

18 March 2022

# Weekly Economic Update

## Time to unlock the recovery fund

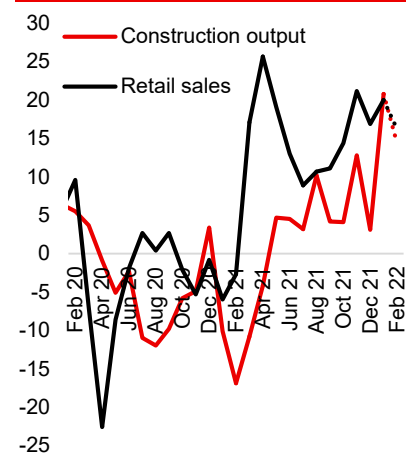
### Economy next week

- **New set of local data from February** will be released after the weekend, including construction output, retail sales, unemployment, and confirming that Polish economy was growing at high speed just before the war in Ukraine (data on industrial production, wages and employment released today were better than expected). But we will also see **leading indicators for March**: in Poland GUS business and consumer sentiment, abroad flash PMIs, German Ifo – and they may be more important for investors, seeking any guidance about possible impact of war on the economic outlook.
- There are several central bank meetings in the calendar: in Hungary (expected +75bp), in Norway (+25bp), in Switzerland (unchanged), plus a number of Fed members' speeches.
- **Sejm is expected to start working on the draft regulations, dismantling the contested Disciplinary Chamber of the Supreme Court.** It may be a signal whether Poland plans to use the opportunity to improve relations with the EU and unlock the recovery fund. For a couple of days the media keep repeating that the European Commission is "very close" to approval of Poland's recovery and resilience plan. The approval of the document (which is likely to be a positive impulse for PLN) does not imply releasing the money – the funds will start flowing once Poland implements the required legal changes restoring the rule of law, defined as the "milestones" of the recovery and resilience plan. The longer the stalemate, the more difficult it will be to finish the projects on time and get all the allocated financing.
- **The term of office of MPC member Jerzy Żyżyński expires on March 30**, so it would be natural to expect that Sejm will propose a replacement in the coming days. In fact, we are waiting for two candidates, as there is still one vacancy in the MPC after earlier two times in a row candidates designated by Sejm have resigned from running for the job.
- **On Thursday US President Joe Biden arrives to Europe** to participate in the NATO summit and in the European Council meeting. The visit will be closely watched for any declarations regarding the response to the Russian aggression. Media informed that on Friday Biden may also visit Poland, possibly confirming the US support in defending NATO frontiers.

### Markets next week

- Risk aversion clearly subsided in recent days, which allowed the CEE currencies to strengthen more than other EM currencies. We do not know how the conflict develops and if or when Russia decides to escalate it. If it does not happen, **the zloty may gain even more, possibly returning to 4.60-4.65 vs. the euro**, where it was in late 2021. The appreciation would be even more likely if there is confirmation of the approval of Polish recovery plan by the EC and there are credible signals that the legislation liquidating the Disciplinary Chamber has the green light in the parliament. However, a risk has to be reckoned with that military developments in Ukraine may at any moment send a new wave of risk aversion.
- In the middle of the passing week for the first time since the war began there was significant demand for Polish bonds. It looks like some market participants have already started hunting for investment opportunities, getting used to the geopolitical risk. If PLN strengthens (working against inflation), then **expectations about the scale of NBP rate hikes should go down, which would support POLGBs**. Room for the fall of domestic yields may be limited by the prospects of more supply of government bonds due to higher fiscal deficit (caused by economic slowdown, costs of government's actions to protect citizens from high inflation – i.e. an extension of the anti-inflation shield, creation of the so-called anti-Putin shield – and costs of the mass immigrants' inflow; especially that according to RMF FM radio the Polish government is still not asking the EU for help in their relocation). The Thursday POLGB auction with indicative supply of PLN3-7bn will be a test of investors' sentiment.

Construction output and retail sales, % y/y

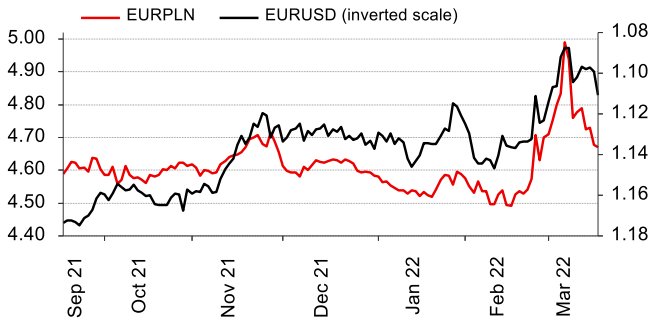


Source: NBP, Santander

### Economic Analysis Department:

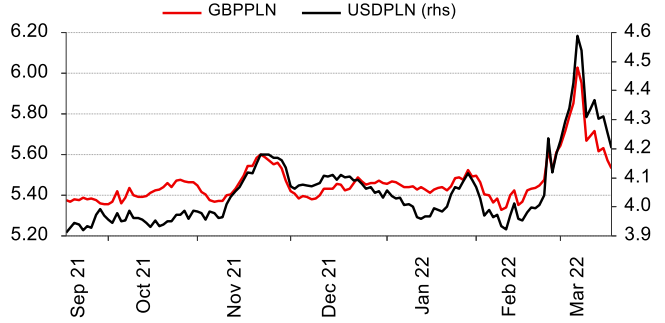
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### EURPLN and EURUSD



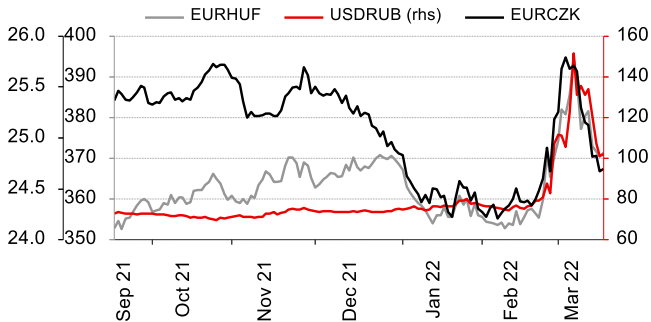
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



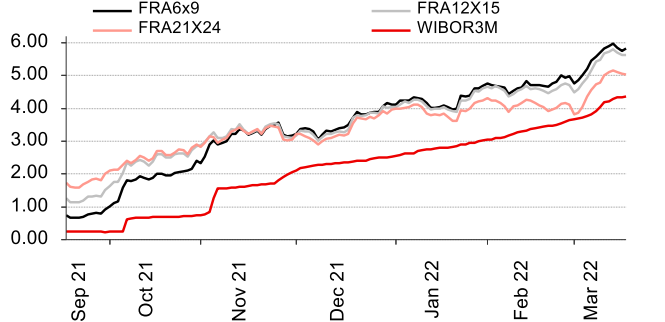
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



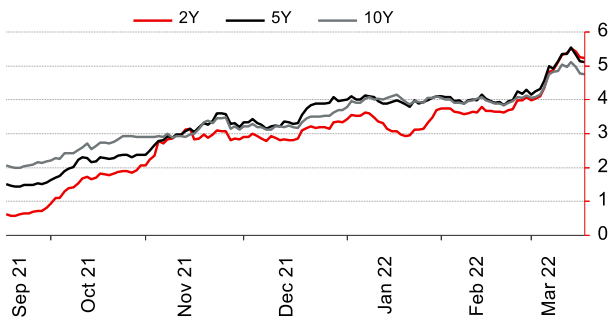
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



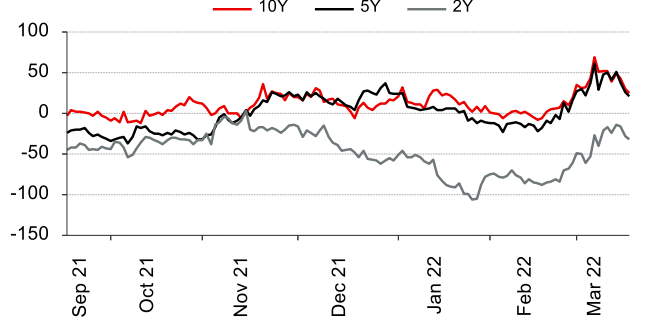
Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



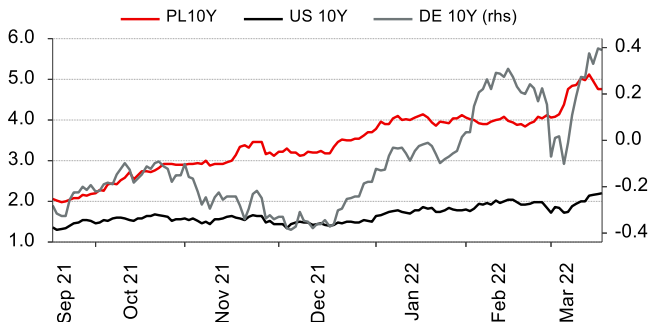
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



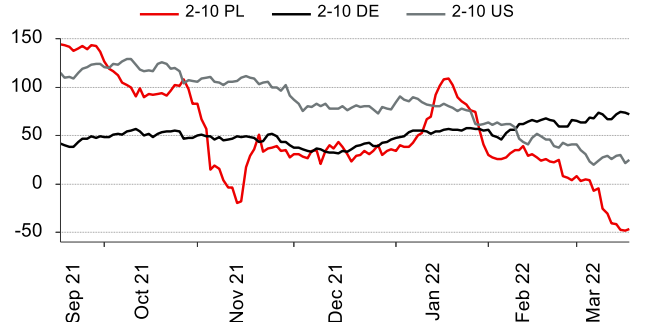
Source: Refinitiv Datastream, Santander Bank Polska

### 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	
<b>MONDAY (21 March)</b>						
10:00	PL	Construction Output	Feb	% y/y	23.7	20.8
10:00	PL	Retail Sales Real	Feb	% y/y	8.3	10.6
<b>TUESDAY (22 March)</b>						
14:00	HU	Central Bank Rate Decision	Mar.22	%	4.4	3.4
14:00	PL	Money Supply M3	Feb	% y/y	7.9	7.7
<b>WEDNESDAY (23 March)</b>						
10:00	PL	Unemployment Rate	Feb	%	5.5	5.5
15:00	US	New Home Sales	Feb	% m/m	1.8	-4.5
<b>THURSDAY (24 March)</b>						
09:30	CH	Swiss National Bank decision		%	-0.75	-0.75
09:30	DE	Germany Manufacturing PMI	Mar	pts	56.3	58.4
09:30	DE	Markit Germany Services PMI	Mar	pts	54.8	55.8
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	57.5	58.2
10:00	EZ	Eurozone Services PMI	Mar	pts	55.0	55.5
13:30	US	Durable Goods Orders	Feb	% m/m	-0.6	1.6
13:30	US	Initial Jobless Claims	Mar.22	k	220	214
<b>FRIDAY (25 March)</b>						
10:00	DE	IFO Business Climate	Mar	pts	94.1	98.9
15:00	US	Michigan index	Mar	pts	59.7	59.7
15:00	US	Pending Home Sales	Feb	% m/m	1.0	-5.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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