

Weekly Economic Update

Pre-holiday data spree

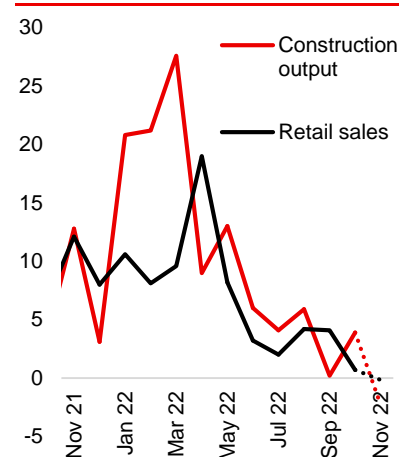
Economy next week

- In the coming week, a lot of local data will be out: on Tuesday, labour market data on corporate employment and wages, consumer sentiment, sold industrial production and PPI inflation; on Wednesday, construction production and retail sales; on Thursday, M3 money supply and on Friday, the unemployment rate and the GUS Statistical Bulletin. We expect the data to indicate a further slowdown in the domestic economy. Construction output and retail sales at constant prices may show negative y/y growth (not seen yet in this slowdown) and annual wage growth is likely to remain around five percentage points below inflation.
- Further reports on the **EU financing of Polish recovery plan** and the related milestones may also be important, although they are likely to come in less often than in recent weeks. In the past week, the Sejm was to start legislative work on the Supreme Court bill, which was supposed to implement the European Commission's recommendations needed to unlock the funds. However, the work was postponed and the bill is to pass the consultation stage first.
- Apart from that, some important data from abroad will be due: the German Ifo business climate index, US data on the real estate market, industrial orders, consumer income and spending, PCE inflation. Data from the world's largest economy will be key to assessing the possible pace of Fed tightening. Recently, the US central bank has softened its message somewhat, although the so-called dot plot, depicting FOMC members' expectations for interest rates, indicated that they see the target level higher than investors.

Markets next week

- The hawkish tone of the ECB signalling further rate hikes "at a steady pace" at future meetings of the central bank raised market expectations of the target rate level. This contrasted sharply with the reaction of markets overseas, where higher-than-current market expectations Fed's "dot-com projections" of the terminal rate level were unable to convince investors that, amid repeating declines in US inflation indicators, the FOMC will indeed break through the 5% level in the current cycle of rate hikes. As a result, in recent days there has been a clear divergence in the behaviour of the two major debt markets - dynamic increases in yields in the Eurozone were accompanied by stabilisation or declines in US yields. The Polish debt market eventually began to slowly follow the European one and also began to weaken, helped by the upward revision of CPI inflation for November. Although domestic yields found a convenient excuse to unwind the recent decline, in our view this trend will not last too long. A rich package of domestic data in the coming week should convince the market that wage-price pressure is starting to weaken further, so there will be no room for further rate hikes in 2023 under the MPC's current stance. **We expect 2Y yields to return slightly below 6.80% again next week, and 10Y yields to be around 6.50%.**
- For most of the passing week, the EURPLN exchange rate fluctuated in the 4.68 - 4.70 zone. The zloty attempted to strengthen several times and go past the lower limit of this range on the occasion of reports of Poland's opportunity to pave the way for obtaining EU financing for the national recovery plan. Ultimately, however, work on the Supreme Court bill, which is key in this regard, was postponed until the next session of the Sejm, to be held on 11 January, which prevented the exchange rate from quickly breaking the 4.68 level. A factor that further interfered with this was the technical strengthening of the US dollar at the end of the week. The USD appreciation came after it had weakened sharply on Thursday, when it became clear that the ECB intends to be more hawkish than the Fed in the coming months, and will additionally launch a process of gradual reduction of its balance sheet starting in March. In the coming week, we expect a resumption of the trend of the dollar weakness in global markets, which should also be supported by data coming from the US. Against this background, **we expect renewed attempts of the zloty to strengthen against both the dollar and the euro.** We assume that the EURPLN exchange rate will cross the level of 4.68 and start heading towards 4.65.

Construction output and retail sales in constant prices, %y/y

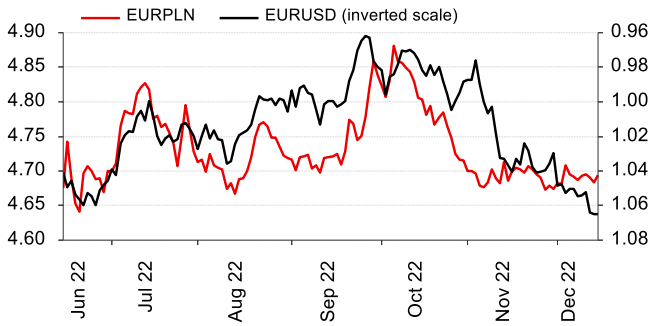


Source: GUS, Santander

Economic Analysis Department:

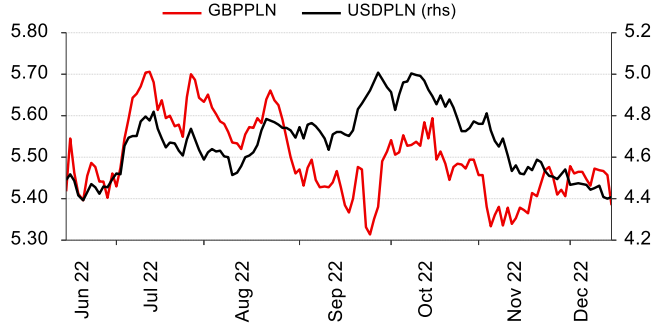
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EURPLN and EURUSD



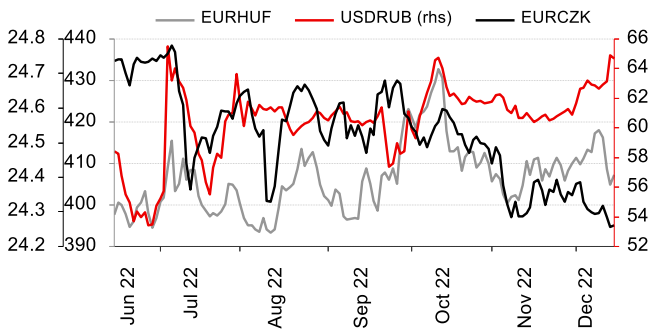
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



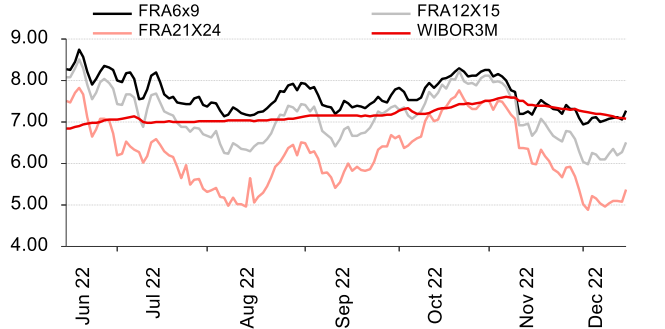
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



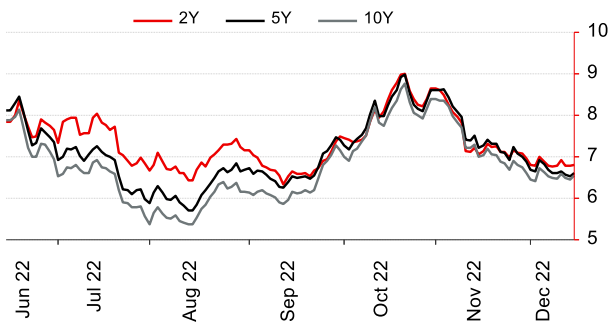
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



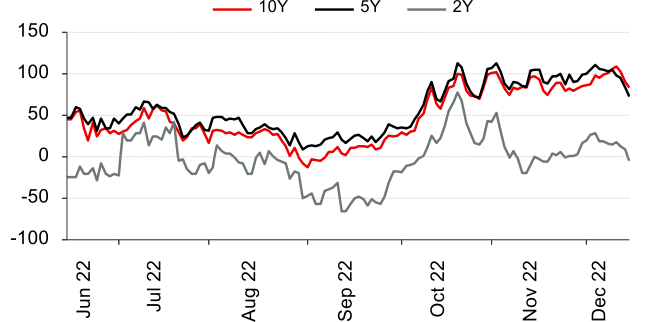
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



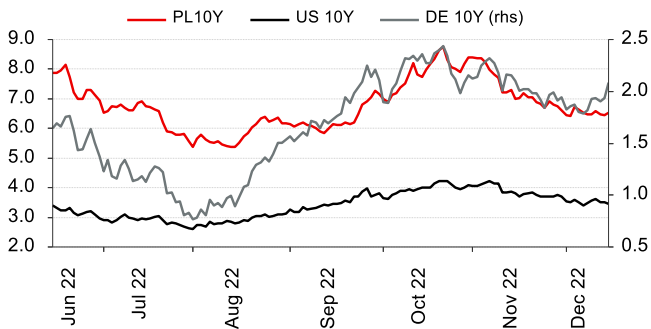
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



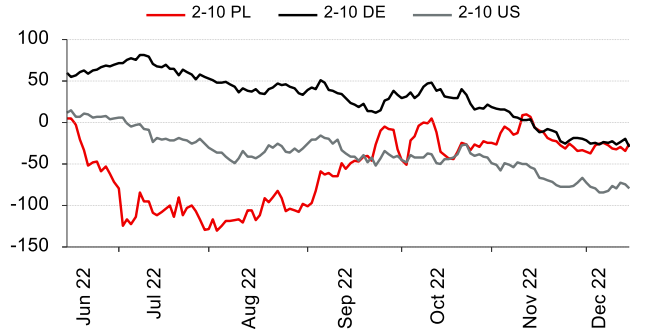
Source: Refinitiv Datastream, Santander Bank Polska

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		LAST VALUE
				MARKET	SANTANDER	
MONDAY (19 December)						
10:00	DE	IFO Business Climate	Dec	pts	-	86.3
TUESDAY (20 December)						
10:00	PL	Employment in corporate sector	Nov	% y/y	2.3	2.4
10:00	PL	Sold Industrial Output	Nov	% y/y	2.2	6.8
10:00	PL	PPI	Nov	% y/y	21.1	22.9
10:00	PL	Average Gross Wages	Nov	% y/y	12.8	13.0
14:00	HU	Central Bank Rate Decision		%	-	13.0
14:30	US	Housing Starts	Nov	% m/m	-1.8	-4.2
WEDNESDAY (21 December)						
10:00	PL	Construction Output	Nov	% y/y	-1.6	3.9
10:00	PL	Retail Sales Real	Nov	% y/y	0.3	0.7
14:30	CZ	Central Bank Rate Decision			-	7.0
16:00	US	Consumer Conference Board	Dec	pts	101.0	100.2
16:00	US	Existing Home Sales	Nov	% m/m	-5.2	-5.9
THURSDAY (22 December)						
14:00	PL	Money Supply M3	Nov	% y/y	5.9	7.0
14:30	US	GDP Annualized	3Q	% Q/Q	2.9	-0.6
14:30	US	Initial Jobless Claims		k	232	230
FRIDAY (23 December)						
10:00	PL	Unemployment Rate	Nov	%	5.1	5.1
14:30	US	Durable Goods Orders	Nov	% m/m	-0.5	1.0
14:30	US	Personal Spending	Nov	% m/m	0.2	0.8
14:30	US	Personal Income	Nov	% m/m	0.2	0.7
14:30	US	PCE Deflator SA	Nov	% m/m	0.3	0.3
16:00	US	Michigan index	Dec	pts	59.1	56.8
16:00	US	New Home Sales	Nov	% m/m	-5.1	7.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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