

23 December 2022

Bi-Weekly Economic Update

Merry Christmas and a Happy New Year!

This is the last Weekly this year, we will resume publication on 5 January 2023. Merry Christmas and Best Wishes for 2023!

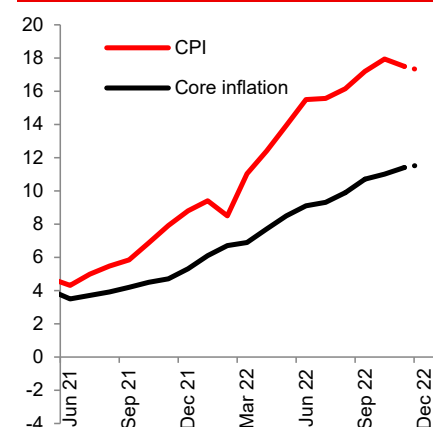
Economy next two weeks

- Not much domestic data in the coming week. Interesting releases are: activity of companies employing up to 9 people in 2021 and data on selected labour market issues, both due for release on Friday 30 December. However, these statistics will not have any impact on the market. The first week of the new year will be more busy - on Monday we will get to see the **PMI index for Polish manufacturing** (we expect a slight rebound), on Wednesday the **MPC decision** (in our view, no change in rates) and on Thursday the **flash CPI inflation** for December, which, according to our forecasts, will show a further decline, to 17.2% y/y, mainly thanks to a drop in fuel and coal prices.
- Globally, the pattern of data releases will be similar - we will have to wait until the new year for more significant releases. In addition to the **final PMI/ISM indices** for the major economies, we will get to see **inflation** for December in Germany and the euro zone, **retail sales** in Germany and the euro zone, industrial orders in **Germany and the US**, the December **FOMC meeting minutes** and important **US labour market data** (ADP, NFP).

Markets next two weeks

- The recent data from the major economies (e.g. IFO indicators from Germany, GDP from the US) surprised to the positive side, while inflation indicators confirmed the gradual weakening of inflationary pressures. This combination of data stimulated market sentiments, which began to become somewhat less fearful of a hard landing of the global economy. As a result, appetite for emerging markets clearly improved, which also benefited the zloty and other CEE currencies. In line with our expectations from a week ago, the EURPLN exchange rate permanently broke out of the consolidation in the zone of 4.68 - 4.70, valid during the recent weeks, and started heading towards or even below 4.65. In our opinion, **the appreciation of the zloty is not yet over and the exchange rate may try to test 4.60 in the coming weeks**. This should also be supported by signals from politics, indicating greater activity unblock the Poland's Recovery Fund.
- The domestic debt market remained torn between conflicting signals coming from global markets and the domestic economy. The ECB's hawkish stance on further prospects for rate rises in the euro area, further confirmed by statements of euro zone central bankers (including Vice-President Luis de Guindos), stimulated yield rises in Europe and initially also in Poland. On the other hand, domestic data on producer inflation and wages slower than CPI inflation reinforced the domestic market's belief that inflationary processes - even if very slowly - will gradually weaken, which is unlikely to stimulate the dovish MPC to resume the rate hike cycle soon. Thus, the domestic debt market should not really follow its German counterpart, which is discounting a larger scale of ECB rate. As a result, the second half of the passing week saw a return to strengthening in the domestic debt. More pronounced declines in yields were prevented by stronger US data and by statements of MPC members, revealing a clear divergence of opinion about the likely timing of the first rate rises: still in 2023 or not until 2024. This prevented markets from more vigorously pricing in deeper rate cuts on longer-dated FRA contracts, which affected the debt market. In our view, **further declines in domestic yields will continue in the coming weeks**, which should be supported by the publication of CPI inflation for December. However, 6.50% may act as a barrier to curve falls in the near future. A more pronounced breach of this level may only be possible if markets strongly believe that the peak in inflation is behind us, which is unlikely to happen in the coming weeks.

Inflation, % y/y

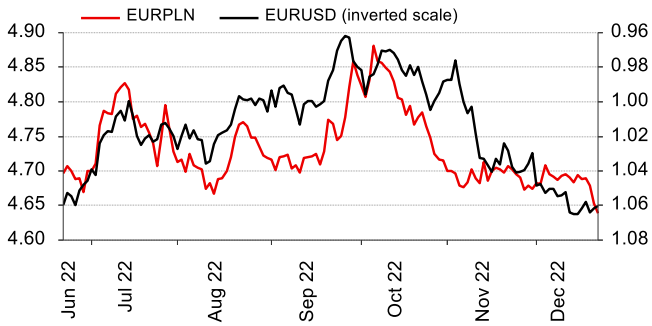


Source: GUS, NBP, Santander

Economic Analysis Department:

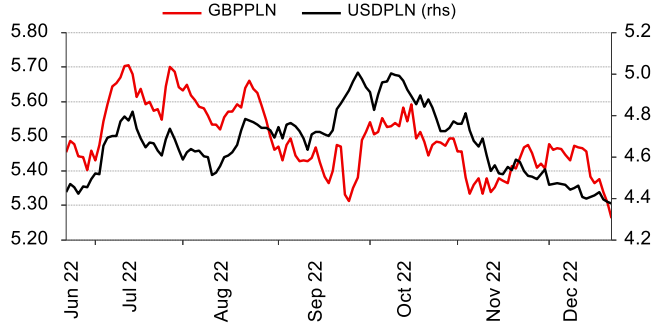
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EURPLN and EURUSD



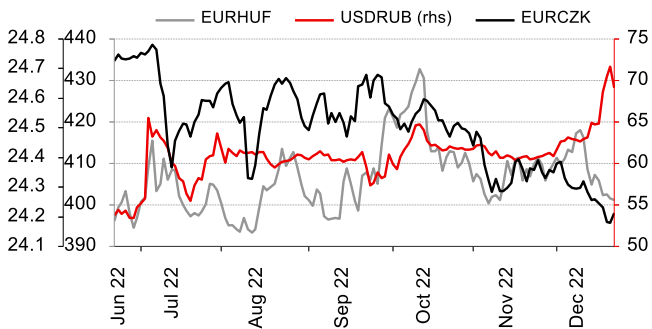
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



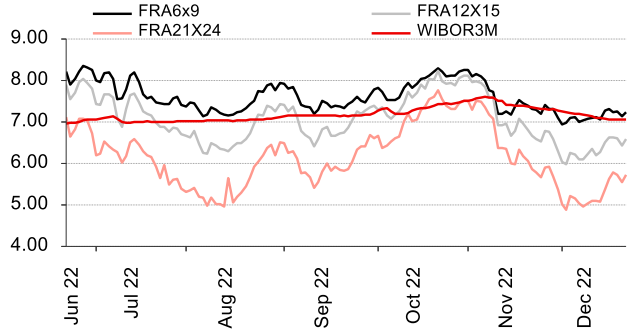
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



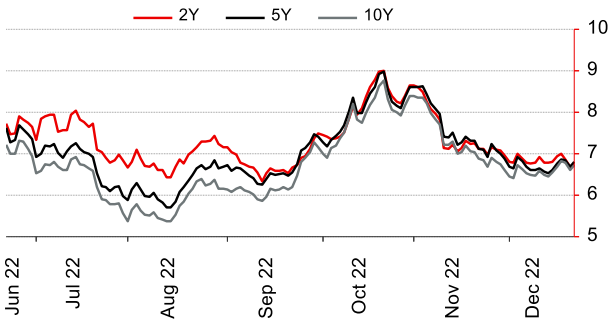
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



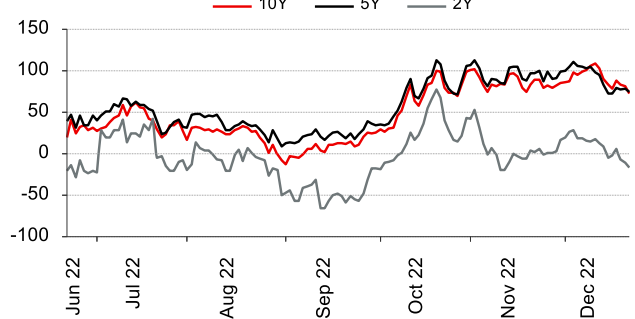
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



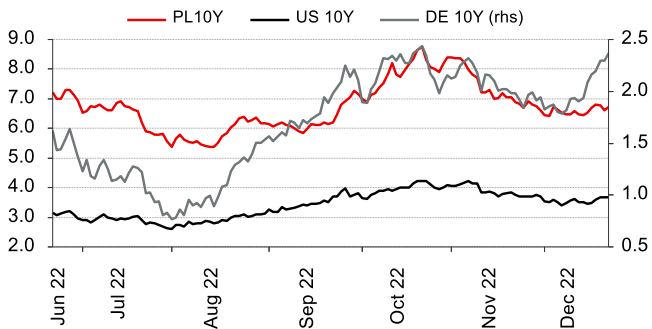
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



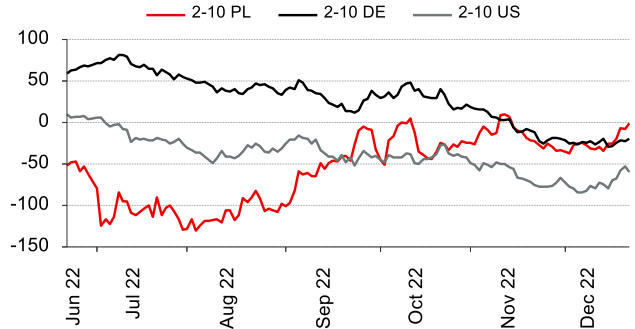
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST
				MARKET	SANTANDER	VALUE
WEDNESDAY (28 December)						
16:00	US	Pending Home Sales	Nov	% m/m	-1.0	-4.58
THURSDAY (29 December)						
14:30	US	Initial Jobless Claims		k	222.0	216.0
MONDAY (2 January)						
09:00	PL	Poland Manufacturing PMI	Dec	pts	43.9	43.7
09:55	DE	Germany Manufacturing PMI	Dec	pts	-	47.4
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	0.0	47.8
TUESDAY (3 January)						
14:00	DE	HICP	Dec	% m/m	-	0.0
WEDNESDAY (4 January)						
	PL	MPC decision		%	6.75	6.75
02:45	CN	Caixin China PMI Services	Dec	pts	0.0	46.7
09:55	DE	Markit Germany Services PMI	Dec	pts	-	49.0
10:00	EZ	Eurozone Services PMI	Dec	pts	0.0	49.1
16:00	US	ISM manufacturing	Dec	pts	48.5	49.0
20:00	US	FOMC Meeting Minutes	Dec.22			
THURSDAY (5 January)						
08:00	DE	Exports SA	Nov	% m/m	-	0.8
10:00	PL	CPI	Dec	% y/y	17.4	17.2
14:15	US	ADP report	Dec	k	147.5	127.0
FRIDAY (6 January)						
08:00	DE	Factory Orders	Nov	% m/m	-1.0	0.8
08:00	DE	Retail Sales	Nov	% m/m	-	-2.7
09:00	CZ	Industrial Production	Nov	% y/y	-1.6	2.9
11:00	EZ	Flash HICP	Dec	% y/y	9.5	10.0
11:00	EZ	Retail Sales	Nov	% m/m	0.3	-1.8
11:00	EZ	ESI	Dec	pct.	94.1	93.7
14:30	US	Change in Nonfarm Payrolls	Dec	k	215.0	263.0
14:30	US	Unemployment Rate	Dec	%	3.7	3.7
16:00	US	ISM services	Dec	pts	55.0	56.5
16:00	US	Factory Orders	Nov	% m/m	-0.3	1.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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