

# Weekly Economic Update

## Still not a good time to end the cycle

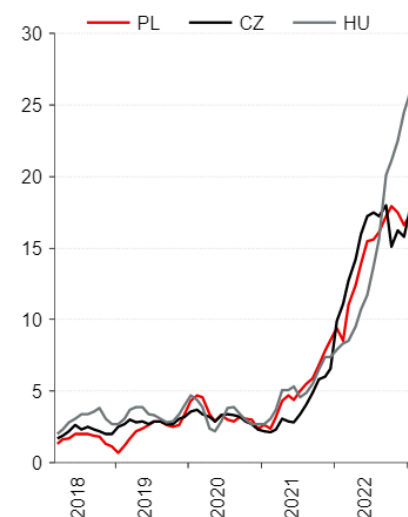
### Economy next week

- In the coming week, the main local event is the **Monetary Policy Council meeting** - the decision on Wednesday, followed by the conference of the NBP President (most likely) on Thursday at 3 p.m. We have no doubt that the main interest rates will remain unchanged. However, during this meeting, MPC members will get to know the results of the new NBP projections, which were described earlier as "exceptionally important" - what they show may determine, among other things, whether the MPC decides to formally end the interest rate hike cycle already now. Such a suggestion was made by, among others, President Glapinski in December, and recently appeared in a comment by Henryk Wnorowski. For this to happen, the projection would have to show a clearly improved disinflation outlook. Recall: the November report predicted that it would not be until the end of 2025 that CPI would approach the 2.5% inflation target. The new inflation projection will presumably take into account a slightly better starting point for CPI: in 4Q22 it will average 17.3% rather than 17.9% as assumed in November, and in 1Q23 it is likely to be lower than the previously predicted level of 19.6%. Although on the latter it is difficult to be certain before the publication of February inflation data (due on 15 March), which will define the CPI peak level and reveal, among other things, the impact of the revaluation of the weights. In addition, the starting point for core inflation is unlikely to be much better. At the same time, the outlook for domestic economic growth has improved rather than deteriorated since November, and recent incoming data from the abroad clearly indicate greater resilience of the economy and greater persistence of inflation in some key countries. We therefore have considerable doubts that the results of the NBP's March projection will be able to strongly justify a formal end to the rate hike cycle, and we do not expect such a decision now.
- On the day of the MPC's decision, **February inflation data from Hungary will be released, followed by similar data from the Czech Republic on Friday**. If it turns out that inflation in the CEE region surprises sharply upwards, as it did earlier in the Eurozone, this could move up expectations for the Poland's reading, to be released in the following week. According to the recent Parkiet survey, the consensus for February CPI is 18.7% y/y and the forecast range is 17.0-19.2% y/y.
- On Wednesday afternoon, Fed Chairman J.Powell will present his semi-annual monetary policy report to the US Senate Banking Committee, which could influence market expectations for the FOMC's monetary policy outlook.
- The key publication abroad, however, will be **Friday's US labour market report**. The previous publication, showing employment growth of 517 000 in January, clearly above forecasts, turned out to be a bucket of cold water poured on the rekindled expectations of disinflation and interest rate cuts in the US, initiating a pronounced repricing of bonds on the core markets, which has continued so far. The reading for February could set the markets' direction for the weeks ahead.

### Markets next week

- The zloty strengthened markedly last week, as did most emerging market currencies, boosted in part by the big surprise increase in China's PMI, increasing optimism about the outlook for the global economy. **EURPLN is back near the 4.70 level**, which may remain an anchor for the exchange rate in the next few weeks, as it was in January, unless a new shock appears on the horizon.
- Domestic bond yields have been on a plateau since mid-February, ignoring the clear upward trend in US and German yields. **We still see room for a short-term upward correction in yields**, but for this we clearly need a trigger. This could be, for example, a surprisingly less dovish tone of President Glapinski's speech (some foreign banks are anticipating the announcement of the end of the hike cycle already at this meeting, so they may feel disappointed if this does not happen), or a surprisingly high inflation data in the region.

### Inflation rates in CEE, % y/y

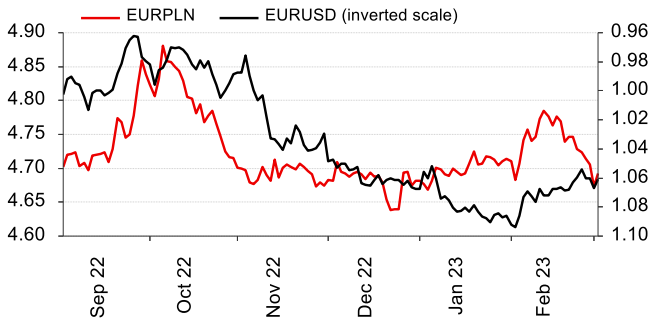


Source: GUS, Santander

### Economic Analysis Department:

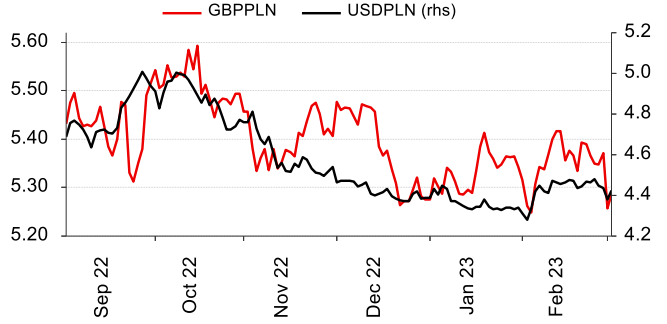
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**EURPLN and EURUSD**



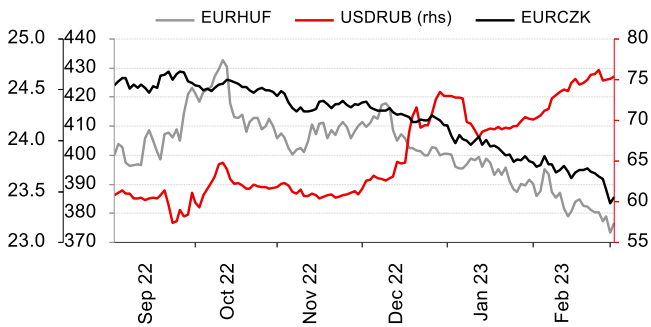
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



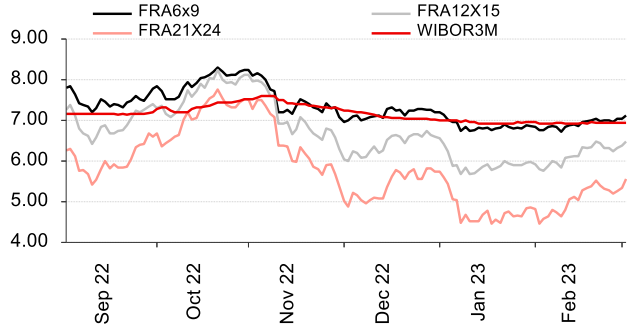
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



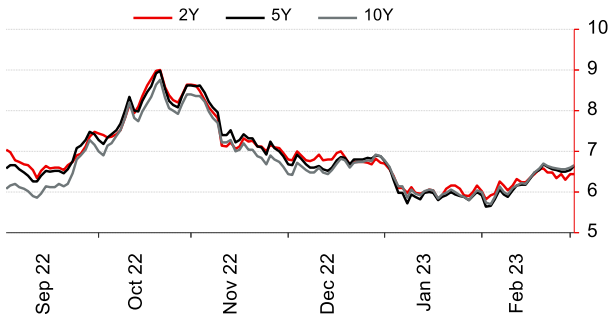
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



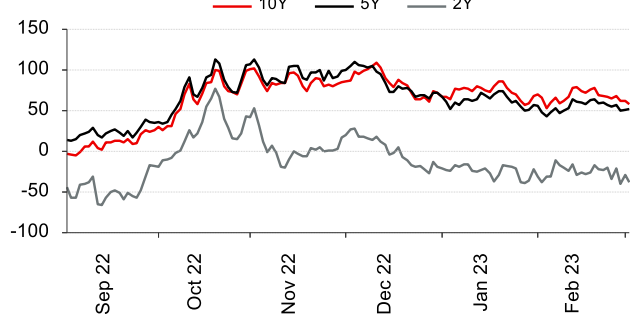
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



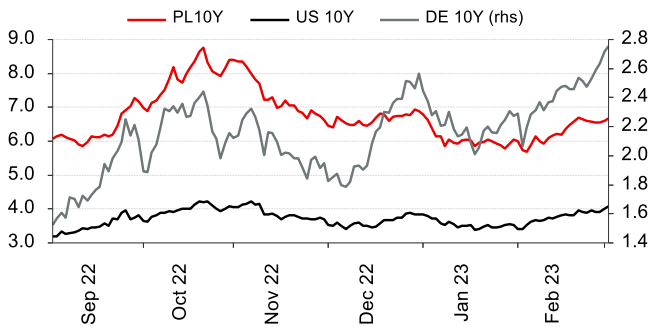
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



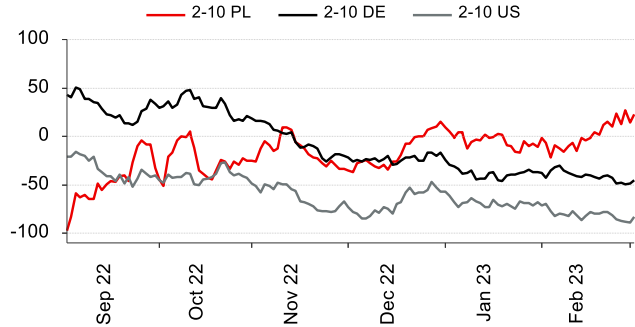
Source: Refinitiv Datastream, Santander Bank Polska

**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		
<b>MONDAY (6 March)</b>							
11:00	EZ	Retail Sales	Jan	% m/m	0.8	-	-2.7
16:00	US	Durable Goods Orders	Jan	% m/m	-	-	-4.5
16:00	US	Factory Orders	Jan	% m/m	-1.5	-	1.8
<b>TUESDAY (7 March)</b>							
08:00	DE	Factory Orders	Jan	% m/m	-1.0	-	3.2
08:30	HU	Industrial Production SA	Jan	% y/y	4.3	-	5.7
<b>WEDNESDAY (8 March)</b>							
	PL	MPC decision		%	6.75	6.75	6.75
08:00	DE	Industrial Production SA	Jan	% m/m	1.5	-	-3.1
08:00	DE	Retail Sales	Jan	% m/m	2.2	-	-4.9
08:30	HU	CPI	Feb	% y/y	25.4	-	25.7
11:00	EZ	GDP SA	4Q	% y/y	1.9	-	2.4
14:15	US	ADP report	Feb	k	200.0	-	106.0
<b>THURSDAY (9 March)</b>							
14:30	US	Initial Jobless Claims		k	200.0	-	190.0
<b>FRIDAY (10 March)</b>							
08:00	DE	HICP	Feb	% m/m	1.0	-	0.5
09:00	CZ	Industrial Production	Jan	% y/y	3.4	-	1.3
09:00	CZ	CPI	Feb	% y/y	16.6	-	17.5
14:30	US	Change in Nonfarm Payrolls	Feb	k	200.0	-	517.0
14:30	US	Unemployment Rate	Feb	%	3.4	-	3.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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