

22 March 2024

Weekly Economic Update

Inflation returns to the target after three years

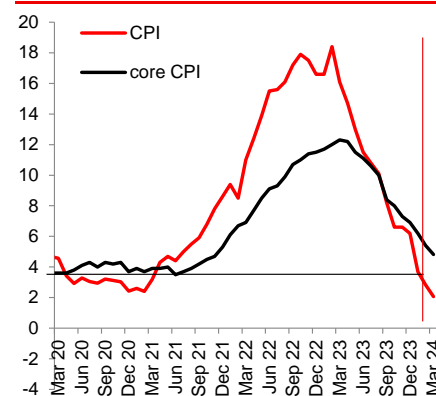
Economy next week

- The main data on the state of the Polish economy in February, including the accelerating retail sales, are now behind us. Now it is time to review the secondary numbers contained in **the Statistical Bulletin and data on the financial results of Polish companies in 4Q23** (Monday) before we can move on to the March readings. Friday will see **the preliminary estimate of CPI inflation and according to us it will print 2.1% y/y**. Generally, no one disputes that inflation managed to slip to the 2.5% target in March and by far the prevailing view is that it was below this level - forecasts compiled by Bloomberg are in the 2.0-2.5% range with a median of 2.3%. Like in February, food will, in our view, play a key role in the further decline in inflation due to the statistical base effect on the one hand and the price war of retail chains on the other. This will be accompanied by another drop in core inflation, probably below 5% y/y, although, here too, the base effect will help (its increase of 1.3% in March last year was the strongest recorded for that month in this century and is unlikely to be repeated now - and this will pull its annual growth rate downwards). On Wednesday, the Economic Committee of the Council of Ministers is due to address the issue of electricity prices, which will be key to the path of inflation in the second half of the year.
- Abroad: on Friday we will see **PCE inflation in the US and accompanying numbers on consumer income and spending**, and on the way to that publication we will also see the **third estimate of 4Q23 GDP, as well as data on durable goods orders, consumer sentiment and some data from the property market**. In Europe, a set of ESI indicators describing business and consumer sentiment is due for release.
- **After the surprise rate cut by the Swiss National Bank, on Wednesday we will see whether Swedes will follow suit in anticipation of the ECB's actions** (the market assumes that they will deliver a rate cut near the middle of the year). On the other hand, on Tuesday **the National Bank of Hungary will almost certainly decide to lower rates**, probably by 75 bps.
- Tomorrow, the Slovaks will elect their president, whereas **on Tuesday, a motion to put the NBP president before the State Tribunal will be submitted to the Polish Parliament**. Later tonight, Moody's is expected to decide on Poland's rating and, in our view, will change neither it, nor the outlook.

Markets next week

- Equity markets reacted with optimism to the Fed maintaining the prospect of interest rate cuts. Meanwhile, the dollar strengthened in response to good data from the US, and this, among other things, had a negative impact on the region's currencies. The zloty lost about 0.5%, but gained to the forint and the Czech koruna, which remain influenced by rapid rate cuts and tensions between the government and the central bank and central budget revision in Hungary. After the 50 bps cut by the Czech National Bank last week, **we expect the National Bank of Hungary to cut rates by 75 bps**, which could translate into further losses for the forint. **The zloty could be negatively impacted by escalating tensions between the ruling coalition and the NBP** and the submission of the motion to put the NBP President Glapiński before the State Tribunal. **The dollar could be supported by another high PCE deflator print** in the US (for February), although EURUSD has already fallen quite a bit in recent sessions, and any possible upward correction could potentially limit losses for the region's currencies.
- In the interest rate market, the gradual reduction in expectations for rate cuts this year and next year continued, leading to increases in FRA and IRS rates. The scale of bond repricing was somewhat smaller. This was supported by strong wage and retail sales data. Spreads between Polish bonds and those of Germany and the US widened after the Fed meeting and the low PMI readings in Germany. **This week we see room for a drop in rates and a slight steepening of the curves. A lower-than-expected inflation print may lead to a drop in rates.**

Inflation in Poland, %/y

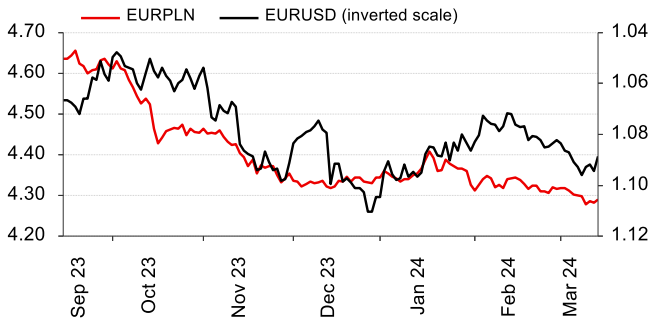


Source: GUS, NBP, Santander

Economic Analysis Department:

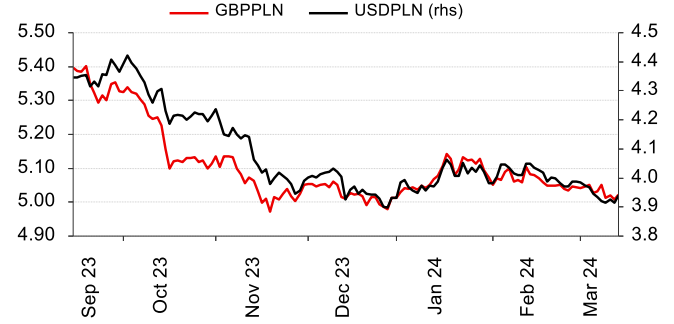
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EURPLN and EURUSD



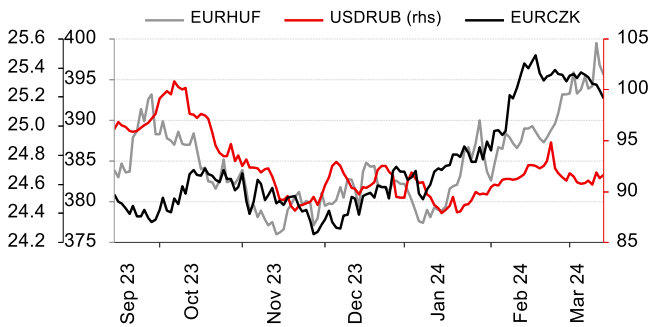
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



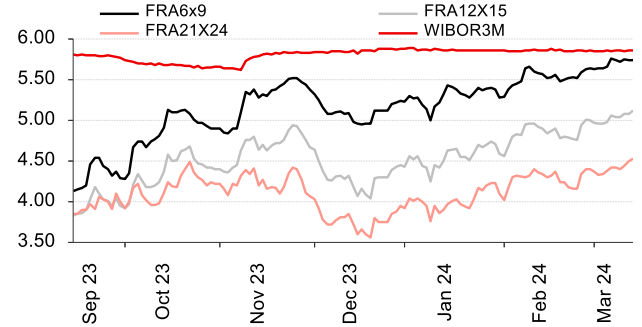
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



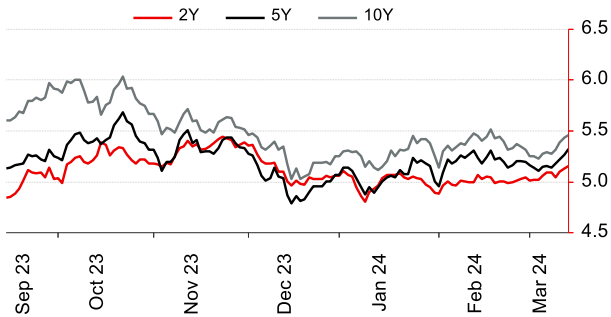
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



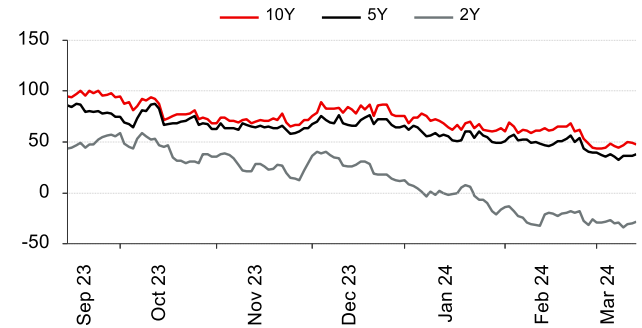
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



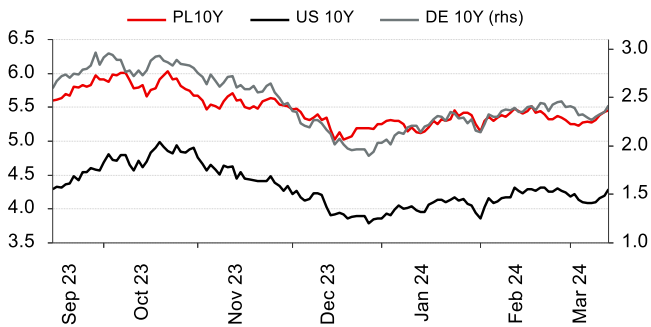
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



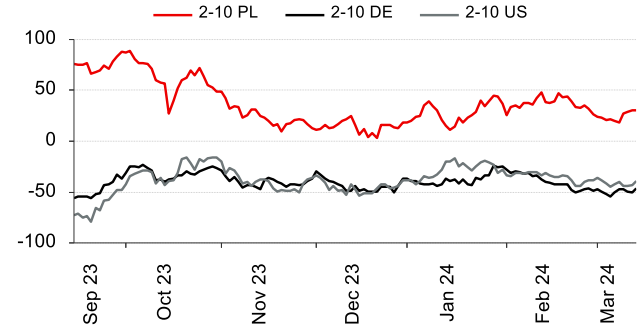
Source: LSEG Datastream, Santander Bank Polska

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 (25 March)						
10:00	PL	Unemployment Rate	Feb	%	5.4	5.4
15:00	US	New Home Sales	Feb	% m/m	2.9	-
TUESDAY (26 March)						
13:30	US	Durable Goods Orders	Feb	% m/m	1.1	-
14:00	HU	Central Bank Rate Decision	Mar	%	8.25	-
15:00	US	Consumer Conference Board	Mar	pts	107.0	-
WEDNESDAY (27 March)						
	DE	Retail Sales	Feb	% m/m	0.4	-
11:00	EZ	ESI	Mar	pct.	96.1	-
THURSDAY (28 March)						
09:00	CZ	GDP SA	4Q	% y/y	-0.2	-
13:30	US	GDP Annualized	4Q	% Q/Q	3.2	-
13:30	US	Initial Jobless Claims	week	k	212	-
15:00	US	Michigan index	Mar	pts	76.5	-
15:00	US	Pending Home Sales	Feb	% m/m	1.8	-
FRIDAY (29 March)						
10:00	PL	CPI	Mar	% y/y	2.3	2.1
13:30	US	Personal Spending	Feb	% m/m	0.5	-
13:30	US	Personal Income	Feb	% m/m	0.4	-
13:30	US	PCE Deflator SA	Feb	% m/m	0.4	-

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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