

07 March 2025

Weekly Economic Update

The MPC facing relentless uncertainty

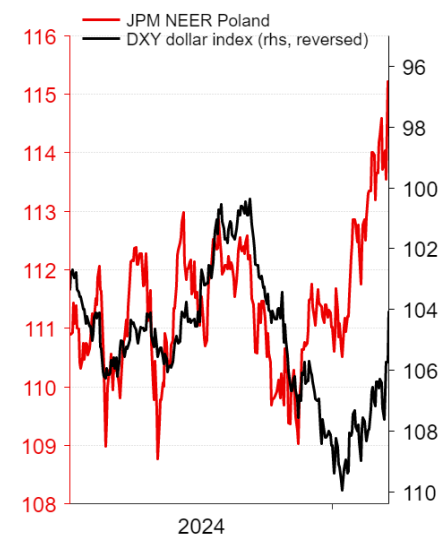
Economy next week

- Time has definitely sped up in the global economy and geopolitics. Since last Friday, we have witnessed, among other things: a conversation between the presidents of Ukraine and the USA ending in a quarrel and no agreement on the use of minerals, the withholding of US military aid to Ukraine, the imposition by the USA of 25% tariffs on goods from Mexico and Canada and immediately afterwards their partial suspension, a 20pp increase in tariffs on goods from China, the CDU/CSU and SPD agreement on Germany's unprecedented increase in defence and infrastructure spending, the announcement of the ReArm Plan for the rearmament of Europe by the EC and its endorsement at the European Council's special meeting. These sudden twists have generated considerable volatility in the financial markets.
- Issues related to the rearmament of Europe, support for Ukraine, and fiscal stimulus will remain the main themes influencing sentiment in the coming days. The calendar for the coming week includes a meeting of the European military Chiefs of Staff (Tuesday) on the possible deployment of European troops in Ukraine. The German parliament, on the other hand, is expected to start discussing a package of measures to increase infrastructure and defence spending from Thursday; the final vote is probably not until the following week, on 18 March. Donald Trump signalled that his next decisions on tariff policy would be announced in early April, so the coming week may be quieter in this respect.
- The calendar of economic events is modest. Domestically, the key event will be **the MPC meeting, where the Council will review the results of the new NBP economic projection.** In our view, interest rates will remain unchanged and the NBP projection will present a scenario consistent with that shown at recent conferences by President Głapiński - with CPI inflation rising to around 5% by the end of this year and core inflation stabilising close to 4%, which will not provide justification for considering rapid interest rate cuts. The projection horizon will be extended to the end of 2027 for the first time, and we assume that in this timeframe the projected inflation will already be returning to the target. Nonetheless, we are betting that the MPC's communiqué and President Głapiński's statements at Thursday's conference will focus on the risks to inflation in the shorter horizon, with the increasingly likely strong fiscal expansion in Europe adding to the arguments against rapid interest rate cuts.
- **On Friday, we will get to see the CPI inflation data for February, together with a revision of the January data** after recalculating with a new basket of weights. Our forecast is for the inflation rate to remain at the January level of 5.3% y/y, which is in line with the median forecast from Bloomberg.
- Abroad, inflation data will be released for the US, Czechia, Hungary, Germany and several other European countries, plus German and Eurozone industrial production.
- The week will end with an **update of Poland's rating by Fitch.** No change is expected.

Markets next week

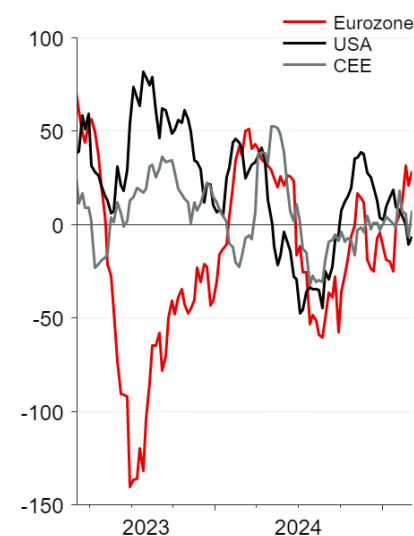
- The absence of a widely expected agreement between Ukraine and the US on the use of minerals, which was expected to be an important step towards ceasefire talks, was a reason for a correction in the foreign exchange market: EURPLN rebounded temporarily to 4.20 before stabilising slightly below this level. However, the zloty is still very strong - actually the PLN nominal effective exchange rate has risen further in recent days and is at its highest since 2008, as at the same time the zloty has clearly gained against the dollar (USDPLN below 3.85), thanks to a surge in EURUSD to almost 1.09. **Growing optimism about the prospects for the European economy and the related possible revision of expectations for the scale of rate cuts should be conducive to PLN sticking close to current levels, unless new reasons for concern about security appear on the horizon.**
- **European yield curves have shifted significantly upwards on the back of news of the German fiscal bazooka,** and this appears to be a shift of a permanent nature unless the plans of the CDU/CSU and SPD leaders are torpedoed in the Bundestag. Still, this does not mean that a slight rebound in the following weeks is not possible. Among other things, it will be crucial how the fiscal and defence plans may change the ECB's and NBP's monetary policy outlook and what they actually mean for the debt supply of European countries, including Poland. The inflationary consequences are not clear-cut for now in our view, as in parallel to the possible pro-inflationary effects of the fiscal impulse, we see a marked strengthening of currencies and a fall in energy commodity prices in Europe, which will have a dampening effect on price indices. The financial market, which until last week was mainly focused on these latter effects, pricing in a growing room for rate cuts, seems to be increasingly concerned that the room for rate cuts in Europe may be narrowing after all.

PLN nominal effective exchange rate vs Dollar index (inversed)



Source: LSEG Datastream, Santander

Citibank Economic Surprise Index

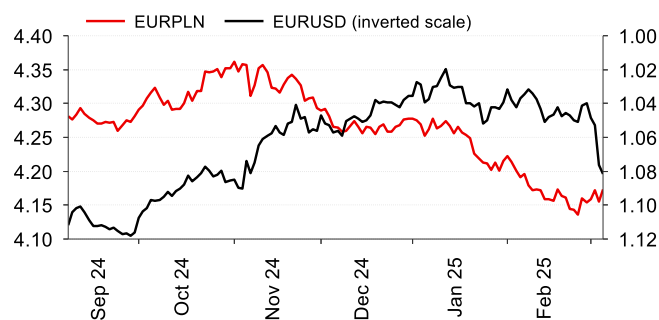


Source: LSEG Datastream, Santander

Economic Analysis Department:

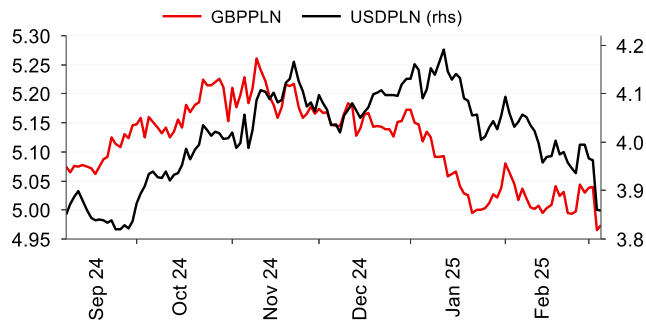
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Marcin Luźniński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



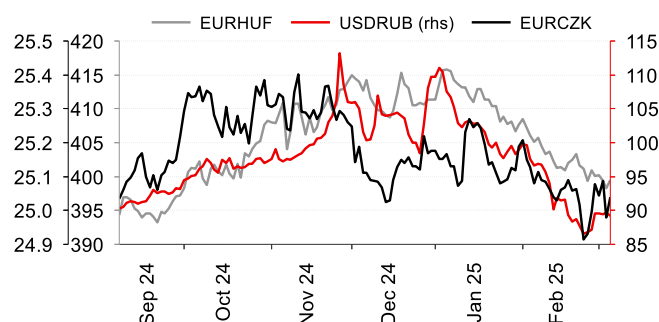
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



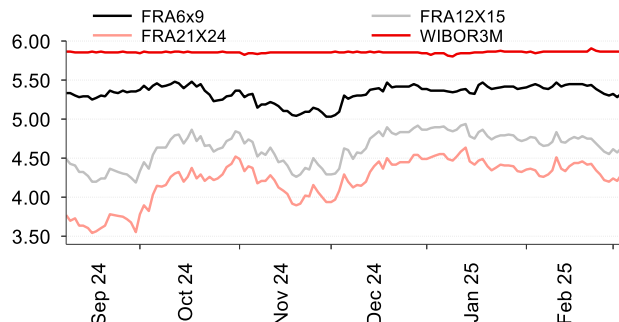
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



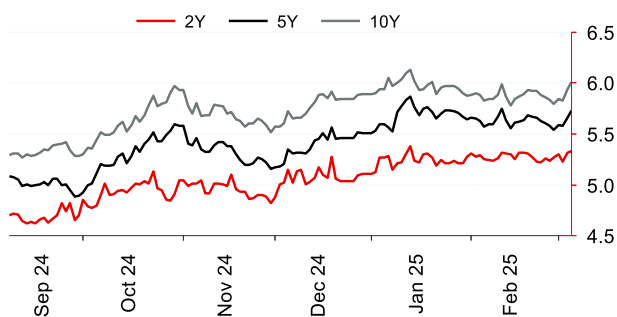
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



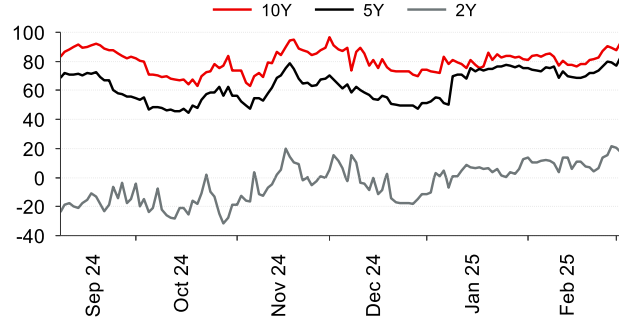
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



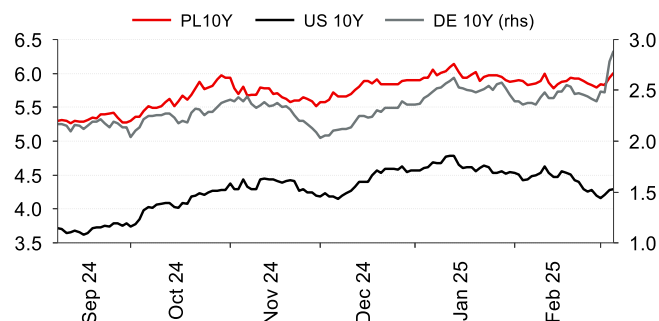
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



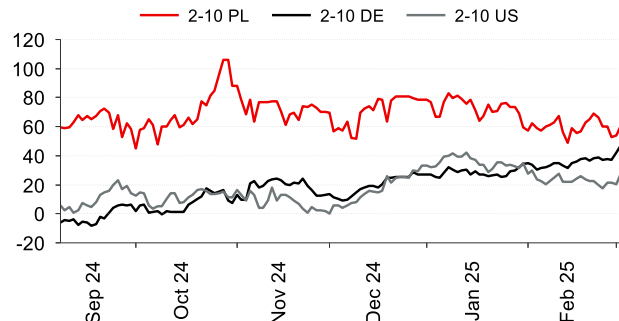
Source: LSEG Datastream, Santander Bank Polska

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 (10 March)							
08:00	DE	Exports SA	Jan	% m/m	0.5	-	3.5
08:00	DE	Industrial Production SA	Jan	% m/m	1.6	-	-2.4
TUESDAY (11 March)							
08:30	HU	CPI	Feb	% y/y	5.3	-	5.5
09:00	CZ	CPI	Feb	% y/y	2.7	-	2.7
WEDNESDAY (12 March)							
	PL	MPC decision	Mar	%	5.75	5.75	5.75
09:00	CZ	Industrial Production	Jan	% y/y	-1.3	-	-3.0
13:30	US	CPI	Feb	% m/m	0.3	-	0.5
THURSDAY (13 March)							
11:00	EZ	Industrial Production SA	Jan	% m/m	0.7	-	-1.1
14:30	US	Initial Jobless Claims	weekly	k	233	-	221
15:00	PL	NBP Governor's Conference					
FRIDAY (14 March)							
08:00	DE	HICP	Feb	% m/m	0.6	-	0.6
10:00	PL	CPI	Feb	% y/y	5.3	5.3	5.3
15:00	US	Michigan index	Mar	pts	63.9	-	64.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.