12 May 2023

Weekly Economic Update

Negative GDP growth, positive trade balance

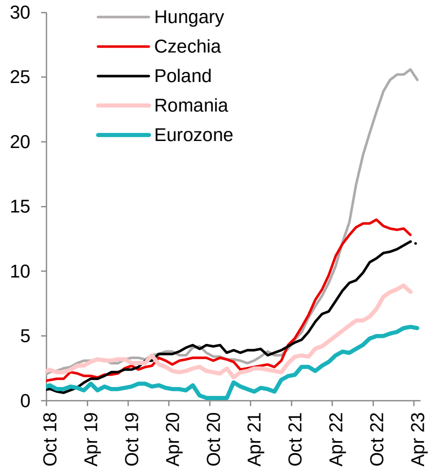
Economy next week

- It turned out that the media remarks by representatives of the Monetary Policy Council, do not carry as much information value as we are inclined to attribute to them. Despite a series of dovish signals sent at the beginning of May, which we wrote about a week ago, the MPC neither ended the cycle of rate hikes in May, nor changed its official message to a more dovish one, with President Glapiński emphasising that in the current situation questions about possible rate hikes are more appropriate than questions about cuts. The central bank's further actions will be strongly data-dependent and will take into account economic developments, in particular regarding the inflation outlook. If these start to move clearly in the right direction, the room for rate cuts may appear, but in our view this is still not the baseline scenario. Undoubtedly, disinflation may be helped by the strengthening of the zloty (if it proves sustainable). President Glapiński said at the conference that a sustained appreciation of the PLN by 10% could move CPI down by about 0.4pp. We note that this is a weaker transmission than that indicated by the NBP a few quarters ago (when it spoke of 0.6-0.8pp) - which is probably due to the fact that the exchange rate pass-through is asymmetric (PLN weakening has a greater impact on inflation than PLN strengthening) and dependent on the phase of the business cycle (it becomes weaker in a slowdown). If this is the case, for the time being it is difficult to speak of a major shift in the inflation path.
- In the following week, there will be four important domestic publications: **on Monday, the full April CPI inflation data and the balance of payments for March; on Tuesday, the flash 1Q GDP reading and April core inflation**.
- The preliminary CPI reading showed a fall to 14.7% y/y, mainly due to high base effects, lower fuel prices and a modest rise in food prices. However, it appears that price momentum in other categories remains strong, and the **main measure of core inflation (CPI excluding food and energy) again rose by more than 1% m/m**. However, its annual growth rate may have already slipped slightly (12.1% y/y), for the first time in almost two years. We guess that the persistence of inflation is manifesting itself the most in services, as in many other countries.
- According to our forecasts, **GDP growth fell to -1.5% y/y** (median forecast according to Bloomberg -0.9%), which would be consistent with a q/q growth near zero, possibly slightly above it (in seasonally adjusted terms). The preliminary data will not reveal the growth structure at this point – detailed data are due for release at the end of May. Our baseline scenario still assumes that 1Q set the bottom of the cycle, and later on the GDP should gradually start to rebound upwards.
- The balance of payments data for March will be equally interesting, as it will probably show a **third consecutive current account surplus** (our forecast €3bn, consensus €2.5bn), owing primarily to a decline in the value of imports thanks to lower commodity prices. Industrial production results indicate that exports have been under pressure since the beginning of this year. The significant improvement in the current account is one of the factors that has allowed the zloty to strengthen significantly in recent weeks.
- Abroad, a moderately light calendar: GDP and inflation data in a few EU countries, US retail sales, production and real estate market data. **On Monday, the EC will publish its spring edition of economic forecasts**. Quite a few speeches by Fed and ECB representatives are also scheduled.

Markets next week

- In our opinion the signals for the złoty from domestic data will be rather mixed: on one hand, a decline in GDP, on the other, an improvement in the current account balance. Both of these, however, will describe the rather distant past, so perhaps more important for the PLN now will be the behaviour of the US dollar against the euro and global sentiment. EURUSD has been drifting downwards for a week, which should be conducive to a correction in the zloty's strength - **EURPLN may gradually weaken toward of 4.60**.
- **In the bond market, yields may bottom out near this year's lows**, while their further decline may be constrained by the not very dovish message of the NBP head at the last conference and potential increase in global risk aversion with the approaching deadline for the US debt limit (end of May).

Core inflation in CEE and Eurozone, %y/y



Źródło: Bloomberg, Santander

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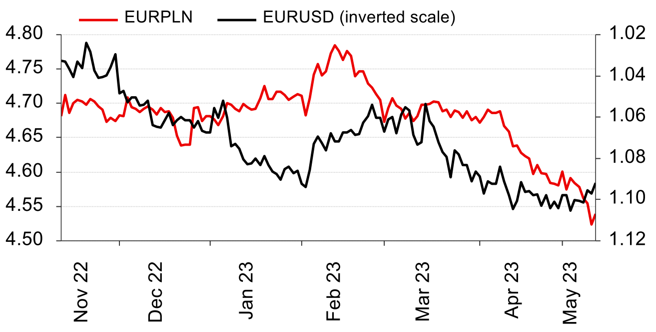
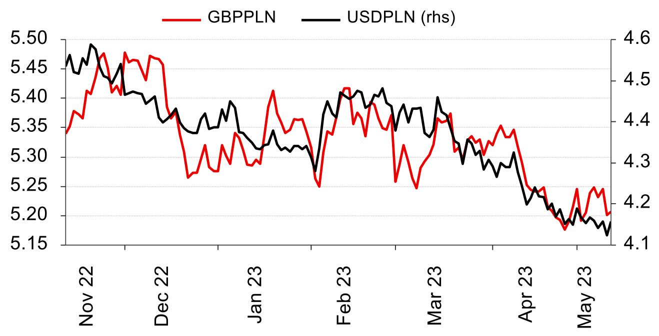
EURPLN and EURUSD



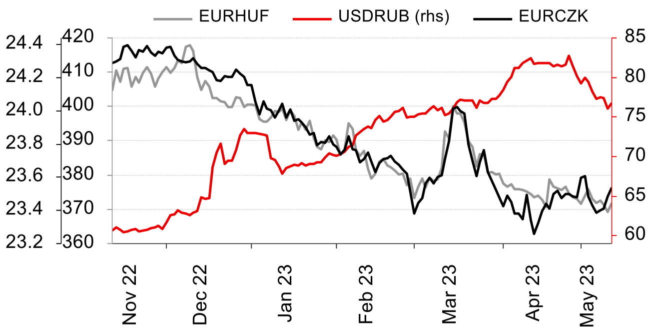
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



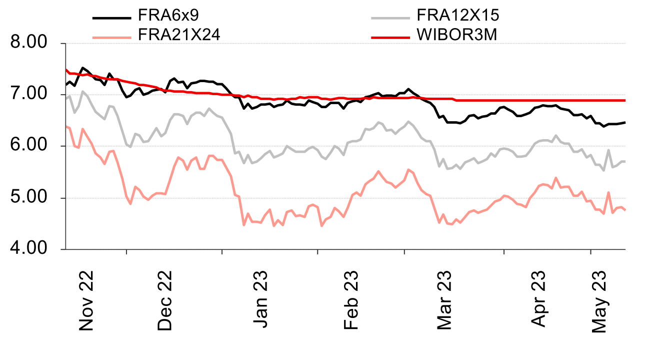
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



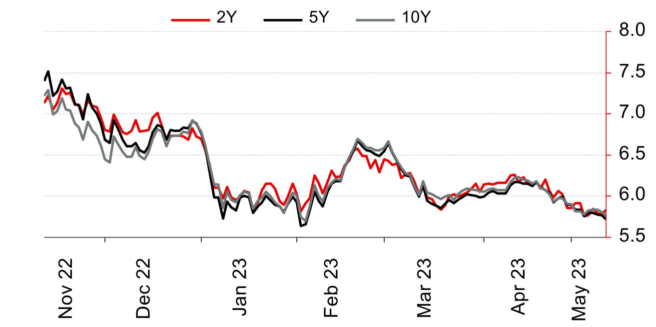
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



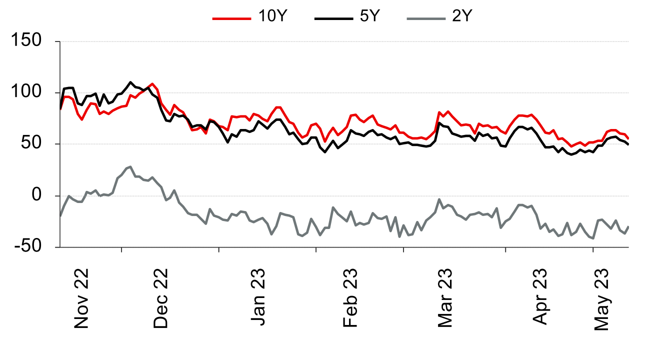
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



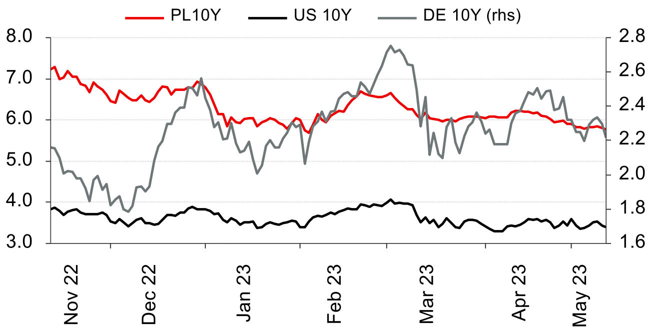
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



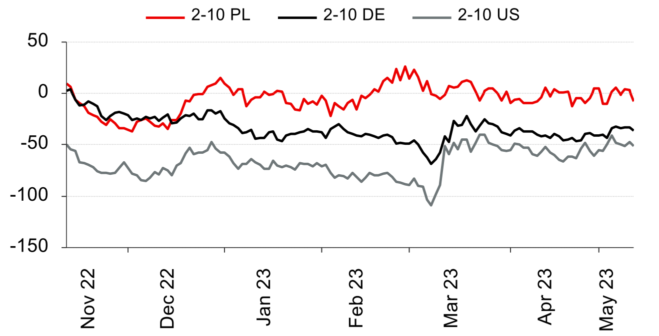
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
		MONDAY (15 May)					
10:00	**PL**	**CPI**	**Apr**	**% y/y**	**14.7**	**14.7**	**16.1**
11:00	EZ	Industrial Production SA	Mar	% m/m	-2.0		1.5
14:00	**PL**	**Current Account Balance**	**Mar**	**€mn**	**2465**	**3014**	**2586**
14:00	**PL**	**Trade Balance**	**Mar**	**€mn**	**1401**	**1407**	**2243**
14:00	**PL**	**Exports**	**Mar**	**€mn**	**28595**	**28064**	**26502**
14:00	**PL**	**Imports**	**Mar**	**€mn**	**27322**	**26657**	**24259**
		TUESDAY (16 May)					
08:30	HU	GDP	1Q	% y/y	-1.1		0.4
10:00	**PL**	**GDP**	**1Q**	**% y/y**	**-0.9**	**-1.5**	**2.0**
11:00	EZ	GDP SA	1Q	% y/y	1.3		1.8
11:00	DE	ZEW Survey Current Situation	May	pts	-38.0		-32.5
14:00	**PL**	**CPI Core**	**Apr**	**% y/y**	**12.2**	**12.1**	**12.3**
14:30	US	Retail Sales Advance	Apr	% m/m	0.7		-0.6
15:15	US	Industrial Production	Apr	% m/m	0.0		0.4
		WEDNESDAY (17 May)					
11:00	EZ	HICP	Apr	% y/y	7.0		6.9
14:30	US	Housing Starts	Apr	% m/m	-1.4		-0.8
		THURSDAY (18 May)					
14:30	US	Initial Jobless Claims	May.23	k	245		264
16:00	US	Existing Home Sales	Apr	% m/m	-3.3		-2.4
		FRIDAY (19 May)					
		No major events and releases					

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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