13 May 2022

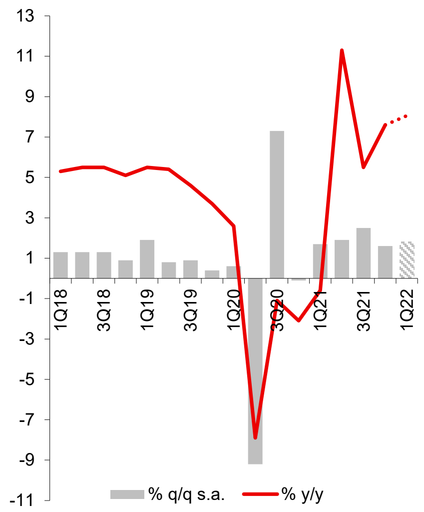
Weekly Economic Update

On the way to recovery fund

Economy next week

- Today we have learned that CPI inflation in April was even slightly higher than suggested by the flash data and reached 12.4% y/y, and **on Monday we will see how big was core inflation rise**. Our current estimate is 7.7% y/y (the new record high, after 6.9% in March). Inflation is now the problem number one in Poland and abroad and its further rise will determine the peak level of interest rates in this cycle – as we wrote in the latest MACROscope Lite report released few days ago.
- On Tuesday **the flash GDP growth data for 1Q22** will be released in Poland. Our forecast is 8.1% y/y and 1.8% q/q s.a.; Bloomberg consensus is 8.3% y/y and the range of forecasts 7.6%-10.0%.
- On Friday the data on **wages and employment, industrial output and PPI** will be released. We expect to see moderately high wages and employment, confirming big inertia in the labour market, gradual deceleration in production and new record-high PPI. Our forecasts are very close to market consensus.
- Important data on economic activity will be released abroad. The week will start with Chinese output and retail sales which can be an important signal given the recent worries about global slowdown. In the EU and the Eurozone first estimates of 1Q GDP will be out and in the USA industrial production and retail sales. What is more, the European Commission will publish its updated economic forecasts taking into account the possible impact of the war in Ukraine.
- Polish politics might enter a period of stabilisation. The Sejm granted Adam Glapiński the second term as the NBP governor which suggests that the ruling coalition has reached a deal which might also include the rule-of-law issues. However, contrary to media suggestions, the Sejm meeting was not extended and the next one is planned only for 25-26 May. Possibly by that time the Justice Committee will finish works on the bill to liquidate the Disciplinary Chamber. In the meantime, **the European Commission may formally approve Poland's recovery and resilience plan**, after today the government has informed they reached agreement on the milestones. It is an important step in good directions. Yet, please keep in mind that in order to receive the money from the recovery fund Poland will need to implement the required legal changes improving the rule of law.

GDP growth in Poland, %



Source: GUS, Santander

Markets next week

- Last week on financial markets was under the spell of higher risk aversion (large declines on stock exchanges, collapse of cryptocurrencies, weaker EM FX, stronger US dollar and Swiss franc, falling bond yields), due to, among other factors, the growing fears about global slowdown. On Friday some markets (stock markets, bonds) managed to show some rebound, but its duration is likely to depend on new signals from the world about the global business climate, including the data from China, EU and USA.
- We think that **Polish bonds may go back to weakening trend** after the recent strengthening, discounting the further rise of inflation, interest rates and fiscal deficit.
- **EURPLN will remain in the 4.65-4.70 range** in our view, with the zloty on one hand supported by local data which still look OK, and on the other hand softened by the pressure of negative global sentiment and the dollar appreciation, which are weighing on EM currencies.

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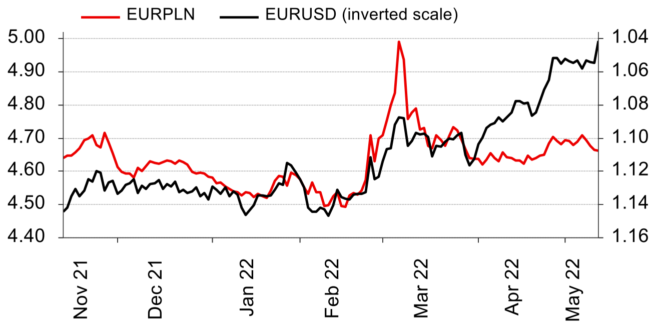
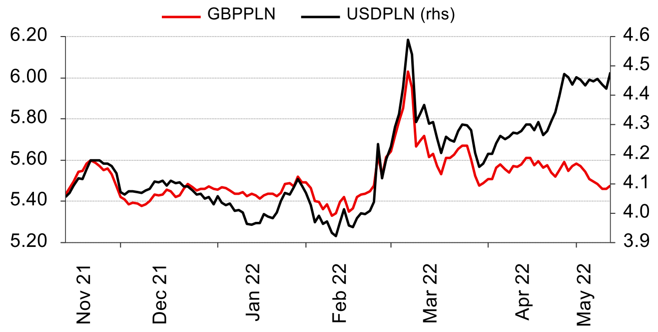
EURPLN and EURUSD



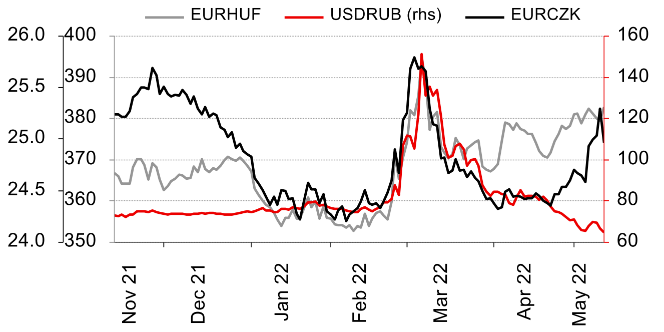
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



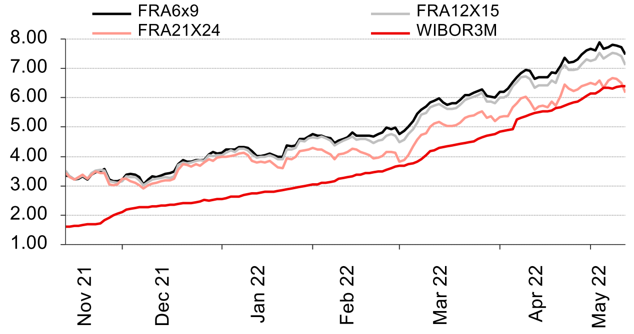
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



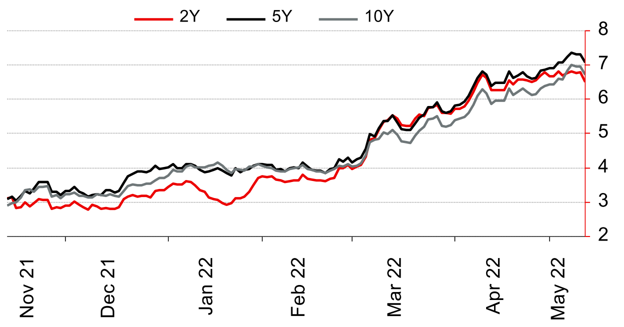
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



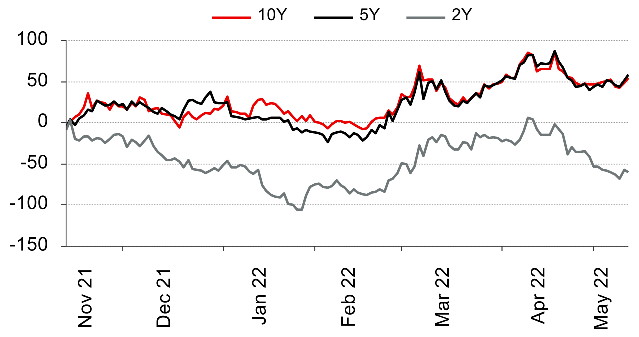
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



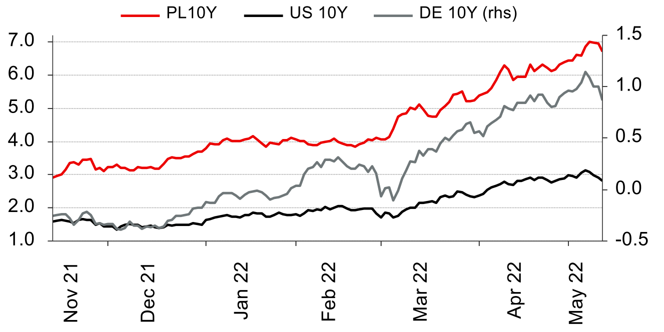
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



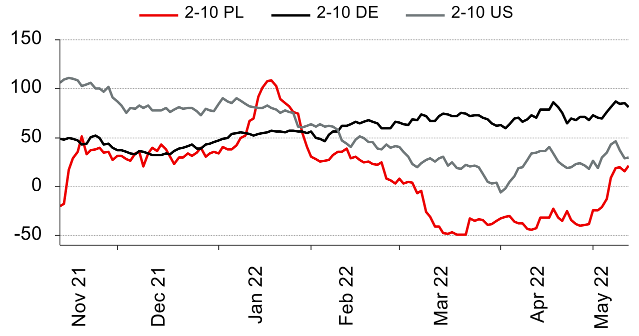
Source: Refinitiv Datastream, Santander Bank Polska

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
			MONDAY (16 May)				
14:00	**PL**	**CPI Core**	**Apr**	**% y/y**	**7.5**	**7.7**	**6.9**
			TUESDAY (17 May)				
09:00	HU	GDP	1Q	% y/y	7.8	-	7.1
10:00	**PL**	**GDP**	**1Q**	**% y/y**	**8.1**	**8.3**	**7.3**
11:00	EZ	GDP SA	1Q	% y/y	5.0	-	5.0
14:30	US	Retail Sales Advance	Apr	% m/m	1.0	-	0.7
15:15	US	Industrial Production	Apr	% m/m	0.4	-	0.9
			WEDNESDAY (18 May)				
11:00	EZ	HICP	Apr	% y/y	0.0	-	7.5
14:30	US	Housing Starts	Apr	% m/m	-1.7	-	0.3
			THURSDAY (19 May)				
14:30	US	Initial Jobless Claims		k	193	-	203
14:30	US	Index Philly Fed	May		16.7	-	17.6
16:00	US	Existing Home Sales	Apr	% m/m	-2.1	-	-2.7
			FRIDAY (20 May)				
10:00	**PL**	**Employment in corporate sector**	**Apr**	**% y/y**	**2.7**	**2.8**	**2.4**
10:00	**PL**	**Sold Industrial Output**	**Apr**	**% y/y**	**14.5**	**12.3**	**17.3**
10:00	**PL**	**PPI**	**Apr**	**% y/y**	**20.3**	**20.5**	**20.0**
10:00	**PL**	**Average Gross Wages**	**Apr**	**% y/y**	**12.3**	**12.4**	**12.4**

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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