

Weekly Economic Update

CPI getting to the summit

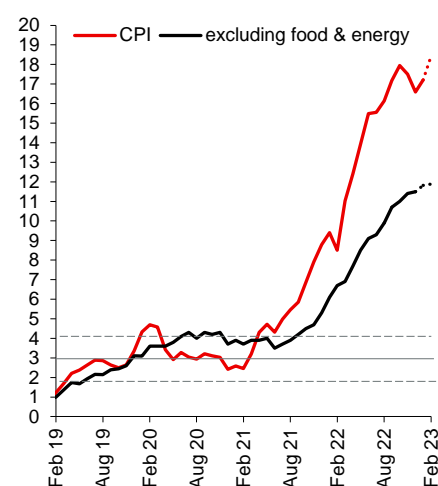
Economy next week

- In Poland, the coming week will bring the long-awaited publication of **CPI inflation for February** (Wednesday). It has been clear for a long time already that this is the reading that will mark the peak of CPI in Poland. It seems, beating 20% y/y is unlikely to happen any more, but even despite that, the spread of economists' forecasts is quite wide. According to Bloomberg, it is 17.9-19.1% y/y with a median at 18.5% y/y. 18.5% y/y was also indicated yesterday by the NBP president and our forecast sits at 18.4% y/y. Along with the February CPI reading, we will get to know the recalculation of January CPI and therefore the impact of this year's **change in the weights in the inflation basket**. On Thursday, this information will be supplemented by the NBP release of January and February core inflation - according to us we will see a further upward trend, an important element in assessing the persistence of Polish inflation. **January's balance of payments data**, in our view, will show a marked reduction in the current account deficit relative to December, but we are not as optimistic as the market about the narrowing of the merchandise trade deficit.
- While the enthusiasm for raising interest rates has already fizzled out in Poland, it has not yet in other key economies (e.g. USA, euro area). **The ECB meeting** is the central event of the coming week. The central bank has clearly announced intention to raise rates by 50 bps (main rate at 3.50%). What the bank intends to do afterwards will be important. Based on the statements of ECB members, it can be assumed that whatever target level the main rate is to reach (4.00% according to the market), it will happen by September. The markets are faced with the task of interpreting the communication on the ECB's further intentions, as well as important data from the euro area: **the final reading of February inflation** (the details will allow a better assessment of the scale of its persistence) and **industrial production** (the rebound in output in Germany stimulates appetite ahead of the reading for the euro area as a whole).
- Important data will also appear in the USA: after today's strong set of data from the labour market there, it becomes important whether this strength will be seen in US consumers' spending attitude as well (on Wednesday - **advance February retail sales data**; on Friday - **March results of the University of Michigan consumer sentiment survey**). **US industrial production**, on the other hand, will be important from the perspective of assessing the type of landing of the economy - output growth descended from close to 5% y/y in September last year below 1% in January, and may go even lower in the February reading, but is unlikely to hit zero. There is also **US CPI inflation** in the calendar - a heavyweight publication with the potential to shift market sentiment.

Markets next week

- With further signals that the terminal level of interest rates in the US and the Eurozone could be raised again, fears began to increase in the debt markets that the signalled more aggressive stance of major central banks would ultimately translate into a slightly harder and faster landing for the economies. This resulted in yields falling in both the major and domestic markets. Similar views on the further pace of slowdown in the major economies are also likely to be held by the NBP, which in the details of its new inflation projection unveiled today has markedly lowered its assumptions on the further development of global energy prices. The possibility of a faster decline in domestic inflation in 2H23 than in the new projection was also clearly signalled at yesterday's press conference by NBP President Adam Glapinski. In our view, however, the decline in yields so far has gone a bit too far. Although the major central banks are covenanting on a larger scale of hikes this does not necessarily mean that economies will slow down faster and rates will be cut faster. In addition to the currently better-than-expected health of the major economies, it is also important to remember that an additional injection of growth into the global economy could come from China's reopening after the covid restrictions. Meanwhile, looking ahead to the coming week, **we expect that strong inflation readings from both home and abroad should allow for an upward rebound in the domestic curve, which we believe has the potential to rise at least 20 bps higher on average from current levels.**
- On the EURPLN market, the passing week was not characterized by much volatility. Although the zloty strengthened against the euro by about 2 cents, it can be seen that the exchange rate was quite reluctant to move south from the level of 4.70. Although we expect that the coming week may bring further weakening of the dollar on European markets, we are sceptical about the prospects of the zloty continuing to strengthen against the common currency at this point. Higher interest rates in the Eurozone and the US with growing global recessionary fears on this account will not, in our view, favour the Polish currency, so **we expect the EURPLN exchange rate to try to move up towards and above the 4.70 level rather than move away from this level downwards.**

CPI and core inflation in Poland, % y/y

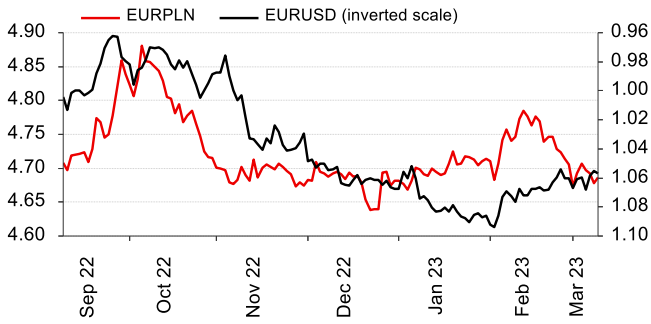


Source: GUS, NBP, Santander

Economic Analysis Department:

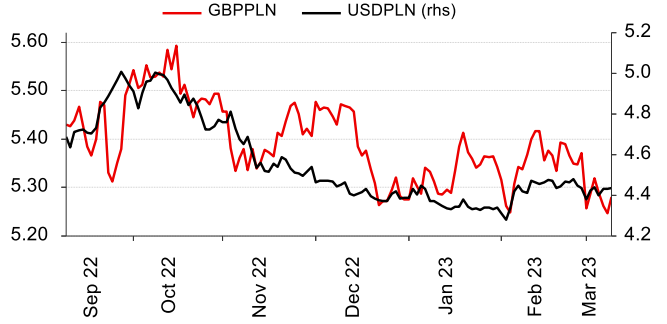
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EURPLN and EURUSD



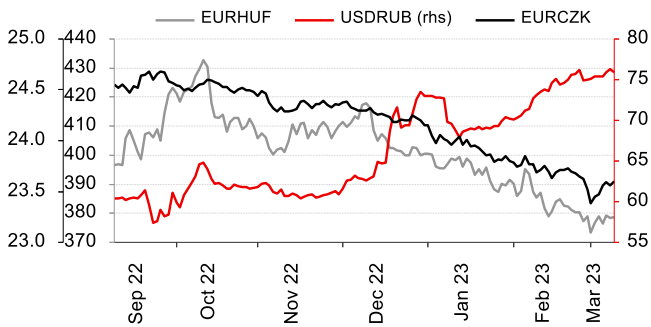
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



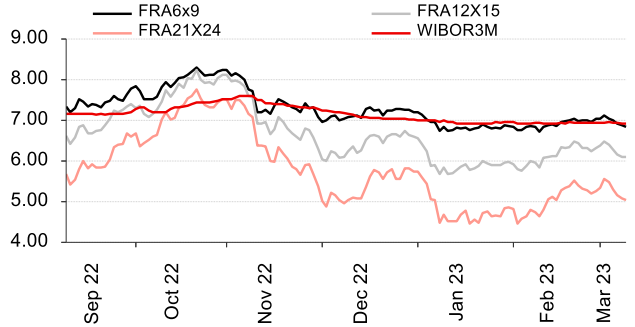
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



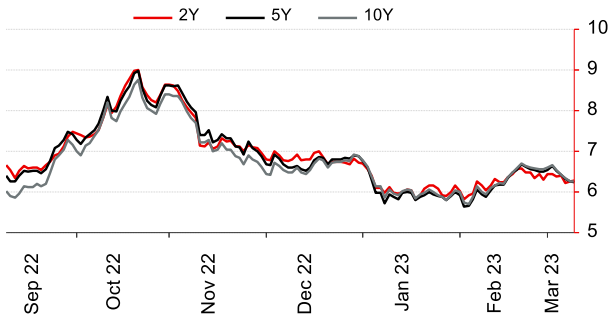
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



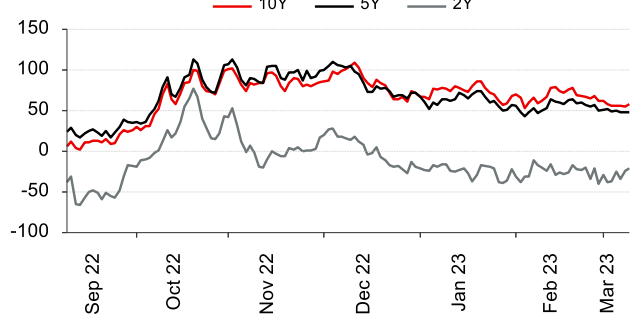
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



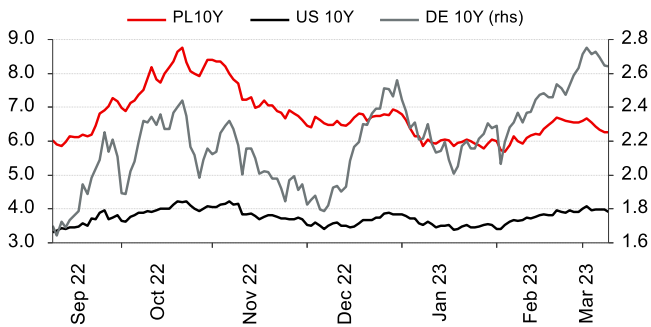
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



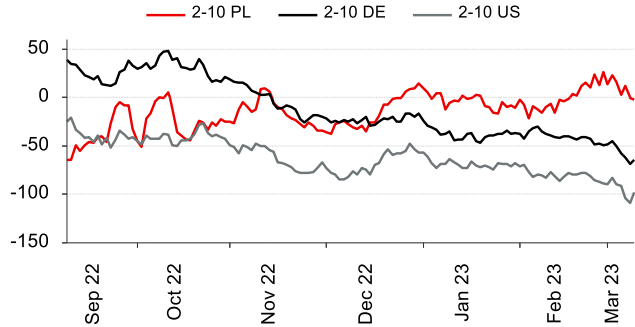
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (13 March)							
No key events or publications							
TUESDAY (14 March)							
13:30	US	CPI	Feb	% m/m	0.4	-	0.5
WEDNESDAY (15 March)							
10:00	PL	CPI	Feb	% y/y	18.5	18.4	17.2
11:00	EZ	Industrial Production SA	Jan	% m/m	0.5	-	-1.1
13:30	US	Retail Sales Advance	Feb	% m/m	0.1	-	3.0
THURSDAY (16 March)							
13:30	US	Housing Starts	Feb	% m/m	0.1	-	-4.5
14:00	PL	CPI Core	Jan	% y/y	11.8	11.8	11.5
14:00	PL	CPI Core	Feb	% y/y	11.9	11.9	x
14:00	PL	Current Account Balance	Jan	€mn	-995	-1020	-2526
14:00	PL	Trade Balance	Jan	€mn	-1200	-1326	-2716
14:00	PL	Exports	Jan	€mn	27281	26458	26040
14:00	PL	Imports	Jan	€mn	28034	27784	28756
14:15	EZ	ECB Main Refinancing Rate	Mar.23	%	3.50	-	3.00
14:30	US	Initial Jobless Claims		k	195	-	211
FRIDAY (17 March)							
11:00	EZ	HICP	Feb	% y/y	8.5	-	8.6
14:15	US	Industrial Production	Feb	% m/m	0.5	-	0.0
15:00	US	Michigan index	Mar	pts	67.0	-	67.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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