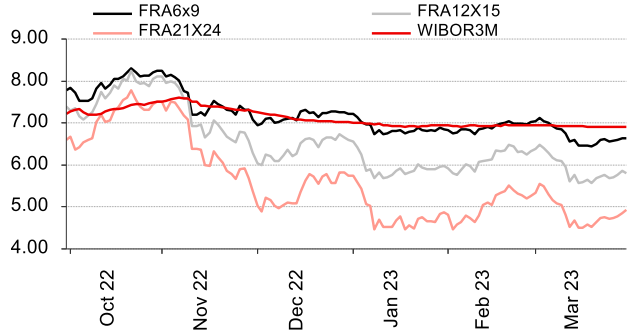
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



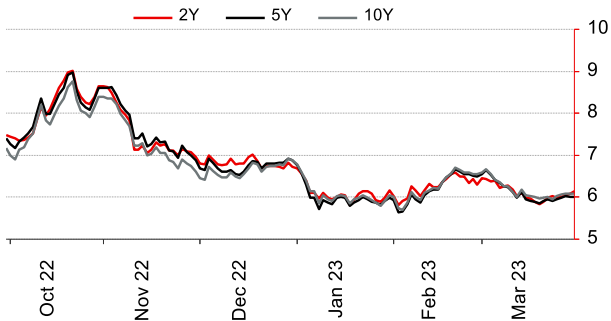
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



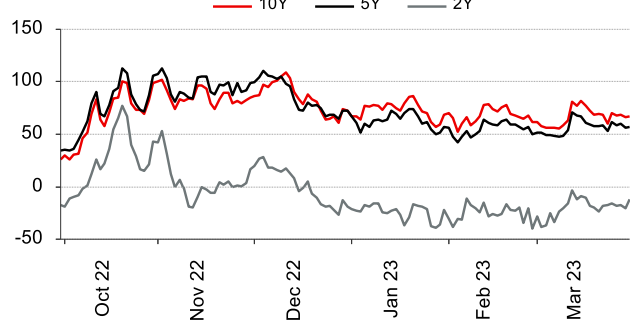
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



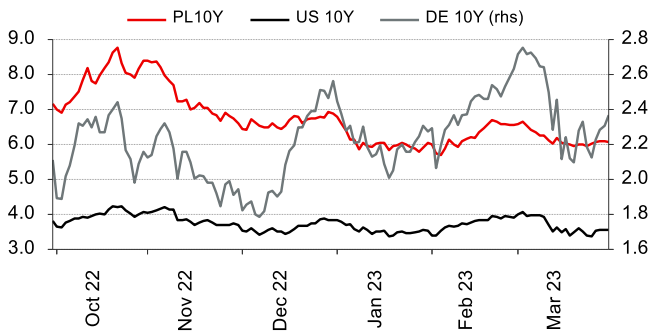
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



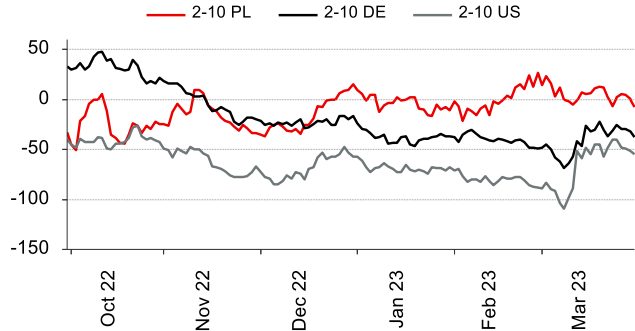
Source: Refinitiv Datastream, Santander Bank Polska

**10Y bond yields**



Source: Refinitiv Datastream, Santander

**Steepness of yield curves**



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
<b>MONDAY (3 April)</b>							
09:00	PL	Poland Manufacturing PMI	Mar	pts	48.1	47.9	48.5
09:55	DE	Germany Manufacturing PMI	Mar	pts	44.4		44.4
10:00	PL	<b>GG fiscal balance</b>	2022	% GDP		<b>-3.0</b>	<b>-1.8</b>
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	47.1		47.1
16:00	US	ISM manufacturing	Mar	pts	47.5		47.7
<b>TUESDAY (4 April)</b>							
08:00	DE	Exports SA	Feb	% m/m	1.8		2.7
16:00	US	Durable Goods Orders	Feb	% m/m	-		-1.0
16:00	US	Factory Orders	Feb	% m/m	-0.5		-1.6
<b>WEDNESDAY (5 April)</b>							
	PL	<b>MPC decision</b>		%	6.75	6.75	6.75
08:00	DE	Factory Orders	Feb	% m/m	0.5		1.0
08:30	HU	Industrial Production SA	Feb	% y/y	-2.25		-3.2
09:55	DE	Markit Germany Services PMI	Mar	pts	53.9		53.9
10:00	EZ	Eurozone Services PMI	Mar	pts	55.6		55.6
14:15	US	ADP report	Mar	k	205.0		242.0
16:00	US	ISM services	Mar	pts	54.5		55.1
<b>THURSDAY (6 April)</b>							
03:45	CN	Caixin China PMI Services	Mar	pts	55.0		55.0
08:00	DE	Industrial Production SA	Feb	% m/m	-0.25		3.5
09:00	CZ	Industrial Production	Feb	% y/y	1.7		1.3
14:30	US	Initial Jobless Claims	Apr/23	k	0.0		198.0
<b>FRIDAY (7 April)</b>							
14:30	US	Change in Nonfarm Payrolls	Mar	k	240.0		311.0
14:30	US	Unemployment Rate	Mar	%	3.6		3.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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