

11 February 2022

Weekly Economic Update

Will risks outweigh the positives?

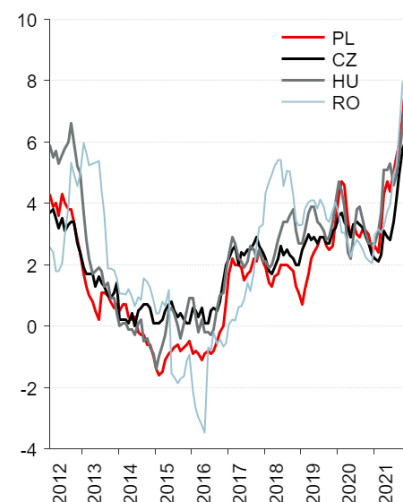
Economy next week

- It will be an eventful week. First of all, several important data releases, second of all, events affecting Poland-EU relations, third, new nominations to the MPC. The risk of Russia-Ukraine conflict escalation in the background. Finally, Fitch rating review.
- On Monday December's balance of payments data will be released – predicted next month of large deficit, amid high export and import growth. On Tuesday CPI inflation for January and flash GDP for 4Q21. **Our CPI forecast is 9.0% y/y**, market consensus 9.5% y/y and forecasts range between 8%+ and 10%+. Globally, upward inflation surprises are still predominant and we cannot rule out higher print also in Poland, even though it is not what our estimates show. Withough the temporary tax cuts, CPI would most likely jump to c.11% in January. One should remember that January data is provisional and will be re-estimated next months, after a change in CPI weights. This effect is hard to estimate, but we think it may add 0.1-0.2pp to inflation at the start of the year and reduce it by a similar amount at the end of the year. **We estimate 4Q21 GDP growth at 7.2% y/y**. On Friday the data on wages, employment, production, PPI, should confirm a solid economic activity at the start of the year. Our forecasts are close to market consensus.
- **On Wednesday the European Court of Justice will issue ruling on the conditionality mechanism.** If judges uphold the legislation, as expected, it will open the door for the European Commission to hold back EU money where there are risks to the budget from rule of law violations (Poland, Hungary) – the procedure may start in the coming weeks. Moreover, in the coming days the EC is going to reduce budget payments for Poland to offset for overdue penalties (€30m for a start, out of total €68m due). Also on Wednesday, **Poland's Constitutional Tribunal will start a hearing on the compatibility of the EU's conditionality mechanism with Polish constitution.** Those events may, but do not have to, imply escalation of Poland's conflict with EU on the rule of law. According to the RMF FM news, the EC has welcomed the president's proposal of judiciary system reform and may approve Poland's recovery and resilience plan even before it gets approved in the parliament. If it happens, for markets it would be a strong signal of rising changes for a deal, which should be supportive for the zloty.
- The macro calendar abroad is rather light: inflation in Czechia, GDP in Europe, US data on production, sales, FOMC minutes. The market started mulling a 50bp Fed rate hike in March, or even a hike before the scheduled meeting, so all signals from the USA will be scrutinised.
- In the coming week **the President should nominate two new MPC members** (terms of Łukasz Hardt and Kamil Zubelewicz end on 20 February). The Sejm also should come up with a new candidate after resignation of Gabriela Masłowska.

Markets next week

- The NBP governor managed to strengthen the zloty by presenting himself as a "hawk" at the conference, but mostly by declaring that the NBP might refrain from exchanging to PLN the EU funds received by the government, which would imply an extra demand for the zloty on the FX market (up to c.EUR1bn/month on average). The drop of EURPLN below 4.50 was short-lived, because a moment later the dollar appreciated, expectations for Fed rate hike soared and worries about the possibility of Russian invasion on Ukraine returned. In the coming week volatility on the FX market may be high. On one hand domestic data (high CPI, high economic activity) and the change of NBP rhetoric support the zloty. On the other hand there are two significant risks: the situation in the East (worries of conflict escalation as the end of the Winter Olympic Games nears) and the Poland-EU conflict on the rule of law. Both factors may, but not necessarily will, become PLN-negative. **In the optimistic scenario we see chances for EURPLN to return below 4.50 and set 4.45 as the next target. If the risks for the zloty start materialising, we would expect to see hard currency supply by BGK, limiting the scale of the potential zloty selloff below 4.60.**
- On the interest rate market, the pricing of further rate hikes rebounded (FRA9x12 again close to 4.70%). The inflation data will be key in the coming days – **another upside surprise may push bond yields and IRS rates even higher**, especially amid rates going up abroad.

CEE inflation rates, % y/y

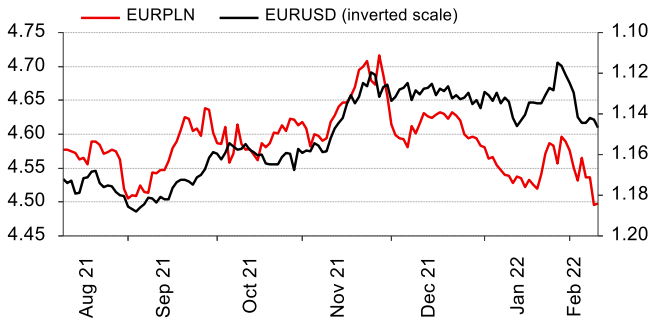


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

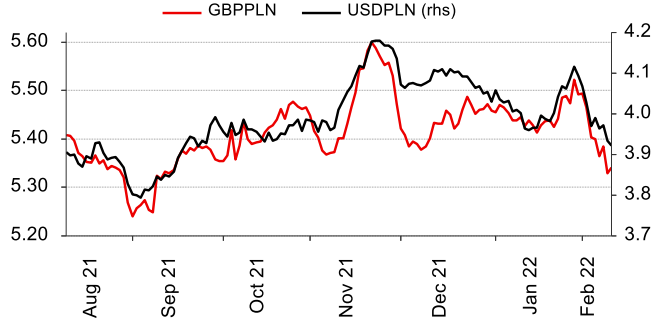
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EURPLN and EURUSD



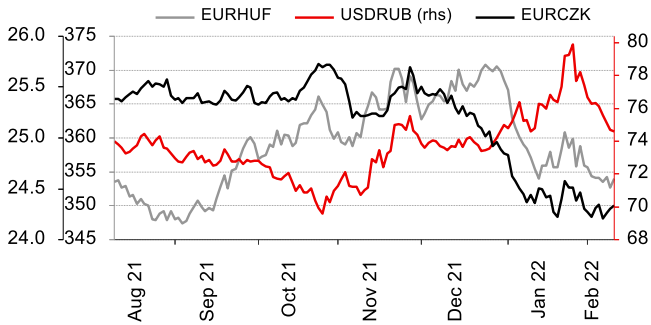
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



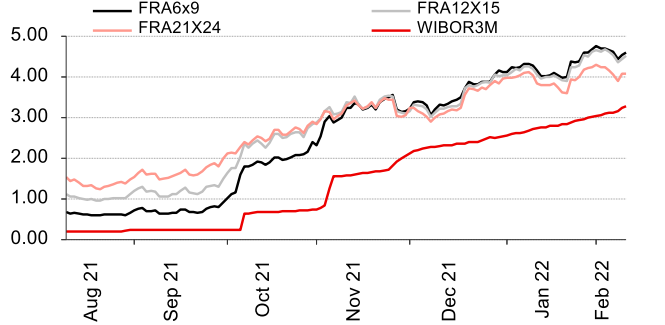
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



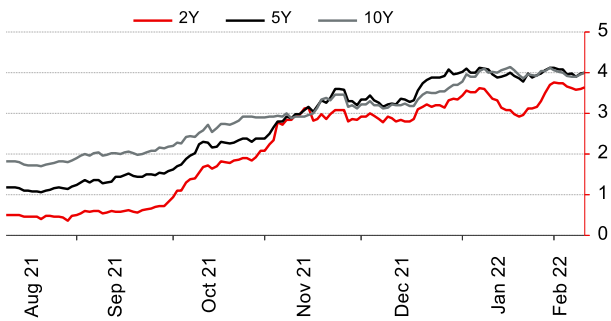
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



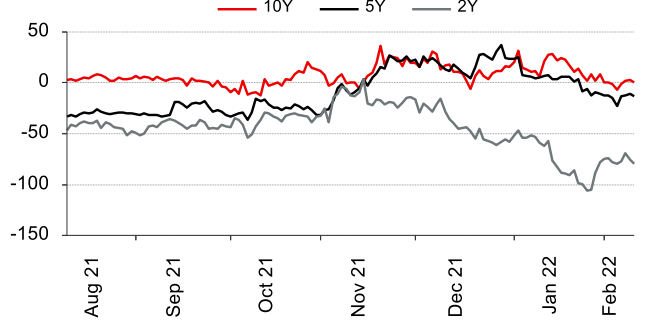
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



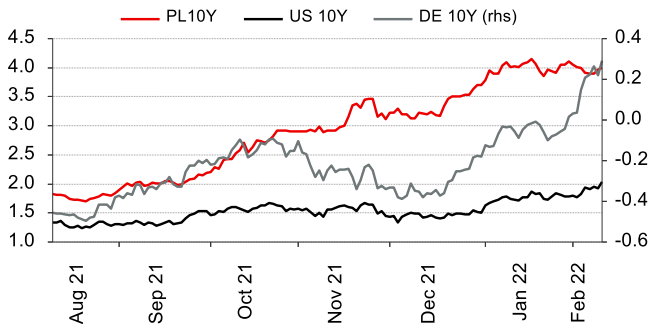
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



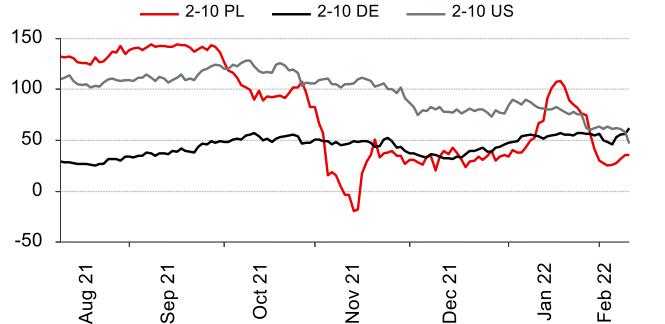
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTR Y	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDE R	
MONDAY (14 February)						
09:00	CZ	CPI	Jan	% y/y	9.2	6.6
14:00	PL	Current Account Balance	Dec	€mn	-2130	-1112
14:00	PL	Trade Balance	Dec	€mn	-1392	-632
14:00	PL	Exports	Dec	€mn	24700	26915
14:00	PL	Imports	Dec	€mn	26374	27547
TUESDAY (15 February)						
09:00	HU	GDP	4Q	% y/y	5.9	6.1
10:00	PL	CPI	Jan	% y/y	9.5	8.6
10:00	PL	GDP	4Q	% y/y	7.2	5.3
11:00	EZ	GDP SA	4Q	% y/y	4.6	4.6
11:00	DE	ZEW Survey Current Situation	Feb	pts	-4.0	-10.2
WEDNESDAY (16 February)						
9:30	PL,HU	ECJ ruling on conditionality mechanism				
11:00	EZ	Industrial Production SA	Dec	% m/m	0.1	2.3
14:30	US	Retail Sales Advance	Jan	% m/m	1.8	-1.9
15:15	US	Industrial Production	Jan	% m/m	0.4	-0.1
20:00	US	FOMC Meeting Minutes	Jan/22			
THURSDAY (17 February)						
14:30	US	Housing Starts	Jan	% m/m	-0.1	1.4
14:30	US	Index Philly Fed	Feb		20.0	23.2
FRIDAY (18 February)						
10:00	PL	Employment in corporate sector	Jan	% y/y	1.9	0.5
10:00	PL	Sold Industrial Output	Jan	% y/y	13.6	16.7
10:00	PL	PPI	Jan	% y/y	14.5	14.2
10:00	PL	Average Gross Wages	Jan	% y/y	10.4	11.2
16:00	US	Existing Home Sales	Jan	% m/m	-1.3	-4.6
	PL	Fitch Ratings: rating review				

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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