

Weekly Economic Update

A week of central bank decisions

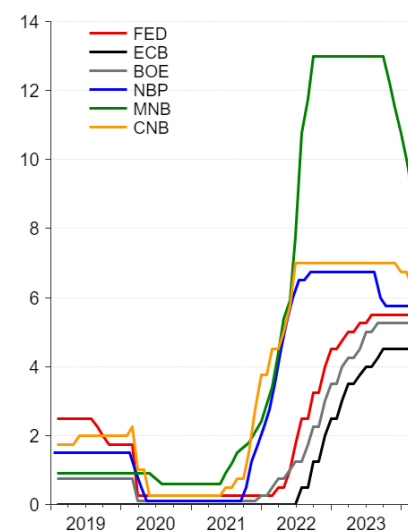
Economy next week

- A solid dose of domestic data awaits us after the weekend. **On Monday, core inflation for January and February; on Wednesday, February wages and employment, industrial production, PPI and March consumer sentiment; on Thursday, construction output and retail sales; on Friday, money supply and corporate business climate.**
- Another strong surprise from CPI inflation, which fell to 2.8% y/y in February (vs consensus of 3.2% and our forecast of 3.1%) **did not materially shift our forecast for core inflation, which we expect to be 5.4-5.5% y/y in February** with price growth in this component of 0.4-0.5% m/m. As a result, although the lowest point of this year's CPI inflation, in March, is moving downwards again (we currently estimate it to be 2.3% y/y), the persistence of core inflation remains essentially unchanged, which for the MPC will be probably a sufficient argument to avoid considering interest rate cuts anytime soon.
- In our view, caution in monetary policy will also be supported by **data from the labour market, which will show strong wage growth of around 12% y/y in February** (consensus 11.3% y/y) and only a slight contraction in employment in the corporate sector (-0.2% y/y). Our forecasts for manufacturing and retail sales are slightly below consensus, but still consistent with the scenario of a gradual recovery in economic activity in these sectors. We also expect a further improvement in consumer sentiment, supporting the hypothesis of an imminent recovery in demand.
- Abroad, the calendar of data releases is less intense (including European inflation, flash PMIs, German Ifo index), but **the week will be full of central bank decisions:** in Japan, Australia (Tuesday), China, Czechia, USA, Brazil (Wednesday), Switzerland, Norway, UK, Turkey, Mexico (Thursday), Russia (Friday). Most of them are expected to keep interest rates on hold, according to market expectations, the exceptions being Czechia and Brazil (both expected to cut by 50bp) and possibly Mexico (-25bp). **Most important for market sentiment will be the Fed**, including the tone of Chairman J.Powell's speech, new economic forecasts, the so-called dot-plot showing expected future interest rate path according to individual FOMC members.
- **This week marks the 100th day since the government was sworn in**, so we can expect information on the status of the implementation of the election campaign promises. It is possible that we will therefore learn more about upcoming decisions on, for example, the housing loan subsidy programme, possible changes to the business healthcare premium, changes to energy prices in the second half of the year.
- Moodys is expected to update Poland's rating on Friday (22 March) evening. **We expect a confirmation of the current A2 rating with a stable outlook.** The agency may highlight risks associated with a rather expansionary fiscal policy, appreciating the unblocking of EU funds and solid economic growth prospects.

Markets next week

- EURPLN finally slipped below 4.30 at the beginning of this week, helped by a hawkish message from the MPC and the weakening of the dollar against the euro. Thursday and Friday have already been marked by an upward correction, influenced on the one hand by the fall in EURUSD after the surprisingly high US inflation data, and on the other by lower-than-forecast domestic inflation data, reviving market expectations of rate cuts again. This week's domestic data should support the zloty, arguing against rapid monetary easing, but overall the impact of global sentiment after the FOMC meeting may be more important. **We assume EURPLN will manage to stay in the 4.28-4.30 range amid the upward rebound of EURUSD.**
- Another inflation surprise has moved domestic yields and the FRA market downwards, but in our view this could be a temporary move if further statements by MPC officials confirm that the base case scenario is still to keep rates unchanged until the end of the year and data supports the recovery scenario.

Central banks' main interest rates, %

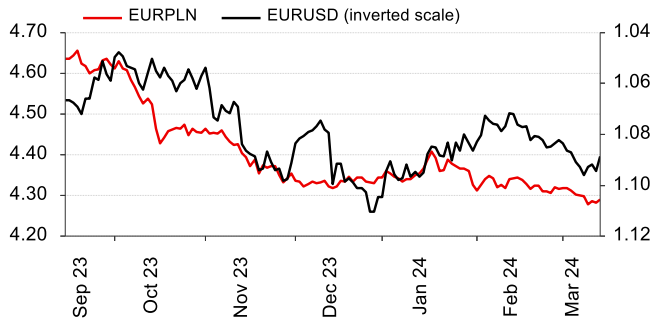


Source: LSEG Datastream, Santander

Economic Analysis Department:

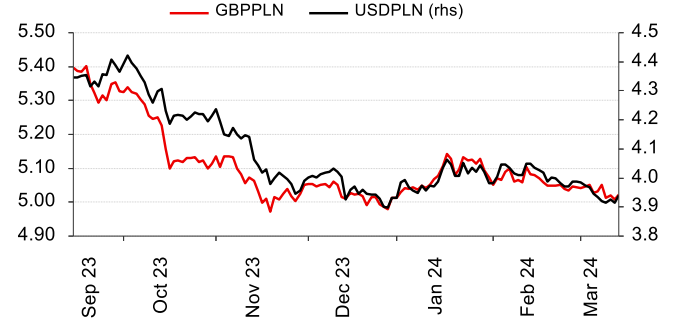
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EURPLN and EURUSD



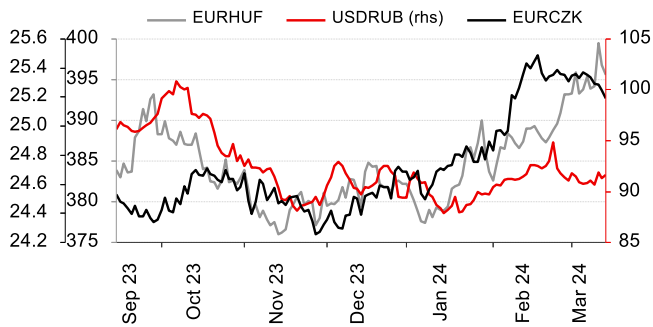
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



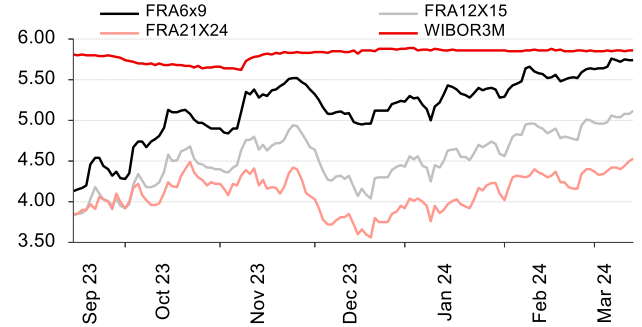
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



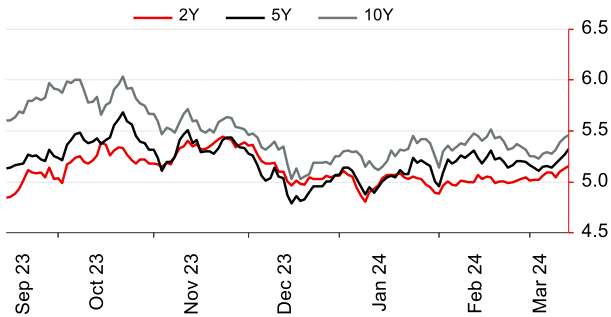
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



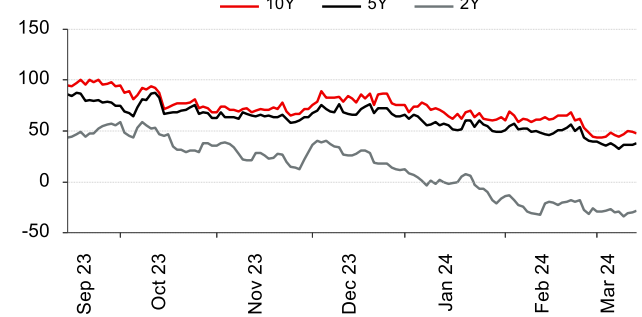
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



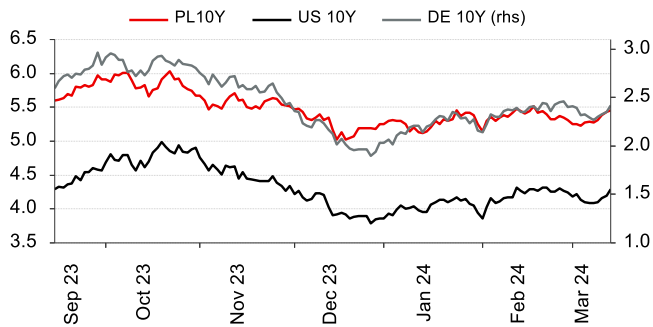
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



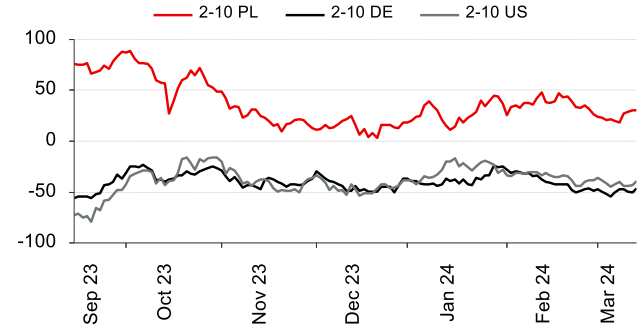
Source: LSEG Datastream, Santander Bank Polska

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		
MONDAY (18 March)							
11:00	EZ	HICP	Feb	% y/y	2.6	-	2.6
14:00	PL	CPI Core	Feb	% y/y	5.4	5.4	6.9
TUESDAY (19 March)							
11:00	DE	ZEW Survey Current Situation	Mar	pts	-82.4	-	-81.7
13:30	US	Housing Starts	Feb	% m/m	7.4	-	-14.8
WEDNESDAY (20 March)							
10:00	PL	Employment in corporate sector	Feb	% y/y	-0.2	-0.2	-0.2
10:00	PL	Average Gross Wages	Feb	% y/y	11.5	12.0	12.8
10:00	PL	Sold Industrial Output	Feb	% y/y	2.6	1.7	1.6
10:00	PL	PPI	Feb	% y/y	-8.7	-8.7	-9.0
14:30	CZ	Central Bank Rate Decision	Mar	%	5.75	-	6.25
19:00	US	FOMC decision	Mar	%	5.50	-	5.50
THURSDAY (21 March)							
09:30	DE	Germany Manufacturing PMI	Mar	pts	43.5	-	42.5
09:30	DE	Markit Germany Services PMI	Mar	pts	48.8	-	48.3
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	47.0	-	46.5
10:00	EZ	Eurozone Services PMI	Mar	pts	50.5	-	50.2
10:00	PL	Construction Output	Feb	% y/y	-0.3	-0.8	-6.1
10:00	PL	Retail Sales Real	Feb	% y/y	5.1	4.3	3.0
13:30	US	Initial Jobless Claims		k	218	-	209
15:00	US	Existing Home Sales	Feb	% m/m	-2.0	-	3.1
FRIDAY (22 March)							
10:00	DE	IFO Business Climate	Mar	pts	86.0	-	85.5
14:00	PL	Money Supply M3	Feb	% y/y	7.1	6.6	7.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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