

28 January 2022

Weekly Economic Update

Strong data, weak zloty

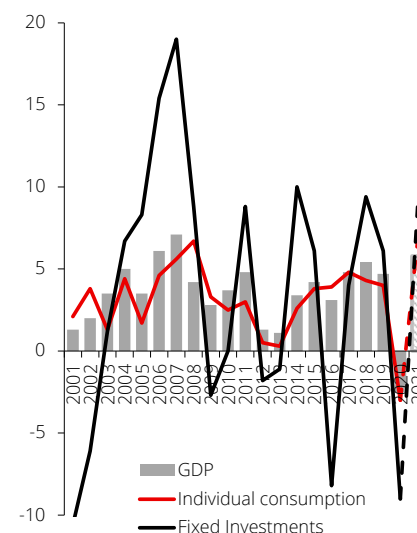
Economy next week

- Just after the weekend the Polish stats office (GUS) will publish preliminary estimate of 2021 full-year GDP, which will allow us to calculate the 4Q result (official flash print of 4Q will be released in the middle of February). **Our forecast of 2021 GDP growth is 5.8%, implying 4Q growth at c.7.5% y/y.** Market consensus for the full-year result is 5.5%. In our view consumption rose last year by 6.7%, investments by 8.8% and foreign trade balance was negative and deducted some 2.2pp from economic growth. On Tuesday **Polish manufacturing PMI for January** will be out. We expect improvement to 56.7 pts (consensus at 56.4 pts), following the move of the Eurozone indicators. Such data set, highlighting both a very strong end of the year in the Polish economy and a solid start of 2022 may support the views in the MPC that interest rate hikes need to be continued (last Friday after the high readings of industrial output and wages the NBP governor said that the scale of rate hikes would be larger than the market expected).
- Abroad there will be plenty releases to watch: PMI and ISM indexes for industry and services, GDP readings in some countries, inflation data in Europe, monthly labour market report in the USA.
- On Thursday two central banks will decide on rates: in Czechia a rate hike by 75bp is expected, in the Eurozone the ECB may keep rates and its rhetoric unchanged.
- The Sejm's candidate to the MPC Elżbieta Ostrowska resigned, so a new candidate is likely to be named in the coming days. The Sejm meeting, where two new members have to be designated is scheduled for 8-9 February, but earlier the new candidate has to be approved by the Public Finance Committee.
- The pandemic and Ukraine-Russia relations are still in focus. As regards Covid-19, models are predicting a further strong rise in infections in Poland until mid-February. Political situation in the east is much harder to predict. Recently markets seemed to be more convinced that escalation of the conflict will be avoided, but we do not know whether this belief will prove persistent.

Markets next week

- Since NBP Glapiński's hawkish comments last Friday, market pricing of the target NBP rate moved significantly higher (to around 4.5%), and very strong GDP and manufacturing PMI prints might give another excuse for the market to move in that direction, especially if another hawkish comments from NBP follow. In the environment of rising core market yields it means, in our opinion, that the risk of the Polish yield curve move higher is larger than the risk of a move in the opposite direction.
- The expected very strong local macroeconomic data should support PLN, similarly as higher expectations for NBP rate hikes. However, as the evidence from the last few days shows, PLN is currently more sensitive to risk factors, including vulnerable global sentiment, situation in the Eastern Europe, the pandemic, the risk of EU funds being frozen or even taken away. In our opinion, these global factors and risks may push EURPLN towards 4.60. Only if the external environment improves clearly (for example, we see confirmation of easing tension between Ukraine and Russia or de-escalation of Poland's conflict with the EU), EURPLN might decline back towards 4.52. Market participants should be prepared for a period of elevated volatility.

Polish GDP, %/y

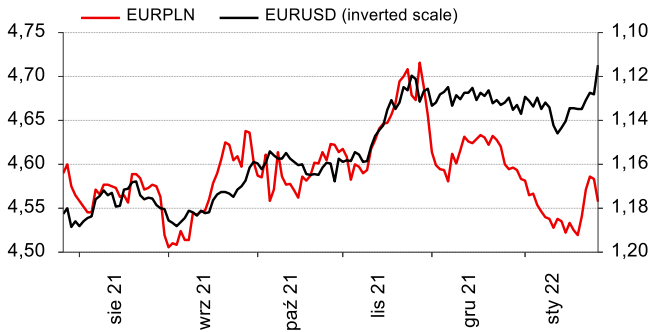


Source: GUS, Santander

Economic Analysis Department:

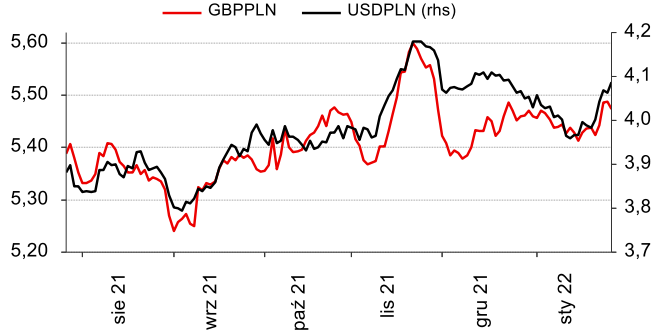
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EURPLN and EURUSD



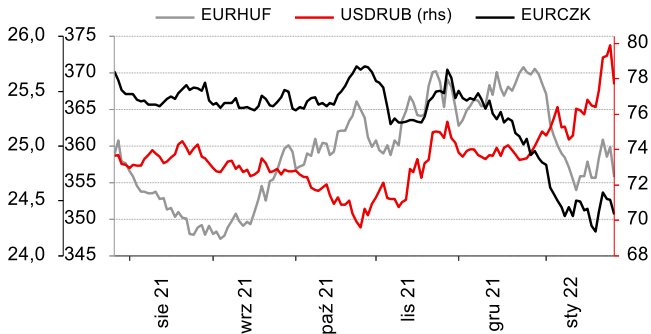
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



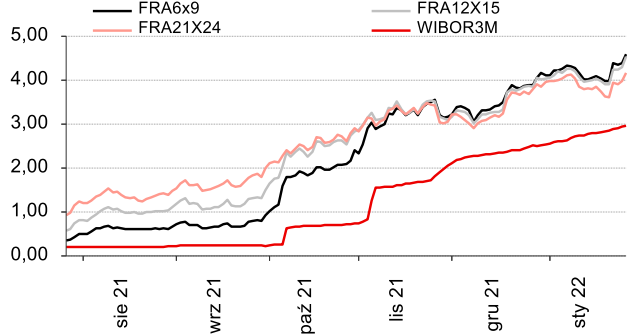
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



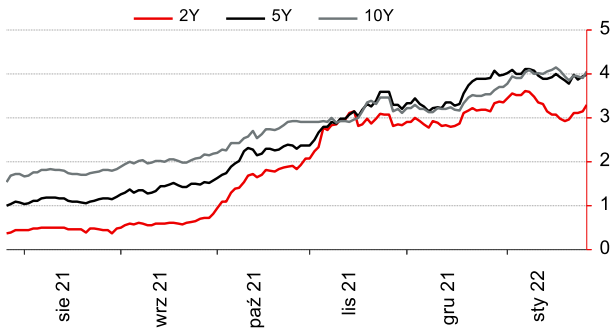
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



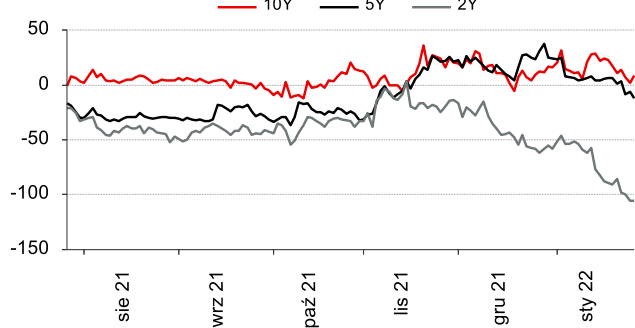
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



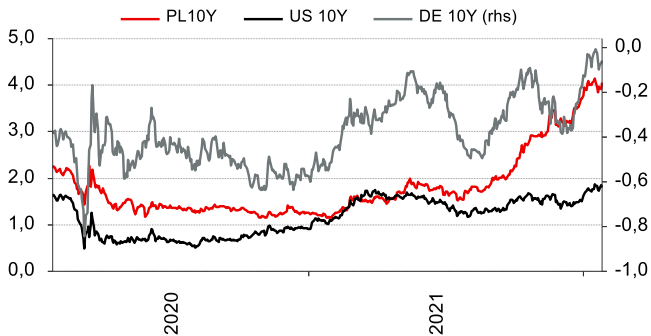
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



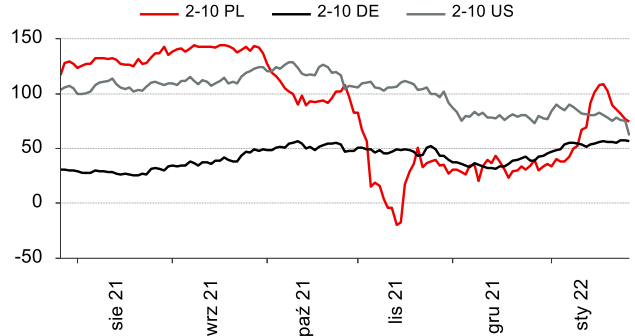
Source: Refinitiv Datastream, Santander Bank Polska

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	
MONDAY (31 January)						
08:00	DE	Retail Sales	Dec	% m/m	-1.3	0.6
10:00	PL	GDP	2021	% y/y	5.5	5.8
11:00	EZ	GDP SA	4Q	% y/y	4.6	3.9
14:00	DE	HICP	Jan	% m/m	-0.4	0.3
TUESDAY (1 February)						
09:00	CZ	GDP SA	4Q	% y/y	2.75	3.3
09:00	PL	Poland Manufacturing PMI	Jan	pts	56.4	56.7
09:55	DE	Germany Manufacturing PMI	Jan	pts	60.5	57.4
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	59.0	58.0
11:00	EZ	Unemployment Rate	Dec	%	7.1	7.2
16:00	US	ISM manufacturing	Jan	pts	58.0	58.7
WEDNESDAY (2 February)						
11:00	EZ	Flash HICP	Jan	% y/y	4.3	5.0
14:15	US	ADP report	Jan	k	208.0	807.3
THURSDAY (3 February)						
09:55	DE	Markit Germany Services PMI	Jan	pts	52.2	48.7
10:00	EZ	Eurozone Services PMI	Jan	pts	51.2	53.1
13:45	EZ	ECB Main Refinancing Rate	Feb.22	%	0.0	0.0
14:30	US	Initial Jobless Claims	Jan.22	k	265	260
14:30	CZ	Central Bank Rate Decision	Feb.22		4.5	3.75
16:00	US	Durable Goods Orders	Dec	% m/m		-0.9
16:00	US	ISM services	Jan	pts	59.6	62.3
16:00	US	Factory Orders	Dec	% m/m	0.1	1.6
FRIDAY (4 February)						
08:00	DE	Factory Orders	Dec	% m/m	0.0	3.7
09:00	HU	Industrial Production SA	Dec	% y/y		2.1
11:00	EZ	Retail Sales	Dec	% m/m	-0.5	1.0
14:30	US	Change in Nonfarm Payrolls	Jan	k	178	199
14:30	US	Unemployment Rate	Jan	%	3.9	3.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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