

Weekly Economic Update

January data – in search of economic revival

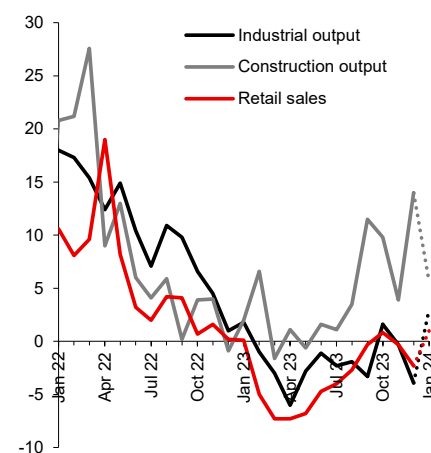
Economy next week

- **A solid packet of Polish data** will be published this week. On Tuesday - labour market numbers, PPI inflation, industrial production. In the case of **employment data**, the effect of the annual change in the sample of businesses surveyed will be decisive. We expect a negative annual growth rate, but bear it in mind that uncertainty is elevated for the January print. In **wages**, we will see the effect of an increase in the minimum wage to PLN4242 from PLN3600 (+17.8%), which we believe could have added around 2 percentage points to the headline wage growth in the corporate sector. This will help wage growth remain in double digits. For **industrial production**, we expect a slight increase, largely supported by the working days effects. However, the weak situation in the euro zone and German economies does not bode well for domestic industry in the months ahead. PPI inflation will decline further, in our view. On Wednesday - construction production and consumer sentiment are due. On Thursday - M3 money supply, business climate, agricultural prices and retail sales. After the negative surprise in 4Q GDP data, which was probably due to weak consumption numbers, we will be looking out for signals on consumer demand in **retail sales and consumer sentiment data**. On Friday, the Statistical Bulletin and the unemployment rate are due for release, but these should not attract much market attention. Our forecasts for this week's readings are more or less in line with consensus.
- In the global market, Monday and Tuesday should be quiet, especially as the US market will be closed due to George Washington's birthday on the former. Then, the publication of the **minutes of the January FOMC meeting (Wednesday) and the ECB (Thursday)** will garner attention. Central bankers have sounded rather hawkish recently, prompting the US market to reduce its expectations for a rate cut in March. Investors will be trying to read more from these documents on the conditions needed for a rate cut. On Thursday, preliminary data on **manufacturing and services PMIs** in Germany and the euro zone, among others. The market expects an improvement in these indices, this would be a signal of an upturn in the European economy. Also on the same day, there will be a publication of HICP inflation data in European economies, and on Friday, another **reading of German 4Q GDP and the Ifo index** - further information to assess the outlook for Europe's largest economy. In addition, the People's Bank of China meeting will take place this Sunday. Expectations of a slight rate cut (10 points) have been raised in the market, albeit the median of expectations is still for no change.

Markets next week

- The CEE currencies depreciated slightly in the passing week, which was in line with our assumption. Next week, we see potential for their slight appreciation, which could materialise especially if there is a EURUSD rise following the possibly better data from the euro area. **The zloty may be supported by a recovery in Polish economic activity** in January, we assume will show up in the incoming data. The Czech koruna may rebound if its increased pace of depreciation seen in recent weeks triggers further verbal interventions from the CNB.
- In the interest rate market, we saw the potential for a slight drop in rates this week and such a move did materialise, but mainly at the short end of the swap curve and for longer tenor FRAs, which was supported by the lower inflation reading. In general, we still see room for market rates to move slightly downwards **in the coming weeks under the influence of a further decline in CPI**. However, **this week's activity data should be a factor in limiting the downside potential**. Although our forecasts are for wages and sales to be below market, and PPI could show a further deepening of the decline, measures of activity should show sizable increases in annual growth rates, which should keep market rates relatively high. Rates in the underlying markets may remain relatively high in the face of an expected rebound in the Eurozone and Ifo PMI indices, or possible secondary market reactions to US inflation data.

Output and retail sales, % y/y

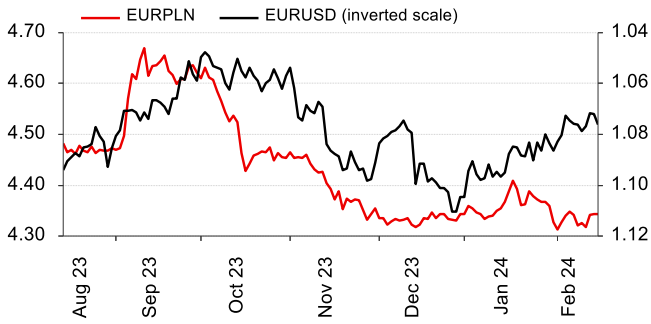


Source: GUS, Santander

Economic Analysis Department:

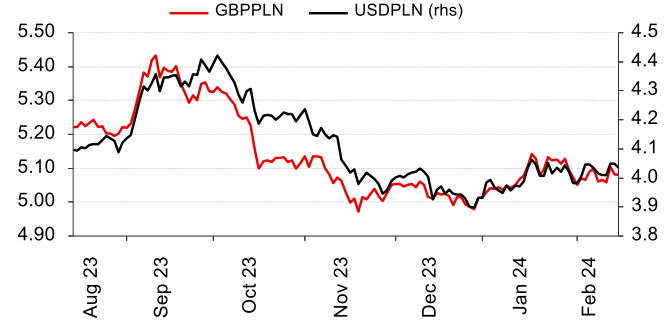
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luźniński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



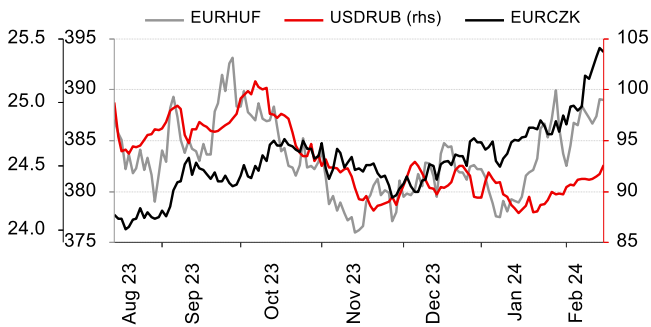
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



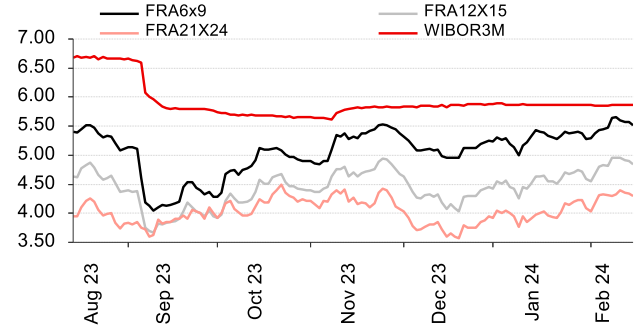
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



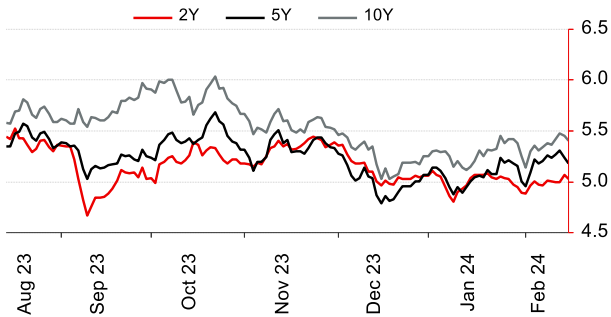
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



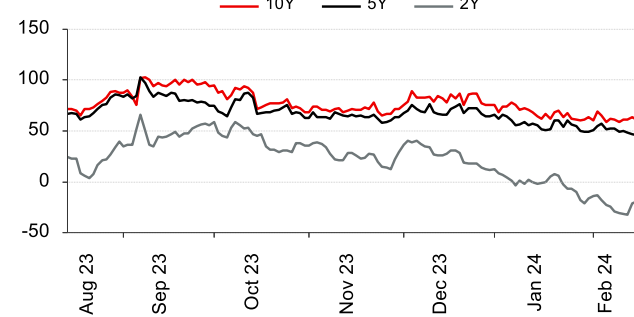
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



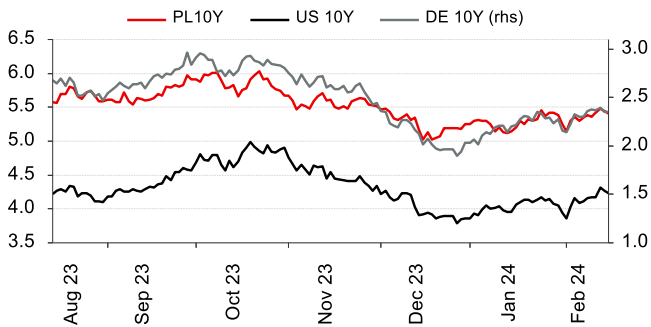
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



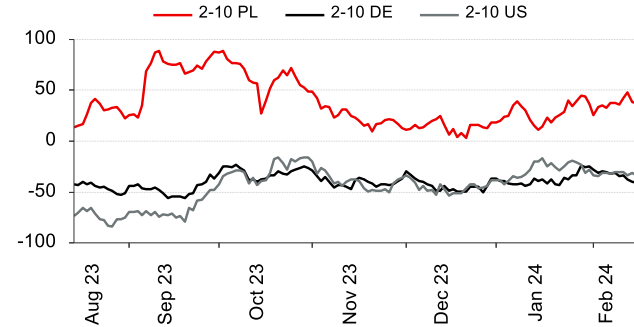
Source: LSEG Datastream, Santander Bank Polska

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		
MONDAY (19 February)							
US holiday							
TUESDAY (20 February)							
10:00	PL	Employment in corporate sector	Jan	% y/y	-0.2	-0.3	-0.1
10:00	PL	Sold Industrial Output	Jan	% y/y	3.1	3.1	-3.9
10:00	PL	PPI	Jan	% y/y	-8.3	-8.6	-6.4
10:00	PL	Average Gross Wages	Jan	% y/y	11.2	10.5	9.6
WEDNESDAY (21 February)							
10:00	PL	Construction Output	Jan	% y/y	5.5	5.5	14.0
20:00	US	FOMC Meeting Minutes	Jan				
THURSDAY (22 February)							
09:30	DE	Germany Manufacturing PMI	Feb	pts	46.5	-	45.5
09:30	DE	Markit Germany Services PMI	Feb	pts	48.5	-	47.7
10:00	PL	Retail Sales Real	Jan	% y/y	1.4	1.0	-2.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	47.0	-	46.6
10:00	EZ	Eurozone Services PMI	Feb	pts	48.7	-	48.4
11:00	EZ	HICP	Jan	% y/y	2.8	-	2.8
13:30	EZ	ECB Meeting Minutes	Jan				
14:00	PL	Money Supply M3	Jan	% y/y	8.0	7.9	8.5
14:30	US	Initial Jobless Claims		k	220	-	212
16:00	US	Existing Home Sales	Jan	% m/m	4.9	-	-1.1
FRIDAY (23 February)							
08:00	DE	GDP WDA	4Q	% y/y	-0.2	-	-0.2
10:00	DE	IFO Business Climate	Feb	pts	85.8	-	85.2
10:00	PL	Unemployment Rate	Jan	%	5.4	5.4	5.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.