

Weekly Economic Update

Economic scenarios under scrutiny

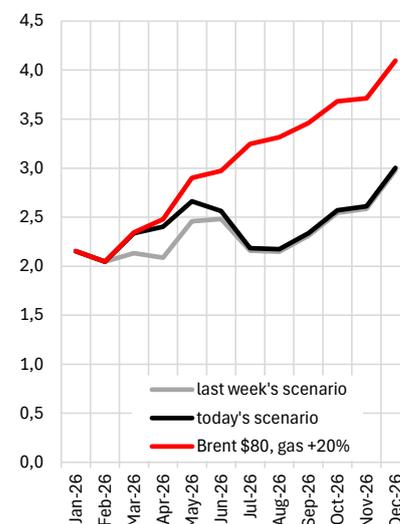
Economy next week

- Since the last weekend, the world's attention has been focused on the situation in the Middle East, and it seems that this will not change in the near future. Of course, we do not know how long the conflict with Iran will last, but the available information does not suggest a rapid de-escalation at this stage. Economic scenarios must therefore be viewed as variants, with their probabilities updated on an ongoing basis.
- There are many possible future scenarios, but for simplicity, let us distinguish three main ones: (1) rapid de-escalation, accompanied by a normalisation of commodity prices (within 4-6 weeks), (2) the current intensity of the conflict and the current oil and gas prices continuing for longer, say until the end of this year, (3) further escalation, combined with a further rise in commodity prices. At this point, we assume that the probability of scenario (1) is still the highest, close to 50%, and probability of (3) is the lowest (around 20%), but the risk is gradually shifting "to the right".
- In scenario (1), the impact of recent events on the economic growth trajectory or fiscal situation would probably be negligible. Inflation would be temporarily affected by higher fuel prices in March-April, but this should not prevent the Monetary Policy Council from cutting interest rates once again to 3.5%. The other two scenarios would have a more severe impact on CPI, GDP and public finances, ruling out the possibility of monetary policy easing and, in scenario (3), generating the risk of interest rate hikes before the year-end.
- There is only one item on the domestic economic calendar for the coming week, but very important one: as every year in March, **the Central Statistical Office (GUS) will publish CPI data for February and January recalculated according to the new weights**. The impact of the change in weights on inflation is uncertain, although in recent years it has tended to push the CPI down rather than up. **Our CPI forecast for February is 2.0% y/y**, while the median in Bloomberg is 2.1% y/y. Such a result would give the MPC an argument for another 25bp rate cut in April, provided that the situation in Iran de-escalates over the next four weeks.
- Inflation data will also be released abroad, including in Czechia, Hungary, some eurozone countries and the US. In addition, production figures for Germany, Czechia and the eurozone will be published, and at the end of the week, the University of Michigan will release its US consumer sentiment index – the first survey since the attack on Iran began.

Markets next week

- The attack on Iran caused the dollar to strengthen and currencies in emerging markets to weaken. The scale of the reaction on currency markets is rather moderate, and further movements will depend mainly on the flow of information from the Middle East. **We assume that in the coming week, EURPLN may fluctuate in the range of 4.27-4.30**. If 4.30 is broken, the next technically important level, according to our traders, will be 4.37.
- The reaction of debt markets was more decisive – yields on 10y US and German bonds rose by 22-24 basis points since Friday, while domestic 10y bonds weakened by over 56 basis points, with yield returning to early October levels. This is the result of, on the one hand, rapidly fading expectations for further interest rate cuts and, on the other hand, concerns that persistently high energy costs would worsen the already unfavourable situation of public finances. CPI data may slightly support the debt market at the end of next week, provided that they are in line with our forecast. However, the assessment of further developments in Iran will be much more important than historical data. If the chances of scenario (1) were to decline, we would only be at the beginning of a sell-off in the debt markets.

Different variants of CPI forecast, % y/y

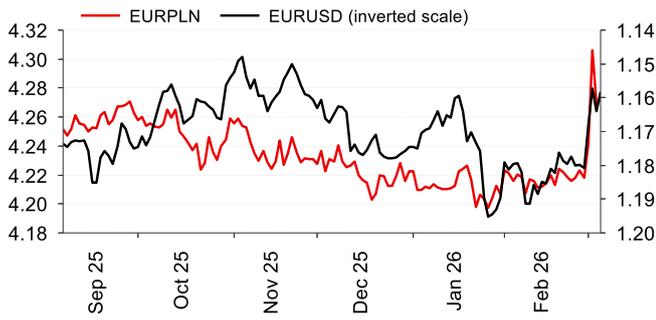


Source: Santander Bank Polska

Economic Analysis Department:

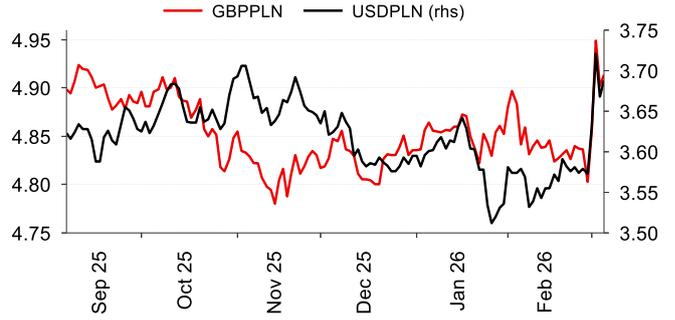
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EURPLN and EURUSD



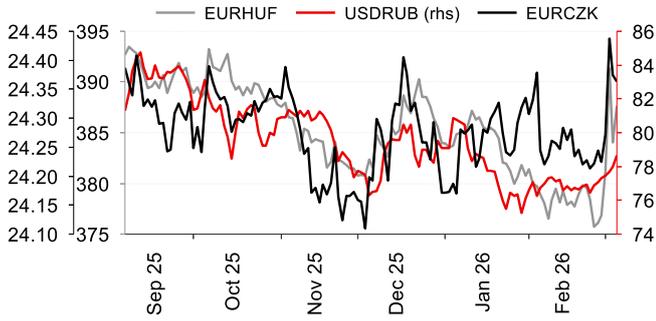
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



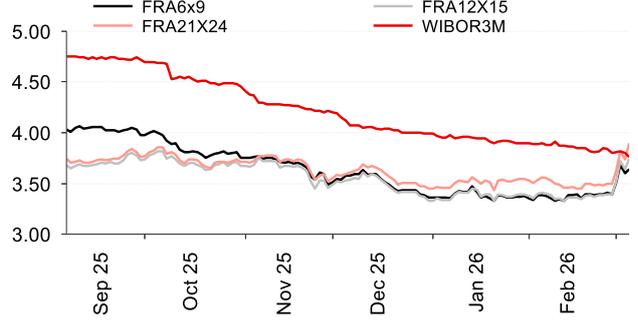
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



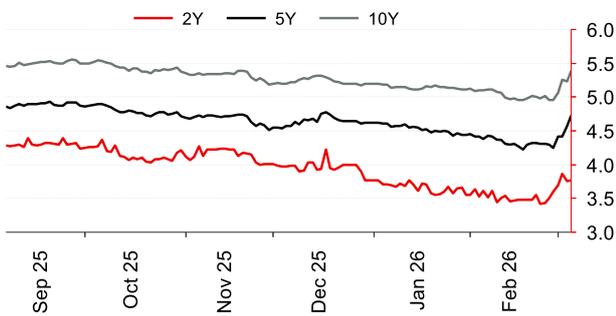
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



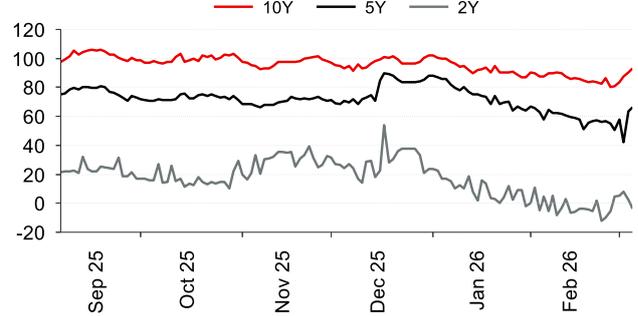
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



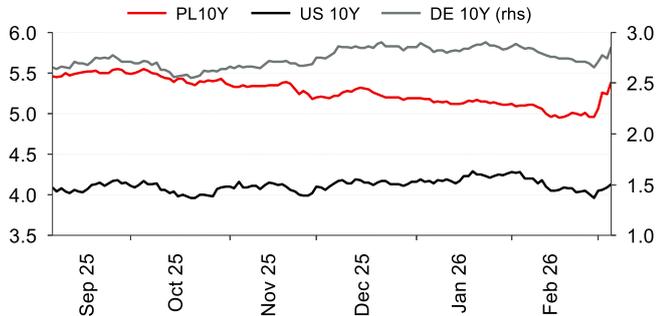
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



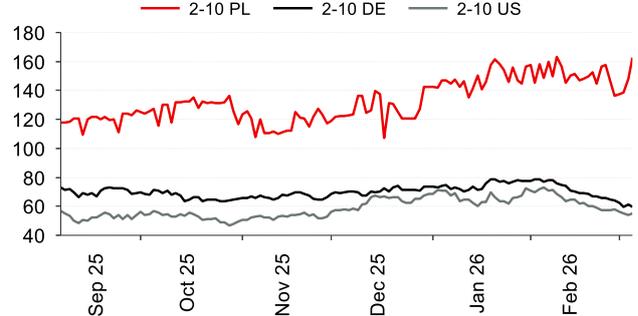
Source: LSEG Datastream, Santander Bank Polska

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	
				MARKET	SANTANDER	VALUE	
MONDAY (9 March)							
08:00	DE	Factory Orders	Jan	% m/m	-4.5	7.8	
08:00	DE	Industrial Production SA	Jan	% m/m	1.0	-1.9	
TUESDAY (10 March)							
08:00	DE	Exports SA	Jan	% m/m	-2.0	4.0	
08:30	HU	CPI	Feb	% y/y	1.7	2.1	
09:00	CZ	CPI	Feb	% y/y	1.4	1.4	
15:00	US	Existing Home Sales	Feb	% m/m	-1.15	-8.43	
WEDNESDAY (11 March)							
08:00	DE	HICP	Feb	% m/m	0.4	0.4	
13:30	US	CPI	Feb	% m/m	0.2	0.2	
THURSDAY (12 March)							
09:00	CZ	Industrial Production	Jan	% y/y	2.6	6.8	
13:30	US	Initial Jobless Claims	Mar.26	k	215.0	213.0	
13:30	US	Housing Starts	Jan	% m/m	-4.6	6.2	
FRIDAY (13 March)							
10:00	PL	CPI	Feb	% y/y	2.1	2.0	2.2
11:00	EZ	Industrial Production SA	Jan	% m/m	0.6	-1.4	
13:30	US	Durable Goods Orders	Jan	% m/m	0.4	-1.4	
13:30	US	GDP Annualized	4Q	% Q/Q	1.4	1.4	
13:30	US	Personal Spending	Jan	% m/m	0.3	0.4	
13:30	US	Personal Income	Jan	% m/m	0.5	0.3	
13:30	US	PCE Deflator SA	Jan	% m/m	0.3	0.4	
15:00	US	Michigan index	Mar	pts	56.3	56.6	

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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