

17 March 2023

Weekly Economic Update

Major central banks correct their course

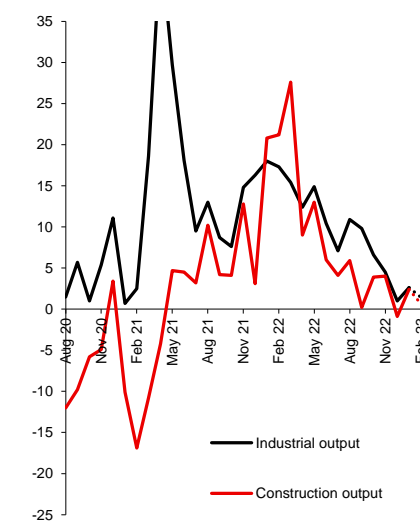
Economy next week

- **Last week was marked by a lot of tension** due to failure of two banks in the USA (Silicon Valley Bank, Signature Bank). However, swift action by the Fed, which launched a new liquidity programme for US banks (Bank Term Funding Program), helped to quickly calm the situation. Just when it seemed that the limit of surprises had been exhausted, the news broke that the shares of Switzerland's second largest bank Credit Suisse were being sold off sharply on the stock markets due to concerns about its solvency. This time, the SNB came to the rescue by agreeing to inject USD54bn of liquidity into the bank.
- **Currently, the situation on the financial markets appears to be stabilising**, but investors remain so distrustful that the ECB has seen fit to reassure them of its readiness for possible lifeline measures, despite the solid situation of the European banking sector. The central bank raised rates by 50bp (the main rate to 3.50%), as it had announced, and intends to continue raising rates – unless the situation calls for a focus on providing liquidity and stabilising the financial sector.
- Although the Polish banking sector is funded on a broad deposit base and is not exposed to the problems experienced by the institutions mentioned above, the past week has also negatively affected sentiment in the Polish financial market. In addition to declines in the valuations of Polish banks on the stock market, **the market's expectation of the NBP's interest rate path went down** despite no signs of waning inflationary pressure in the country.
- The Fed and SNB actions are actually a step backwards as regards tightening of financing conditions and therefore as regards fighting inflation. **This Wednesday we will find out what the Fed is now going to focus on, on Thursday the meetings of the UK and Swiss central banks are scheduled.** Just over a week ago, the market saw a greater likelihood of a 50bp hike by the Fed than a 25bp hike, a few days ago it even strongly doubted the possibility of this smaller move. A much bigger shift took place in the pricing of the Fed rate at the end of the year: in one week it went from an expected 5.50% to just over 4.00%. US rates are currently at 4.50%.
- In Poland, we will be showered with **data showing the state of the economy in February and sentiment in March.** Attention should be paid to Monday's corporate wages - if they again surprise sharply upwards, they will add to the concern caused by the strong inertia present in Polish core inflation. Like the market, we expect mild y/y increases in industrial and construction production, and a deepening of February's y/y decline in real retail sales. In addition, we will get to see consumer confidence and economic climate indicators, the Statistical Bulletin and the financial results of Polish companies in 4Q 2022.
- On Friday, **Moody's may publish its assessment of Poland's investment attractiveness**, we believe it is going to maintain the current rating and its stable outlook.
- Also on Friday, we will see preliminary PMI index readings for March.

Markets next week

- The zloty weakened last week, although on a much smaller scale than other CEE currencies. In the coming week, **we expect the EURPLN exchange rate to continue its gradual climb, above 4.72.** This should be supported by rising global recessionary expectations, which tend to hurt emerging market currencies, including the zloty, as well as the Fed rate hike on Wednesday. With regard to the debt market, we believe that current yield levels are too low for the state of the domestic economy and continued strong inflationary pressures. We expect that the gradual narrowing of the asset swap curve, influenced by the slow calming of the situation in global financial markets, will allow at least a **slight upward unwinding of the Polish yield curve.** We expect the entire Polish yield curve to move above 6%, and the 10-year Polish bond yield to exceed 6.15%.

Polish industrial and construction output with Santander forecast, % y/y

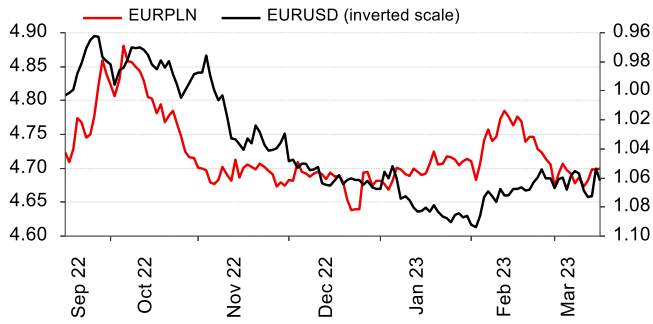


Source: GUS, Santander

Economic Analysis Department:

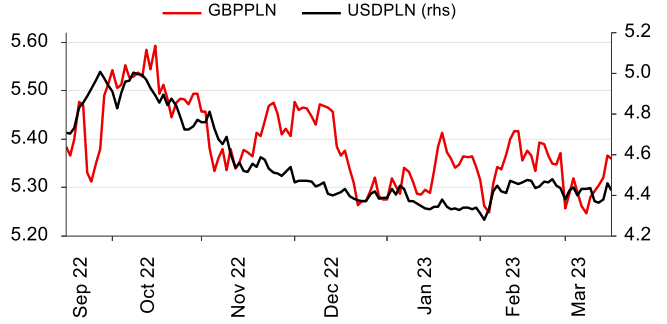
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarosław Kosaty +48 887 842 480
Marcin Luzziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



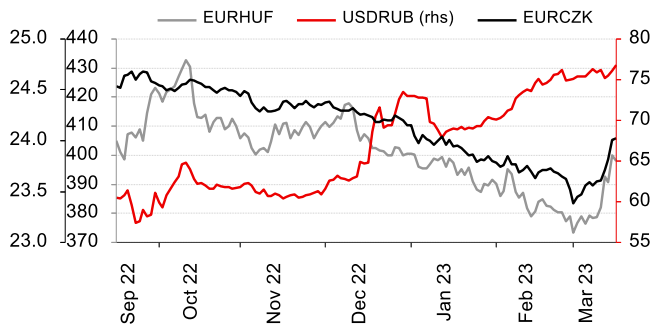
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



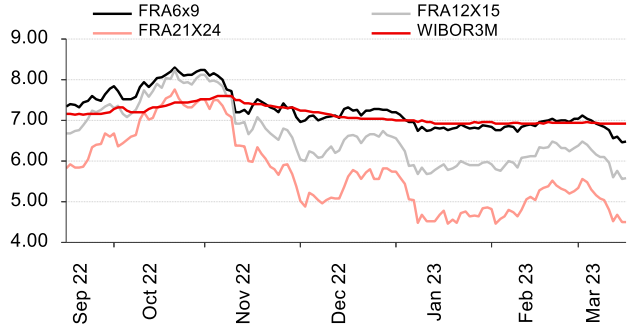
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



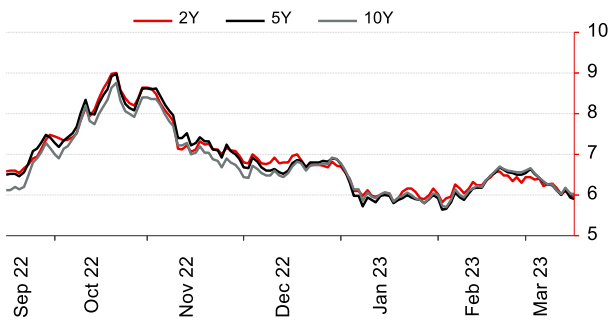
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



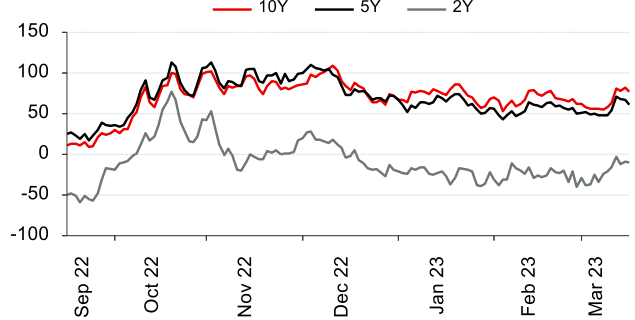
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



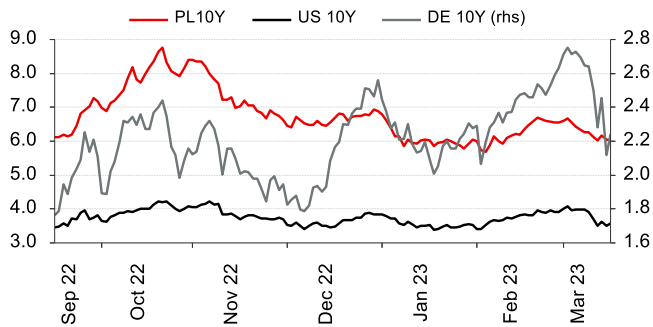
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



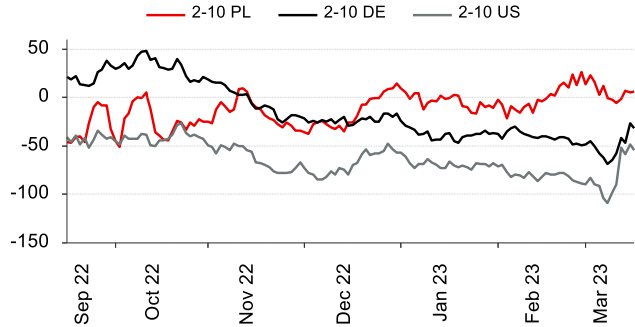
Source: Refinitiv Datastream, Santander Bank Polska

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 (20 March)							
10:00	PL	Employment in corporate sector	Feb	% y/y	1.0	0.9	1.1
10:00	PL	Sold Industrial Output	Feb	% y/y	1.1	1.4	2.6
10:00	PL	PPI	Feb	% y/y	17.7	17.7	20.5
10:00	PL	Average Gross Wages	Feb	% y/y	11.9	12.0	13.5
TUESDAY (21 March)							
10:00	PL	Construction Output	Feb	% y/y	1.0	0.7	2.4
10:00	PL	Retail Sales Real	Feb	% y/y	-1.5	-1.2	-0.3
11:00	DE	ZEW Survey Current Situation	Mar	pts	-45.0	-	-45.1
15:00	US	Existing Home Sales	Feb	% m/m	4.8	-	-0.7
WEDNESDAY (22 March)							
14:00	PL	Money Supply M3	Feb	% y/y	6.5	6.4	6.9
19:00	US	FOMC decision			4.75	-	4.50
THURSDAY (23 March)							
10:00	PL	Unemployment Rate	Feb	%	5.5	5.5	5.5
13:30	US	Initial Jobless Claims	week	k		-	192
15:00	US	New Home Sales	Feb	% m/m	-3.0	-	7.2
FRIDAY (24 March)							
09:30	DE	Germany Manufacturing PMI	Mar	pts	47.0	-	46.3
09:30	DE	Markit Germany Services PMI	Mar	pts	51.0	-	50.9
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.0	-	48.5
10:00	EZ	Eurozone Services PMI	Mar	pts	52.5	-	52.7
13:30	US	Durable Goods Orders	Feb	% m/m	1.5	-	-4.5
	PL	Rating review by Moody's				A2/stable	A2/stable

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. <http://www.santander.pl>.