

29 March 2024

Weekly Economic Update

Happy Easter!

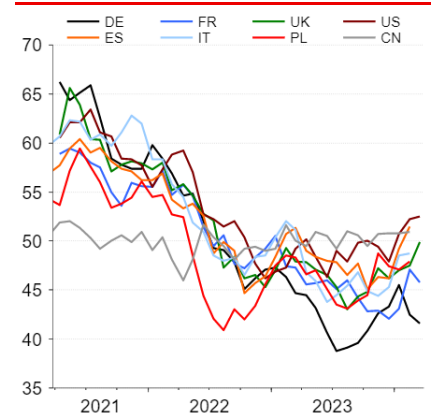
Economy next week

- In the shorter week after Christmas (Monday is a market holiday), the domestic economic calendar will be fairly sparse. It will start with the publication of the March manufacturing PMI on Tuesday morning and close with the NBP president conference on Friday afternoon (start at 15:00) following the MPC meeting, the outcome of which will be known on Thursday (at an unknown time). In between, attention will be focused on news from abroad, which will not be overly abundant either. Among the foreign publications worth mentioning: the final PMI indices in manufacturing and services (Tuesday and Thursday), inflation data from Germany and the euro area (Tuesday and Wednesday), and at the end of the week the monthly employment report from the USA.
- **We forecast a slight increase in the Polish PMI index to 48.4 points from 47.9 in February**, going against the deterioration in industrial sentiment in Germany and the euro area. An improvement in Polish industry is indicated by all alternative measures of sentiment in the sector (including the GUS business climate survey and ESI). The improvement is also supported by a rebound in the UK industrial PMI, which has correlated much better with the Polish index than the German index for over a year.
- **We do not expect the Monetary Policy Council to change interest rates in April, nor do we expect the surprisingly low March inflation reading (down to 1.9% y/y, the lowest in five years!) to significantly alter the MPC's rhetoric.** The NBP Governor will probably again draw attention to the continuing uncertainty regarding (a) energy prices in the second half of the year, (b) the expected economic recovery, (c) the scale of fiscal expansion. He will also emphasise (quite rightly, by the way) that, in these conditions, the central bank should focus on the outlook for core inflation rather than short-term fluctuations in CPI. We do not expect signals towards an imminent monetary easing, but rather a confirmation of the rate stabilisation scenario. In recent weeks, an increasing number of MPC members who have so far been viewed as representatives of the 'dovish' faction (including G.Mastowska, I.Duda) have joined the view that interest rate cuts before the end of this year are unlikely.

Markets next week

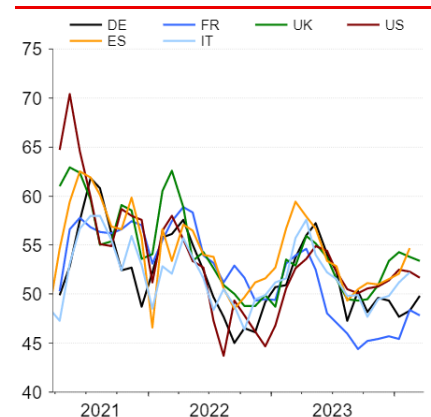
- In the foreign exchange market, **the relative stabilisation of the zloty, which has been taking place for quite some time, may continue, although we see room for the zloty to appreciate in the coming weeks.** The zloty may be supported by the transfer of the first instalment of the Polish RRF (EUR6.3bn, expected to be disbursed at the beginning of April) and the prospect of inflow of foreign direct investment related to the purchase of Velobank by a foreign entity (the BFG decision was to be announced at the turn of the month). The domestic currency may also gain from less dovish tone of the MPC and an increase in the PMI. The last days of the week saw a rebound of the Hungarian forint and the Czech koruna, which may gain support from an increase in the EURUSD exchange rate. In the foreign markets, a possible negative factor for emerging market currencies would be potentially some form of intervention on the yen after its significant depreciation despite the recent interest rate hike.
- **After a sizable 7-25 bp drop in FRAs and IRS rates and less pronounced decrease in bond yields in recent days, the start of next week may yet bring a continuation of these trends.** This may be fostered by the positive mood after a lower domestic and US inflation (PCE) readings, a further drop in inflation in the euro area, particularly in Germany, or weaker non-farm employment data in the US. On the other hand, the tone of the NBP Governor's conference, which we believe will not be dovish, could cause domestic FRA and IRS rates to rise again at the end of the week. We still assume that the MPC will not cut rates until Q3 2025, and the market is currently pricing in around 100-125bp of rate cuts by the end of next year, so there is scope for a reduction in market expectations. April debt auctions do not start until the following week, but assuming low net issuance in April and May, we **think that asset swap spreads may fall further.**

PMI manufacturing



Source: LSEG Datastream, Santander

PMI services

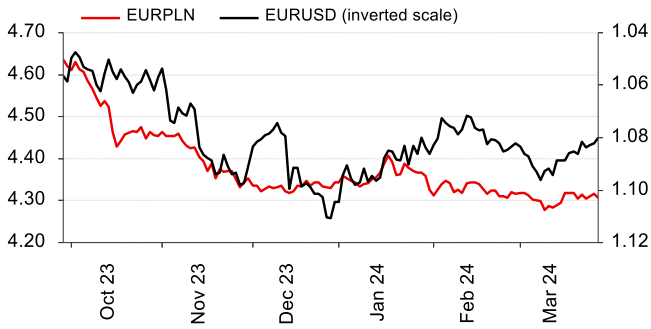


Source: LSEG Datastream, Santander

Economic Analysis Department:

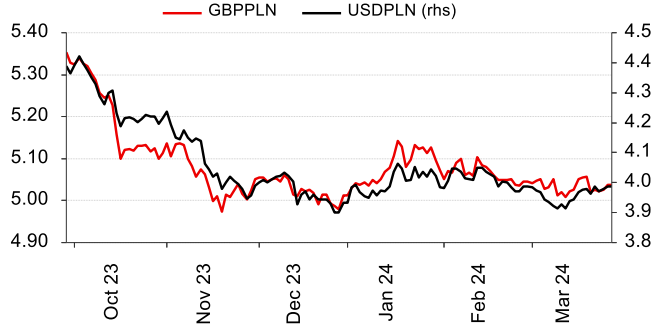
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EURPLN and EURUSD



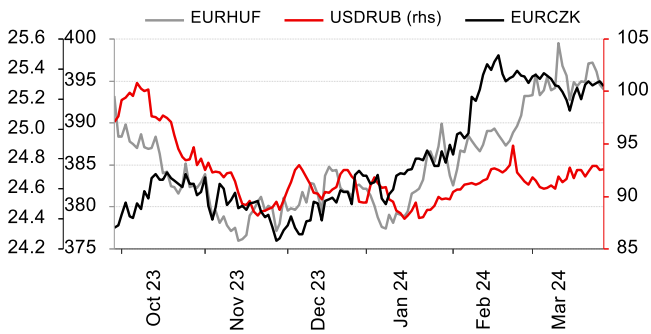
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



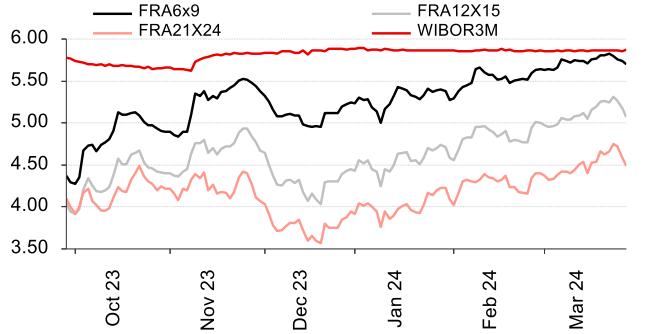
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



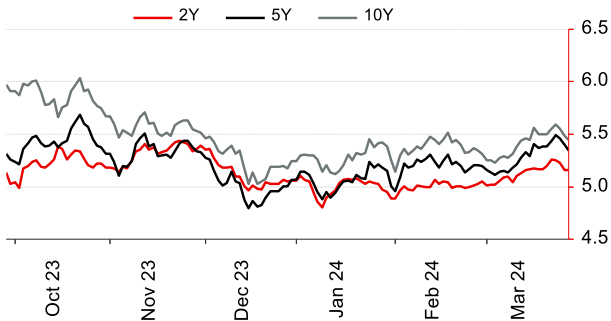
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



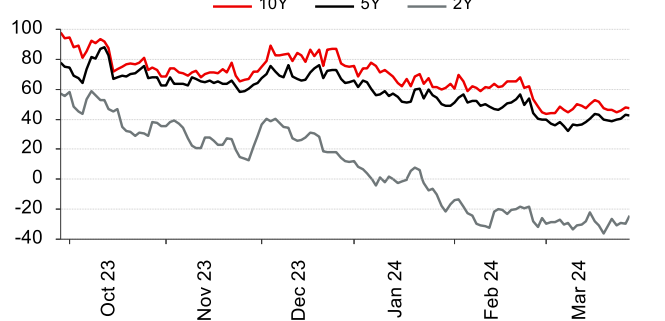
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



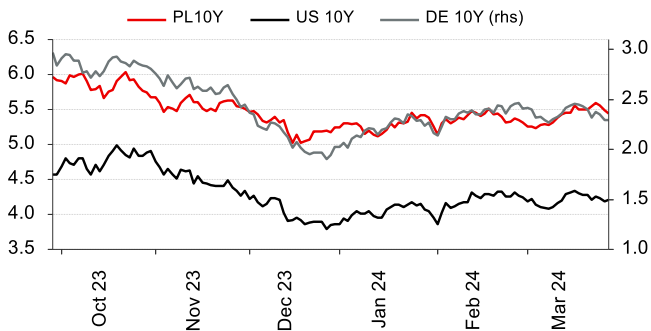
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



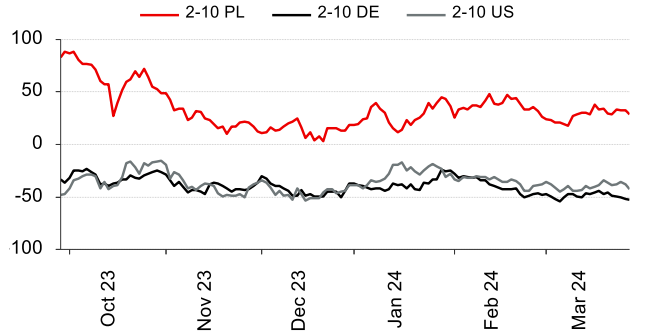
Source: LSEG Datastream, Santander Bank Polska

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 (1 April)							
16:00	US	ISM manufacturing	Mar	pts	48.5	-	47.8
TUESDAY (2 April)							
09:00	PL	Poland Manufacturing PMI	Mar	pts	47.9	48.4	47.9
09:55	DE	Germany Manufacturing PMI	Mar	pts	41.6	-	42.5
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	45.7	-	46.5
14:00	DE	HICP	Mar	% m/m	0.7	-	0.6
16:00	US	Durable Goods Orders	Feb	% m/m	1.0	-	1.4
16:00	US	Factory Orders	Feb	% m/m	1.0	-	-3.6
WEDNESDAY (3 April)							
03:45	CN	Caixin China PMI Services	Mar	pts	-	-	52.5
11:00	EZ	Flash HICP	Mar	% y/y	2.5	-	2.6
11:00	EZ	Unemployment Rate	Feb	%	6.4	-	6.4
14:15	US	ADP report	Mar	k	150	-	140
16:00	US	ISM services	Mar	pts	52.7	-	52.6
THURSDAY (4 April)							
	PL	MPC decision	Apr	%	5.75	5.75	5.75
09:55	DE	Markit Germany Services PMI	Mar	pts	49.8	-	49.8
10:00	EZ	Eurozone Services PMI	Mar	pts	51.1	-	51.1
13:30	US	Initial Jobless Claims		k	212	-	210
FRIDAY (5 April)							
08:00	DE	Factory Orders	Feb	% m/m	0.6	-	-11.3
08:30	HU	Industrial Production SA	Feb	% y/y	-3.0	-	-4.1
11:00	EZ	Retail Sales	Feb	% m/m	-0.3	-	0.1
14:30	US	Change in Nonfarm Payrolls	Mar	k	215	-	275
14:30	US	Unemployment Rate	Mar	%	3.9	-	3.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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