

12 January 2024

# Weekly Economic Update

## Davos, budget draft, some data

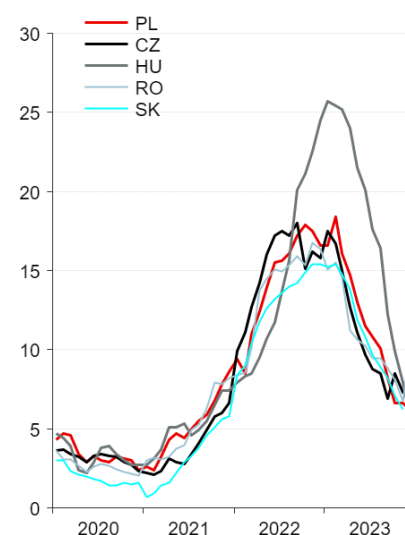
### Economy next week

- In the week ahead, economic themes will be intertwined with (geo)political ones. Domestically, the calendar of data releases is fairly modest and includes **CPI inflation data** (Monday), **core inflation** (Tuesday), **consumer sentiment** (Thursday) and **PPI** (Friday). Abroad, a bit more indicators, including inflation data in many countries, Chinese 4Q GDP, US manufacturing, retail sales, real estate market, among others. The season of quarterly earnings reports of also begins in the US and may provide some clues regarding the condition of the world's largest economy at the end of last year. On Monday there is a market holiday in the USA and the **World Economic Forum begins in Davos**, which will, as usual, provide an opportunity for comments by many decision-makers (including central banks representatives). The news on **developments in the Middle East** following the attack by US and UK forces on the Yemeni Houthi will be also followed. In domestic politics, a state of heightened emotions is likely to continue: The Sejm is due to start its session on Tuesday, where it will deal with, among other things, the **2024 budget draft**, and a continuation of the fierce dispute between the ruling coalition and the opposition can be expected. If the Sejm passes the budget bill, the Senate is expected to start working on it later in the week.
- Domestic macro data are unlikely to be the key drivers for the market in the coming days - we already know the preliminary information on December inflation (6.1% y/y) and even if (as in the previous two months) the final publication brings a slight upward revision, it will not fundamentally change the picture. Core inflation is likely to fall to 6.8-6.9% y/y and PPI to almost -6% y/y. More important for investors may be news from the abroad, including those on the US economy, GDP in China, inflation readings from various countries. Potential signals eroding investors' faith in rapid Fed and ECB interest rate cuts, could renew a correction in core debt markets.

### Markets next week

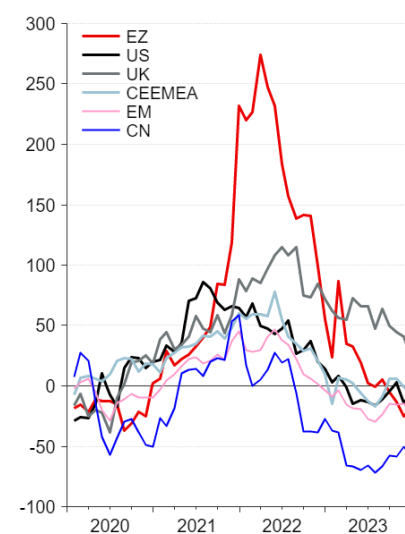
- The positive momentum of the zloty's appreciation was exhausted at the end of November and since then the EURPLN exchange rate has been exceptionally stable, oscillating in the range of 4.30-4.37 with a slight upward trend. The zloty was not significantly influenced by macroeconomic data, MPC statements, geopolitical events or developments in domestic politics. This is partly a result of the fact that these events did not translate into higher global volatility (VIX still low). In part, the zloty continues to benefit from more optimism regarding the expected inflow of EU funds. Technical analysis points to the potential for a slight strengthening of the domestic currency this week. Even if the political turmoil will ultimately affect local volatility, in the last few years the period of heightened emotions in domestic politics, which actually led to higher market volatility and weakening of the zloty, was usually treated as a temporary situation, which was usually used by foreign investors to buy domestic assets. **Looking ahead to the first half of the year, we assume stronger levels for the zloty.**
- In the interest rate market, we continue to believe that the market is significantly overestimating the scale of interest rate cuts (around 4-5 by the end of the year). The upward correction of market rates may be supported by a not very dovish tone of the MPC representatives and a potential erosion of hopes for rate cuts in the core markets, but the market may also be positioning itself for very low domestic inflation readings in the first months of the year, so any upward move of rates may be short-lived. This week lower swap rates could be influenced by PPI or core inflation data, for which we assume a slightly deeper slowdown than the market average. In the case of credit spreads, we think there is now room for an upward adjustment, although we may have to wait for a bigger move for the end of January with two bond auctions and February and March with more net supply.

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



Source: LSEG Datastream, Santander

### Citi Inflation Surprise Index

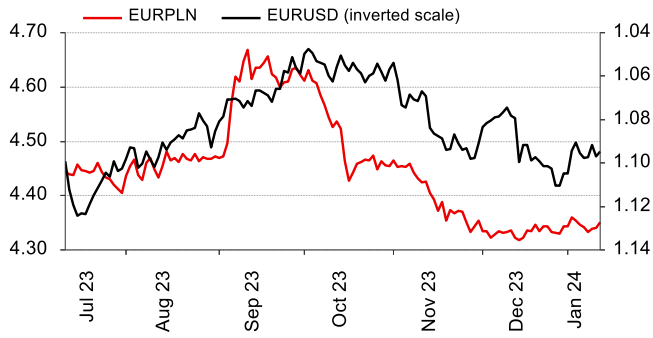


Source: LSEG Datastream, Santander

### Economic Analysis Department:

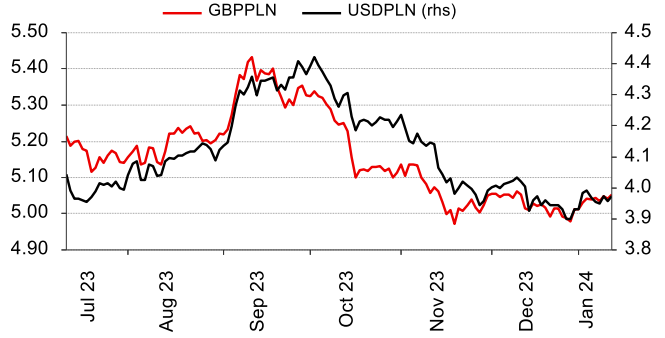
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**EURPLN and EURUSD**



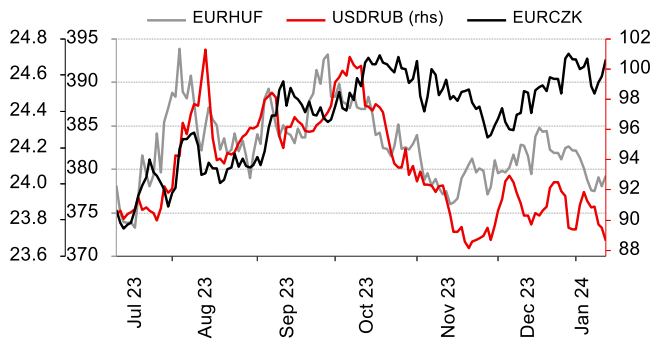
Source: LSEG Datastream, Santander

**GBPPLN and USDPLN**



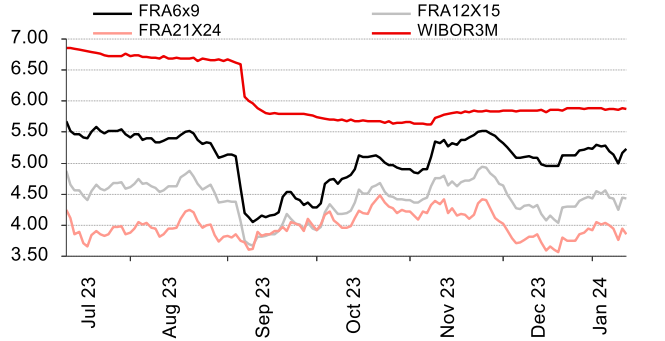
Source: LSEG Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



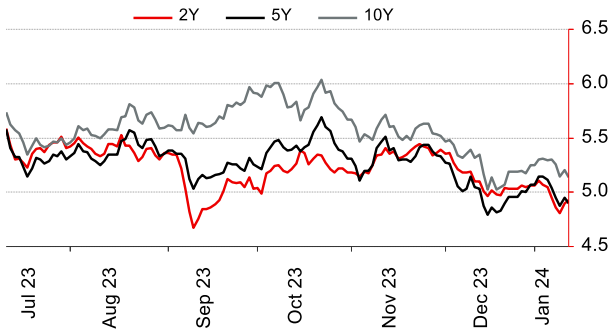
Source: LSEG Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



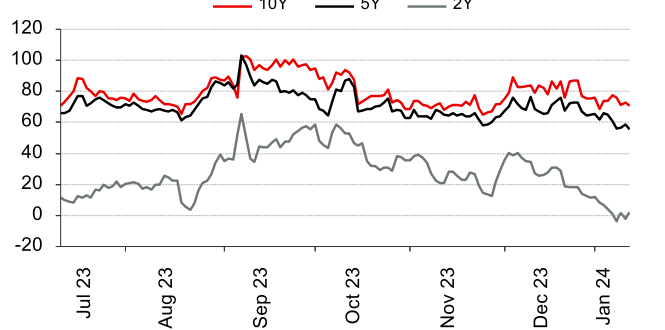
Source: LSEG Datastream, Santander Bank Polska

**Polish bond yields**



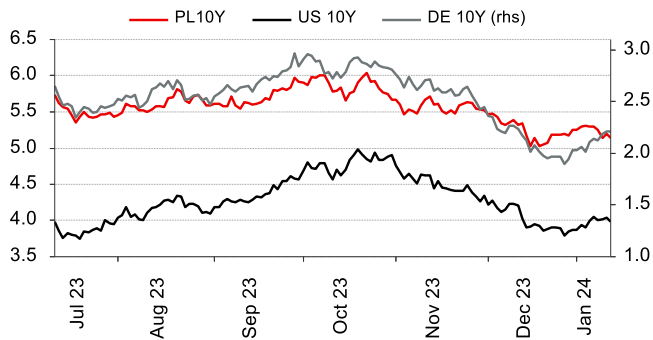
Source: LSEG Datastream, Santander Bank Polska

**Asset swap spreads**



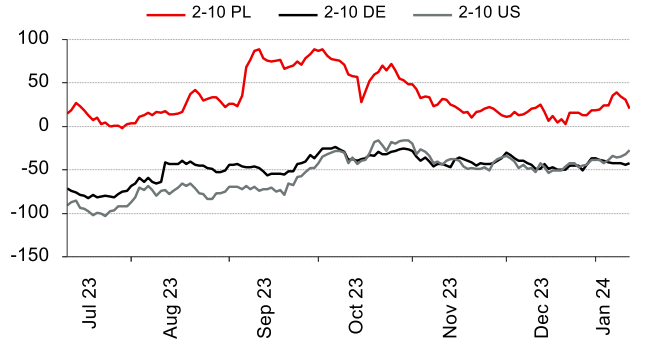
Source: LSEG Datastream, Santander Bank Polska

**10Y bond yields**



Source: LSEG Datastream, Santander

**Steepness of yield curves**



Source: LSEG Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (15 January)</b>						
10:00	PL	CPI	Dec	% y/y	6.1	6.6
11:00	EZ	Industrial Production SA	Nov	% m/m	-0.3	-0.7
<b>TUESDAY (16 January)</b>						
08:00	DE	HICP	Dec	% m/m	0.2	0.2
11:00	DE	ZEW Survey Current Situation	Jan	pts	-76.0	-77.1
14:00	PL	CPI Core	Dec	% y/y	6.9	7.3
<b>WEDNESDAY (17 January)</b>						
11:00	EZ	HICP	Dec	% y/y	2.9	2.9
14:30	US	Retail Sales Advance	Dec	% m/m	0.4	0.3
15:15	US	Industrial Production	Dec	% m/m	-0.1	0.2
<b>THURSDAY (18 January)</b>						
14:30	US	Initial Jobless Claims		k	210	202
14:30	US	Housing Starts	Dec	% m/m	-9.3	14.8
<b>FRIDAY (19 January)</b>						
10:00	PL	PPI	Dec	% y/y	-5.7	-4.7
16:00	US	Michigan index	Jan	pts	68.0	69.7
16:00	US	Existing Home Sales	Dec	% m/m	0.5	0.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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