

# Weekly Economic Update

## CPI nosediving, but it is too soon for rate cuts

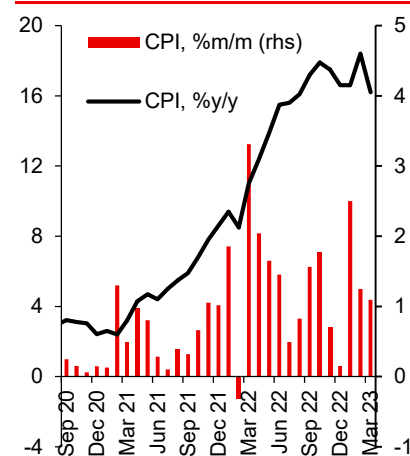
### Economy next week

- A week ago, we wondered whether the MPC would somehow acknowledge the greater persistence of inflation at the beginning of the year in its communication after the April meeting. In our view, the answer to this question is affirmative, even though it was not reflected in the MPC's official statement, and the message from the NBP governor's press conference could have been somewhat unclear. In our opinion, the key thing in understanding Adam Glapiński's communication is that it consists of two layers: the first layer is the message to the general public – it consists mostly of "good news" so that citizens could feel happier: the nosedive of inflation has started, the situation is very good, other countries are worse off, we will soon catch up with France in terms of living standards, etc. In the background, however, there is also a second layer, aimed at a professional audience - and in it we have, among other things, a consistently repeated declaration: The MPC has not formally concluded the hiking cycle and will increase rates further if necessary, bringing inflation down to the target is the highest priority of the central bank. Interestingly, at this second level of communication, Glapiński has now declared that if everything goes according to the central bank's forecasts, there will be no further rate hikes. This may be a subtle change in tone, but it is nonetheless noticeable - earlier Glapiński was formulating conditions for rate cuts, now he started with conditions for avoiding hikes. At the same time, Glapiński has withdrawn from his earlier prediction that inflation would fall to 6-7% by the end of this year, blaming the change in the inflation basket and OPEC's decision to reduce oil supply. **It is increasingly clear to us that the MPC's enthusiasm for cutting interest rates has diminished...**
- ... Although this is happening at a time when there is increasing talk abroad about the risk of a 'hard landing' of the US economy, which could be conducive to extinguishing inflationary trends globally. In our view, such a scenario is still not a base case, but it should not be ignored.
- The coming week will be shortened by the Easter break and the list of data releases is not very long. **In Poland, there will be two noteworthy publications: balance of payments for February (on Thursday) and final March CPI (Friday).** Our forecast for the current account balance (-€416mn) is clearly below consensus (+€347mn), because of a lower estimate of exports, among other things. But even the realisation of our forecast would not be a bad news - the cumulated 12-month current account deficit would narrow to around 2.5% of GDP (the lowest in a year), which should be rather supportive for the zloty. As far as inflation is concerned, we already know the most important part from the flash reading - annual CPI growth tumbled in March to 16.2% y/y, but this was mainly due to base effects, while price momentum remained high, especially in its core component. From the data we will find out in detail which prices are rising fastest, but this will not be a gamechanger for the market.
- Abroad, the calendar includes inflation data from China, Hungary, Czechia, Germany and the USA, retail sales and industrial production data in the euro zone and the USA. Wednesday will see the **minutes of the latest FOMC meeting**. The [Wall Street Journal recently suggested](#) that a decision on a March rate hike was on a knife edge. We will see if this is confirmed by the minutes.
- Today's US employment data, which - after a series of disappointing releases in recent days - showed once again that the labour market is holding up well, should dampen market expectations of a recession and interest rate cuts in the US somewhat.

### Markets next week

- The start of the week could be very interesting: on Monday, core markets (which are mostly closed today) will react to today's US jobs data, but there will be still holiday in some European markets, so they will only be able to discount the new information on Tuesday.
- EURPLN has been in a horizontal trend since the beginning of March, anchored near 4.70, and we do not see factors to break it out of this trend in the coming days.
- For the debt market, trends abroad are key: after fairly strong employment and wage data in the US, we think there should be an upward rebound in US and euro area yields after the weekend, and with it in the domestic market.

Inflation in Poland

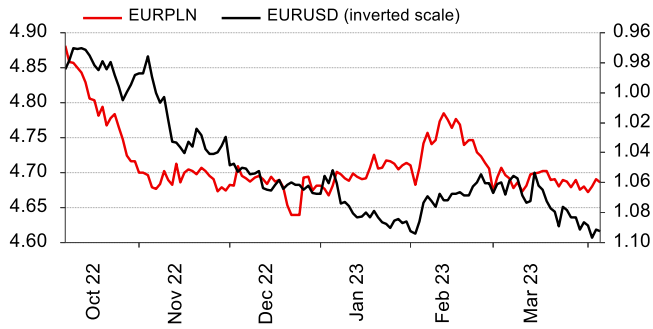


Source: GUS, Santander

### Economic Analysis Department:

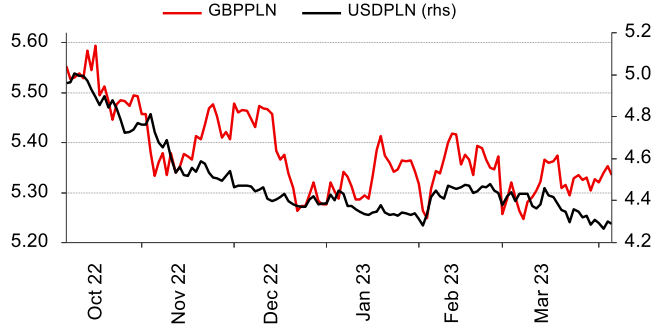
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**EURPLN and EURUSD**



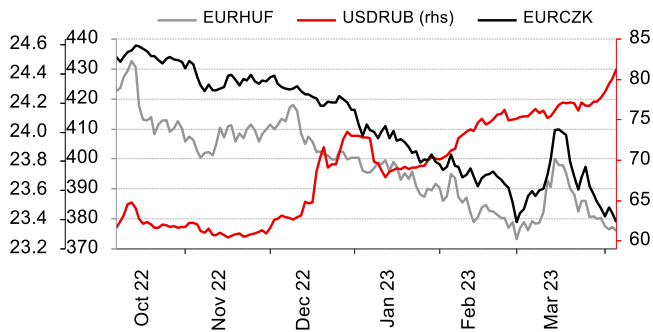
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



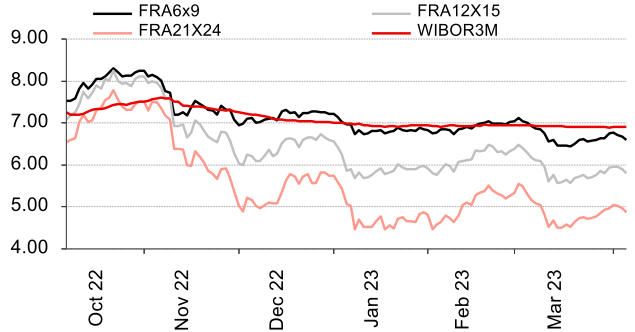
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



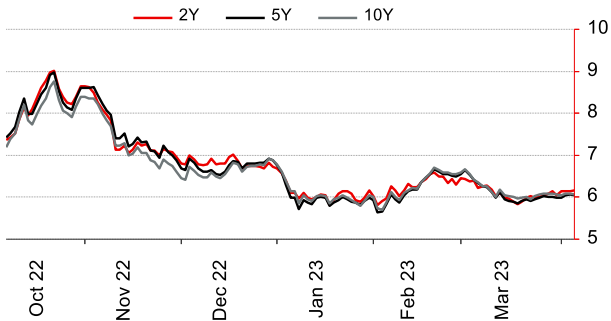
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



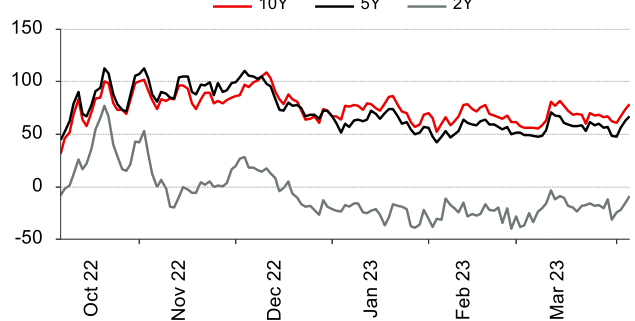
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



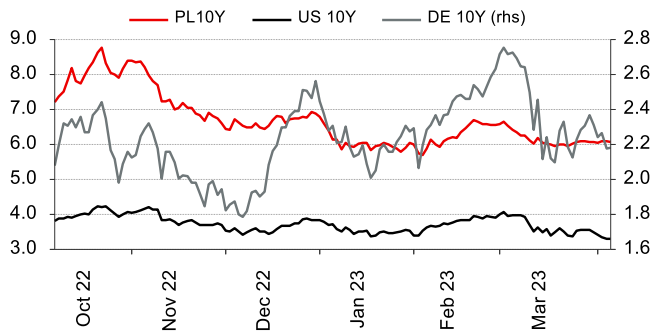
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



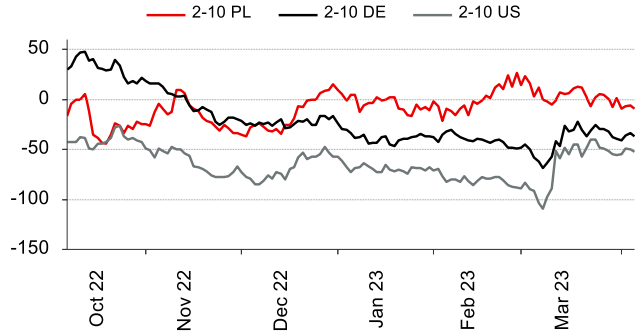
Source: Refinitiv Datastream, Santander Bank Polska

**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 (10 April)</b>						
	<b>PL</b>	<b>Holiday</b>				
<b>TUESDAY (11 April)</b>						
11:00	EZ	Retail Sales	Feb	% m/m	-0.8	- 0.3
<b>WEDNESDAY (12 April)</b>						
08:30	HU	CPI	Mar	% y/y	24.9	- 25.4
14:30	US	CPI	Mar	% m/m	0.2	- 0.4
20:00	US	FOMC Meeting Minutes	23 Mar			
<b>THURSDAY (13 April)</b>						
08:00	DE	HICP	Mar	% m/m	1.1	- 1.1
09:00	CZ	CPI	Mar	% y/y	15.0	- 16.7
11:00	EZ	Industrial Production SA	Feb	% m/m	1.0	- 0.7
14:00	<b>PL</b>	<b>Current Account Balance</b>	<b>Feb</b>	<b>€mn</b>	<b>347</b>	<b>-416 1429</b>
14:00	<b>PL</b>	<b>Trade Balance</b>	<b>Feb</b>	<b>€mn</b>	<b>96</b>	<b>-815 1225</b>
14:00	<b>PL</b>	<b>Exports</b>	<b>Feb</b>	<b>€mn</b>	<b>26809</b>	<b>25945 26809</b>
14:00	<b>PL</b>	<b>Imports</b>	<b>Feb</b>	<b>€mn</b>	<b>26346</b>	<b>26760 25584</b>
14:30	US	Initial Jobless Claims		k	200	- 228
<b>FRIDAY (14 April)</b>						
10:00	<b>PL</b>	<b>CPI</b>	<b>Mar</b>	<b>% y/y</b>	<b>16.2</b>	<b>16.2 18.4</b>
14:30	US	Retail Sales Advance	Mar	% m/m	-0.5	- -0.4
15:15	US	Industrial Production	Mar	% m/m	0.3	- 0.0
16:00	US	Michigan index	Apr	pts	61.8	- 62.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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