11 March 2022

Weekly Economic Update

War, inflation, interest rates

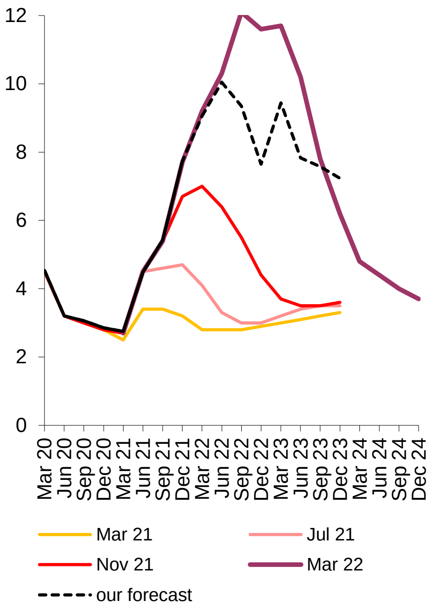
Economy next week

- War, inflation, interest rates – these themes will keep dominating the following week. We keep fingers crossed for the soonest possible end of the Russian invasion with the best possible outcome for Ukraine, but frankly the de-escalation does not seem to be on the horizon yet. One should be prepared for still elevated uncertatinty and high market volatility. Market sentiment may fluctuate from day to day.
- In Poland, new inflation data will be released: on Tuesday CPI for February plus January print revised after adjustment of weights, on Wednesday core inflation for January-February, on Friday PPI. **According to our forecast, CPI inflation slowed to 8.6% y/y in February** (market consensus 8.1% y/y) and the decline resulted mainly from the implementation of "anti-inflation shield", while the fundamental price pressure remained strong. **Core inflation rose to 6% y/y in January and 6.5% y/y in February, we estimate**. CPI prints in Czechia and Hungary exceeded expectations, so we feel rather safe with an inflation forecast above the market consensus. We estimate that the change of weights in the CPI basket may add c.0.1pp to CPI at the start of the year (which is already included in our forecast).
- The NBP has released its projections, showing that CPI will jump above 12% y/y in 2H22. These estimates are exaggerated by the fact that the central bank assumed that "anti-inflation shield" will expire in July, while it will most likely be extended. Our current scenario predicts CPI peaking at c.10% y/y in mid-year and averaging at 9% in 2022 and 8% in 2023. Taking into account projection's results and the NBP's just-revealed estimates of the monetary transmission (rate hike by 100bp ≈ CPI lower by 0.2-0.4pp in the long run) one could argue that to bring inflation back within the tolerance band around the target, interest rates should be lifted by c.300bp more from the current level. We do not expect such scenario, first of all because the exchange rate appreciation may do part of the job (EURPLN was at its peak 5.0 at the moment of preparing projection), secondly we think that economic slowdown will be more severe than anticipated by the central bank. **In our view, the NBP reference rate will peak at 5.0% in mid-year**.
- On Tuesday the **balance of payments data** will be released. Current account deficit in January most likely shrank significantly as compared to previous months (our forecast -€464m, consensus -€519m) but mainly due to strong seasonaliy – the 12m rolling deficit is likely to widen again. On Friday also **data from the labour market** for February – we expect wage growth near 10% y/y and employment growth 2.2% y/y, confiming that the market was overheating just before the war broke out.
- The key event abroad will be the **FOMC decision on Wednesday evening**. Most likely the Fed will start the rate hikes cycle, just as promised (market expects +25bp). New forecasts and Jay Powell's rhetoric will be important. Also next week other central banks will decide on rates: BoE (Thursday, +25bp expected), BoJ (Friday), PBoC (Tuesday night). Also in the agenda a number of data releases abroad, including inflation in the euro zone, production in EMU and USA, US retail sales.

Markets next week

- After the sell-off wave at the beginning of the passing week, the CEE currencies have shown a clear recovery, although there is no guarantee the FX market rollercoaster has already stopped. Much will depend on further news flow from the frontline. In case of another wave of risk aversion, EURPLN could set new higher peaks. The NBP governor openly admitted at the last press conference that "FX interventions achieved so little that there was no point in increasing their scale", but we assume that in case of another sell-off the NBP would be back on the market. We assume that there will be no reasons for the FX market to panic in the coming week and this is why **we see EURPLN stabilising around 4.75**.
- On the interest rate market, the sell-off trend still prevails and so far it is hard to name a reason why it should stop. It is supported by the very hawkish message coming from the NBP (causing a rise of expected scale of future rate hikes) as well as other major central banks. Even the ECB, the central bank least expected to tilt to the hawkish side, especially when there is a war in Europe, has just accelerated its withdrawal from accommodative monetary policy. The Fed seems more likely to turn in this direction. **We see risk that the yield and swap curves move again to the upside in the coming week** (and increase their inversion – the higher the rates climb in the short term the more they will need to be cut later on economic slowdown)..

CPI inflation according to subsequent NBP projections and our current forecast, % y/y



Source: NBP, Santander

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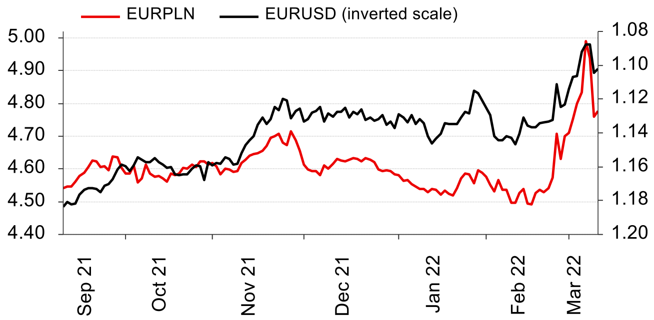
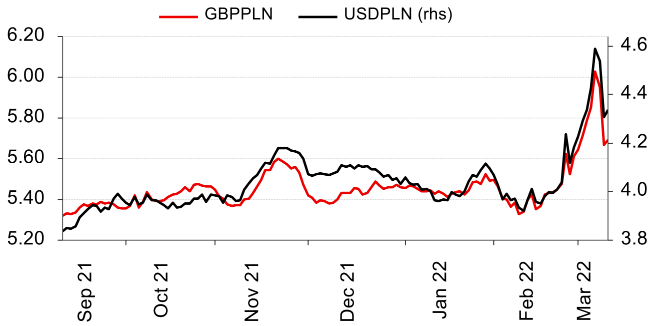
EURPLN and EURUSD



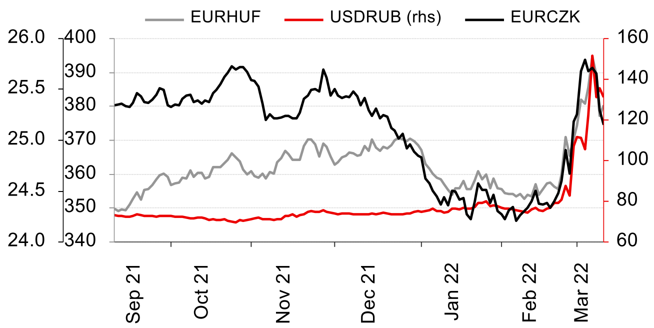
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



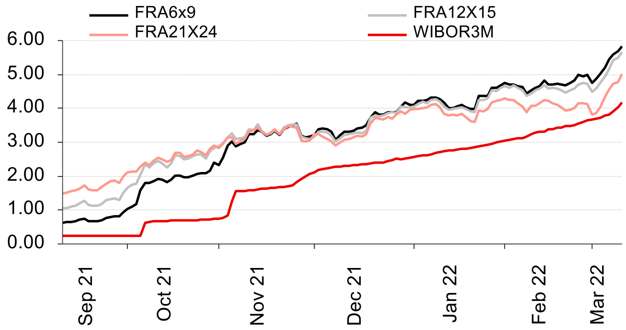
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



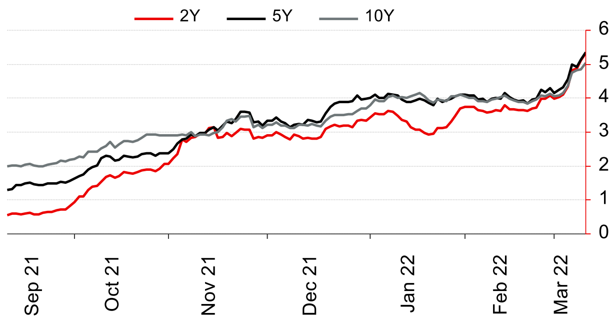
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



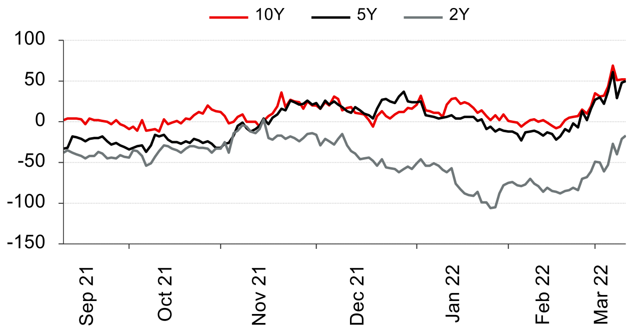
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



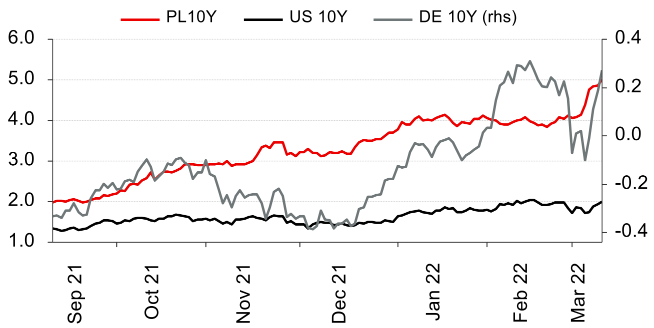
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



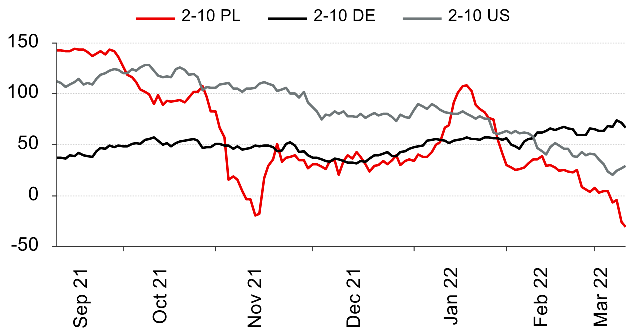
Source: Refinitiv Datastream, Santander Bank Polska

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 MARKET	FORECAST SANTANDER	LAST VALUE
			TUESDAY (15 March)				
10:00	**PL**	**CPI**	**Feb**	**% y/y**	**8.1**	**8.6**	**9.2**
11:00	EZ	Industrial Production SA	Jan	% m/m	0.2	-	1.2
11:00	DE	ZEW Survey Current Situation	Mar	pts	-23.0	-	-8.1
			WEDNESDAY (16 March)				
13:30	US	Retail Sales Advance	Feb	% m/m	0.3	-	3.8
14:00	**PL**	**CPI Core**	**Feb**	**% y/y**	**6.3**	**6.5**	**5.3**
14:00	**PL**	**Current Account Balance**	**Jan**	**€mn**	**-519**	**-464**	**-3957**
14:00	**PL**	**Trade Balance**	**Jan**	**€mn**	**-1406**	**-1461**	**-2535**
14:00	**PL**	**Exports**	**Jan**	**€mn**	**24810**	**25105**	**24109**
14:00	**PL**	**Imports**	**Jan**	**€mn**	**26512**	**26566**	**26644**
19:00	US	FOMC decision	Mar.22		0.5	0.0	0.25
			THURSDAY (17 March)				
11:00	EZ	HICP	Feb	% y/y	5.8	-	5.1
13:30	US	Initial Jobless Claims	Mar.22	k	215.0	-	227.0
13:30	US	Housing Starts	Feb	% m/m	3.8	-	-4.1
13:30	US	Index Philly Fed	Mar		15.0	-	16.0
14:15	US	Industrial Production	Feb	% m/m	0.5	-	1.4
			FRIDAY (18 March)				
10:00	**PL**	**Employment in corporate sector**	**Feb**	**% y/y**	**2.1**	**2.2**	**2.3**
10:00	**PL**	**Sold Industrial Output**	**Feb**	**% y/y**	**16.2**	**17.7**	**19.2**
10:00	**PL**	**PPI**	**Feb**	**% y/y**	**15.1**	**15.5**	**7.9**
10:00	**PL**	**Average Gross Wages**	**Feb**	**% y/y**	**9.9**	**10.1**	**9.5**
15:00	US	Existing Home Sales	Feb	% m/m	-4.6	-	6.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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.