

Weekly Economic Update

Will data for April confirm economic recovery?

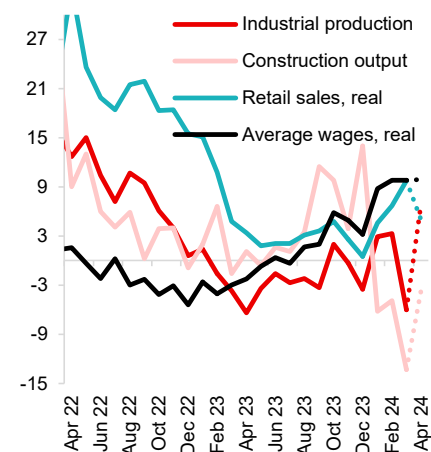
Economy next week

- The beginning of next week is set to be quiet and calm when it comes to new data releases, but starting from Wednesday we will be getting plenty of domestic data, which will provide us the first insight into the state of economy in the second quarter. Firstly, on Wednesday, we will learn about **April wages and employment, industrial production, PPI, as well as May consumer and business sentiment**. On Thursday, we will get data on **retail sales and construction output**, and on Friday, on **money supply**.
- We expect a continuation of recent trends in the labour market, a clear rebound in industrial and construction output after the March slump (which should be supported by a reversal of the working-days effect), a slowdown in retail sales due to the calendar effect (early Easter), and still positive consumer sentiment. If the new data again fall short of expectations, showing weaker-than-expected results, it will be time to start considering a downward revision of economic growth forecasts for this year. However, for the time being, we remain optimistic and hope that the data will confirm our baseline scenario of gradual economic recovery.
- Abroad, the publication calendar will be modest, with attention focused on flash PMIs for manufacturing and services, and US housing market data. April inflation will be released by the UK and Japan, and while both are expected to show a significant drop close to their 2% inflation target, this could affect the central banks of these countries in different ways: reasserting the BoE's plans to ease monetary policy soon and allowing the BoJ to stay the course on tightening monetary policy in the following months. Many central bank representatives will deliver public speeches next week (from the ECB, Fed, BoE, SNB) and the minutes of the May FOMC meeting will be released. Interest rate decisions will be made by central banks in Hungary (Tuesday), New Zealand (Wednesday), South Korea, Turkey and Chile (Thursday). Only in the case of Hungary does the market assume that there may be a change: the MNB may now add a 50bp cut to the series of cuts started in October already adding up to 525bp.
- On Wednesday, the **Sejm's Constitutional Responsibility Committee is scheduled to discuss the Sejm Speaker's remarks** on the preliminary motion to bring NBP Governor Adam Glapiński to constitutional responsibility before the State Tribunal.

Markets next week

- After the recent strengthening **we see the potential for a correction towards a slightly weaker zloty**. This is favoured by the technical situation, which looks similar for other CEE currencies, also suggesting a case for stronger US dollar. A slight weakening of the Polish currency may also be fostered by the bank dividend payment season or the parliamentary discussion on the motion against the NBP president. Nevertheless, **in the perspective of the coming weeks, we still see potential for the stronger zloty** amid a sizable inflow of EU funds, the MPC's hawkish rhetoric and the first rate cuts in the euro area approaching.
- After a slight rise in domestic market rates last week despite yields declining in the core markets on the back of lower-than-forecast US inflation, **the next week could be marked by a continuation of the upward move in Polish IRS rates**. This could be supported by decent local data on wages and production, or further increases in PMI indices in Europe. In the following weeks, domestic market rates may remain elevated in view of the gradual rise in inflation and the economic recovery that we assume. A bond auction is scheduled this week, where we may see large supply, but given the high redemption of WZ0524 (mainly in domestic banks' portfolios) and interest payments (c.PLN8.5bn) **the negative net issuance should eventually translate into narrowing asset swap spreads**. As for the core markets, after sizable upward revisions to US growth forecasts, recent weeks have brought negative surprises in the data, which, together with the easing of inflationary concerns, carries the potential for market rates to go down. A potentially less dovish FOMC minutes could stand in the way. For the euro curve, on the other hand, further signs of recovery will be important after stronger 1Q GDP data, although **the prospect of looming first ECB rate cut, most likely to come in June, should limit any upward movement in yields**.

Selected economic indicators, % y/y

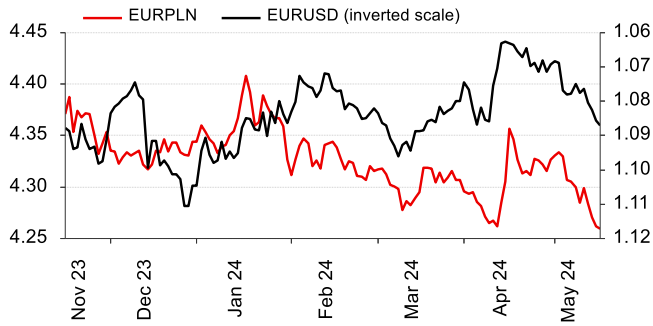


Source: GUS, Santander

Economic Analysis Department:

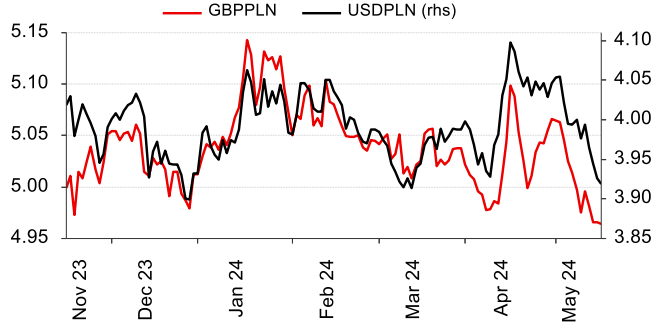
a.l. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Bartosz Białas +48 517 881 807
 Cezary Chrapek, CFA +48 887 842 480
 Marcin Luziński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



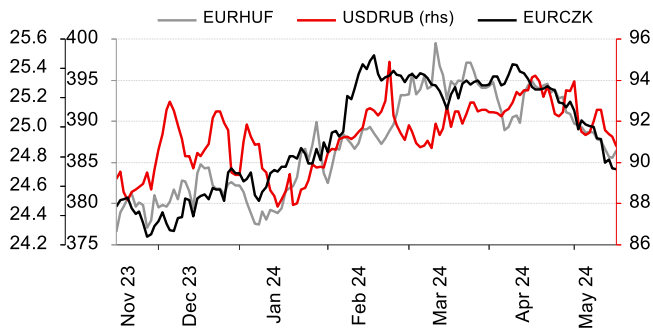
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



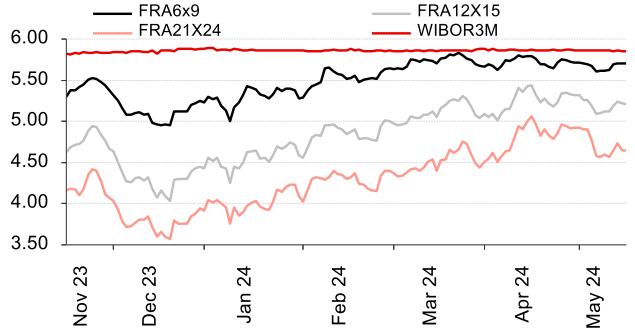
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



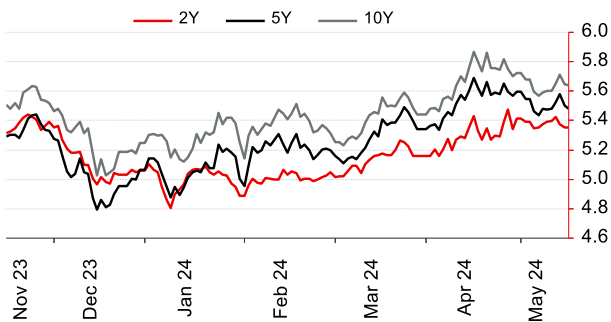
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



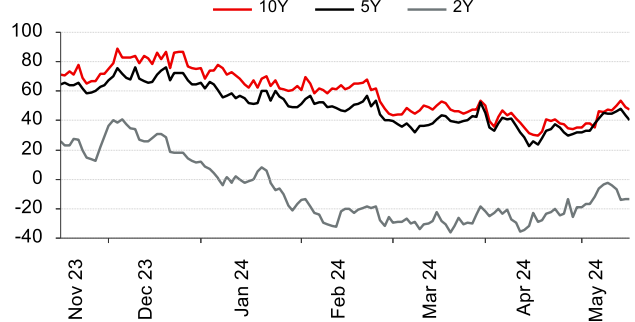
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



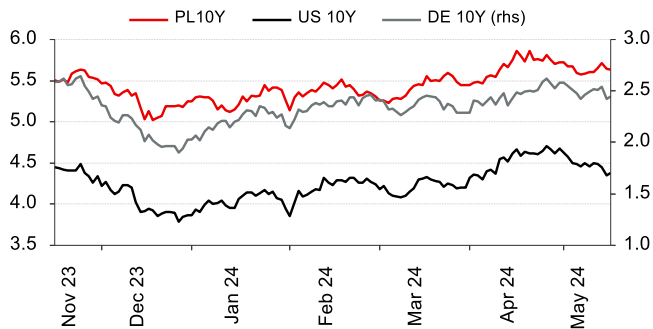
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



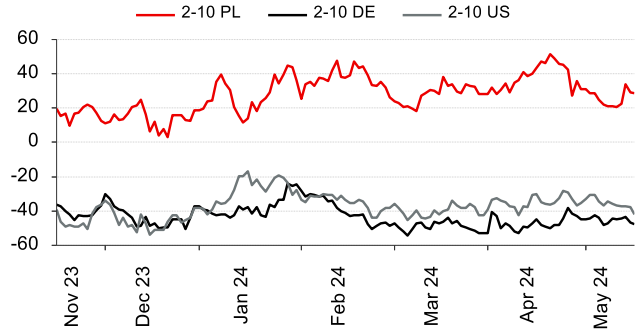
Source: LSEG Datastream, Santander Bank Polska

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 (20 May)							
03:15	CN	1Y Loan Prime Rate	May	%	3.45	-	3.45
TUESDAY (21 May)							
14:00	HU	Central Bank Rate Decision	May	%	7.25	7.25	7.75
WEDNESDAY (22 May)							
10:00	PL	Employment in corporate sector	Apr	% y/y	-0.3	-0.3	-0.2
10:00	PL	Average Gross Wages	Apr	% y/y	12.5	12.5	12.0
10:00	PL	Sold Industrial Output	Apr	% y/y	6.3	6.8	-6.0
10:00	PL	PPI	Apr	% y/y	-8.2	-8.3	-9.6
16:00	US	Existing Home Sales	Apr	% m/m	-0.1	-	-4.3
20:00	US	FOMC Meeting Minutes	May				
THURSDAY (23 May)							
09:30	DE	Germany Manufacturing PMI	May	pts	43.5	-	42.5
09:30	DE	Markit Germany Services PMI	May	pts	53.5	-	53.2
10:00	EZ	Eurozone Manufacturing PMI	May	pts	46.1	-	45.7
10:00	EZ	Eurozone Services PMI	May	pts	53.6	-	53.3
10:00	PL	Construction Output	Apr	% y/y	-5.7	-3.7	-13.3
10:00	PL	Retail Sales Real	Apr	% y/y	5.3	4.6	6.1
14:30	US	Initial Jobless Claims		k	220	-	222
16:00	US	New Home Sales	Apr	% m/m	-2.6	-	8.8
FRIDAY (24 May)							
08:00	DE	GDP WDA	1Q	% y/y	-0.2	-	-0.2
14:00	PL	Money Supply M3	Apr	% y/y	6.7	6.7	6.6
14:30	US	Durable Goods Orders	Apr	% m/m	-0.8	-	0.9
16:00	US	Michigan index	May	pts	67.8	-	77.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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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.