

02 February 2024

Weekly Economic Update

Hawks on a diet

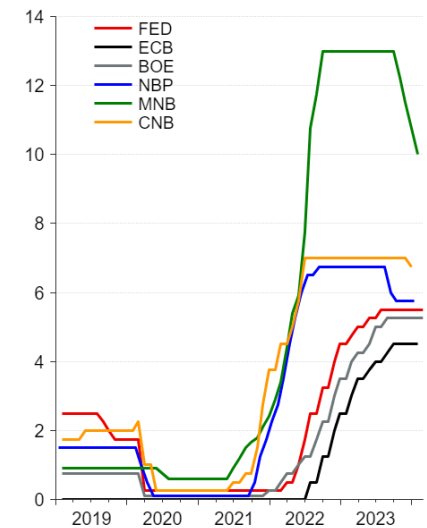
Economy next week

- **The MPC meeting** will be the key economic event of the week. There is a broad consensus that interest rates will remain unchanged. There have been numerous voices from inside the Council that nothing will happen in domestic monetary policy until March, when the new NBP projection is released, and most members were rather hawkish as regards the outlook for the rest of the year. Markets are still pricing in rate cuts in Poland at twice the scale that economists are expecting (we assume that rates will be 50bps lower at the end of the year, in line with the consensus), so a new impulse (e.g. an even more hawkish tone from the MPC) would probably have to emerge for them to significantly revise the priced-in scenario.
- Meanwhile, those MPC members who have so far been regarded as hawkish (suggesting the need to return to policy tightening or to keep rates unchanged for a prolonged period while major central banks begin to loosen their policies) have recently received no additional arguments for maintaining their hawkish stance. December CPI and PPI inflation as well as wage growth were below forecasts. In addition, retail sales turned out to be a major disappointment in the final months of the year (November's sales deviated from market expectations by around 2pp and December's by as much as 4pp) and the estimate of GDP growth in 4Q, based on the preliminary number for the entire year (assuming that the Central Statistical Office did not revise previous quarters), showed less than 1% y/y instead of the expected 2%+, mainly because of private consumption, whose growth seems to have completely stalled (0% y/y) after turning positive in 3Q (0.8% y/y). We therefore await the MPC's post-meeting press release and the NBP president's conference to see to what extent this pattern of data - in principle conducive to a return of inflation to target - has been noted.
- Abroad, we will get to see **the final services PMI indexes** (Monday), real European industrial data (Tuesday-Wednesday) and inflation in Germany and Hungary (Friday). In addition, the OECD will show updated global growth forecasts (Monday). **The central banks** of Australia, India, Mexico and Czechia, among others, will hold policy meetings, but only the last of them is likely to cut rates. The market is divided almost half-and-half on the question of whether the Czech central bank will deliver -25bps or rather -50bps again after a 25bp cut in December.

Markets next week

- As we expected, the zloty appreciated last week and was one of the best performing currencies of emerging economies. While we think that political factors have a moderate impact on the domestic currency, the signing of the budget bill by the President (despite sending it to the Constitutional Tribunal) may have been a positive factor. **We see the potential for a slight upward correction of EURPLN this week**, but we generally assume that the zloty will be stronger in the coming months. This may be supported by a still not very dovish MPC despite weaker GDP data against elevated inflation, expected upward movement of EURUSD, significant inflow of EU funds. The lower export profitability threshold exchange rate of c. 4.10 (as presented in the latest NBP survey) suggests that there is still room for appreciation of the zloty before it becomes troublesome for the Ministry of Finance or the NBP, both of which prefer stable macroeconomic conditions and no significant deterioration in the situation of exporters. The domestic currency may also be supported by the continuation of bond purchases by foreign investors, who, according to the December data from the Ministry of Finance, increased their net bond portfolios by some PLN2.7bn.
- The interest rate market reacted strongly to the weaker domestic GDP reading with declines in rates, which was compounded by the movement in the core markets (weak GDP data and low inflation readings in Germany). The IRS and bond curves flattened by around 15bps and there was a continuation of the fall in credit spreads. **There is potential for a slight upward correction this week** due to the MPC maintaining its relatively hawkish tone and in view of our expectation of a smaller scale of rate cuts than the market assumes (around 75-10 bps by the end of the year). The downward movement in core markets and in the region could continue, provided that we will observe weak manufacturing data in Germany and Czechia, low inflation in Hungary, and a rate cut by the Czech central bank. With this in mind, we assume that the domestic market may behave slightly weaker than the region.

Central banks' main interest rates, %

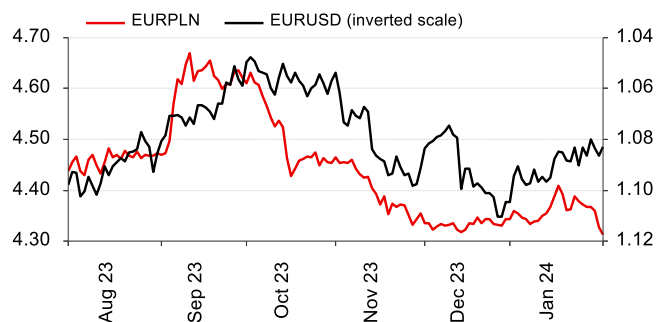


Source: LSEG Datastream, Santander

Economic Analysis Department:

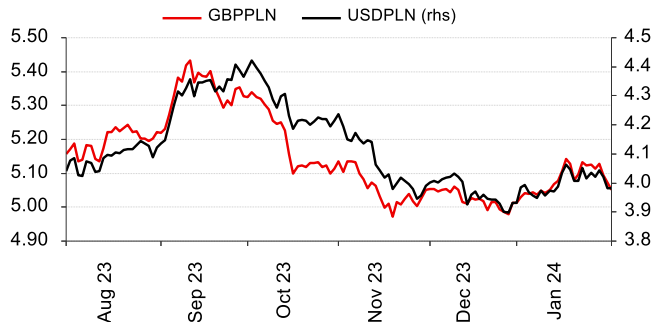
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EURPLN and EURUSD



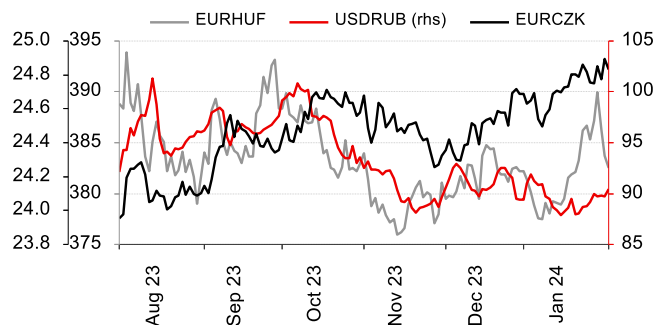
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



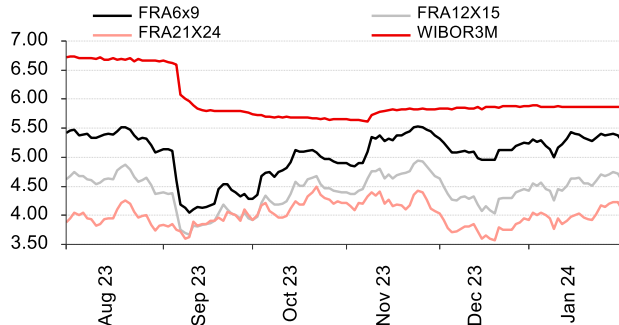
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



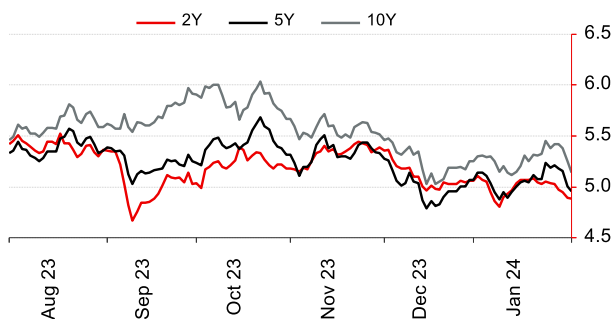
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



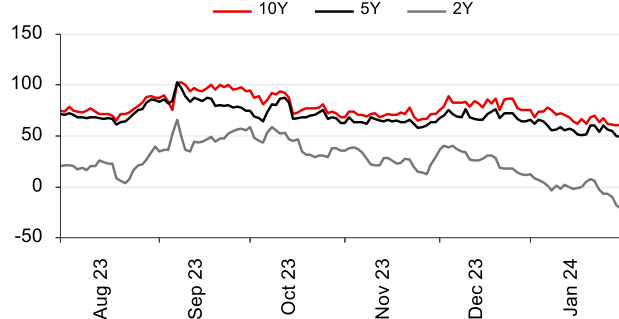
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



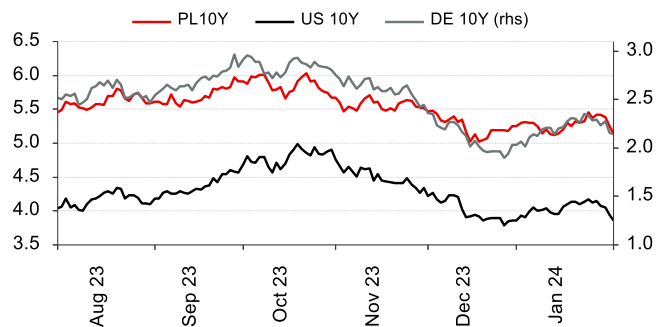
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



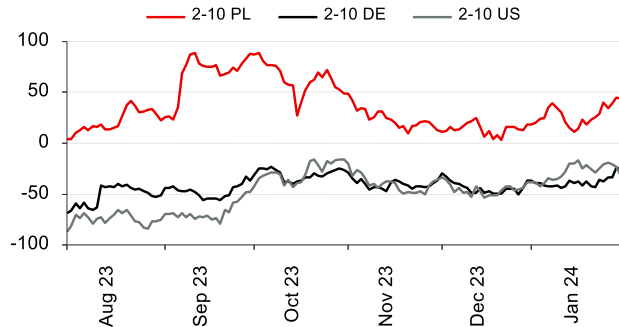
Source: LSEG Datastream, Santander Bank Polska

10Y bond yields



Source: LSEG Datastream, Santander

Steepness of yield curves



Source: LSEG Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (5 February)							
02:45	CN	Caixin China PMI Services	Jan	pts	53.0	-	52.9
08:00	DE	Exports SA	Dec	% m/m	-2.9	-	3.8
09:55	DE	Markit Germany Services PMI	Jan	pts	47.6	-	49.3
10:00	EZ	Eurozone Services PMI	Jan	pts	48.4	-	48.8
16:00	US	ISM services	Jan	pts	52.2	-	50.6
TUESDAY (6 February)							
08:00	DE	Factory Orders	Dec	% m/m	-0.2	-	0.3
08:30	HU	Industrial Production SA	Dec	% y/y	-7.6	-	-5.6
09:00	CZ	Industrial Production	Dec	% y/y	-8.1	-	-2.7
11:00	EZ	Retail Sales	Dec	% m/m	-1.0	-	-0.3
WEDNESDAY (7 February)							
	PL	MPC decision	Feb	%	5.75	5.75	5.75
08:00	DE	Industrial Production SA	Dec	% m/m	-0.5	-	-0.7
THURSDAY (8 February)							
14:30	US	Initial Jobless Claims		k	215	-	224
14:30	CZ	Central Bank Rate Decision	Feb	%	6.50	-	6.75
FRIDAY (9 February)							
08:00	DE	HICP	Jan	% m/m	-0.2	-	0.2
08:30	HU	CPI	Jan	% y/y	4.3	-	5.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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