

Weekly Economic Update

Focus on Germany and Ukraine

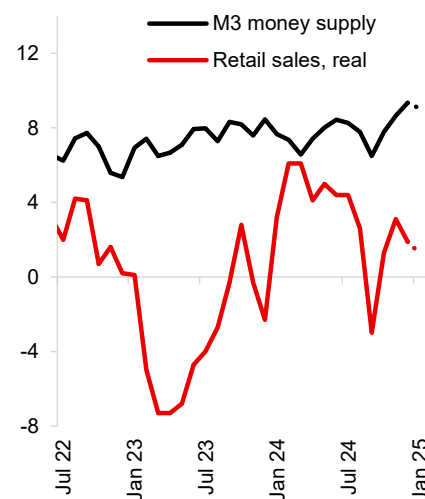
Economy next week

- **The talks on Ukraine remain the key factor for market sentiment in the region.** The meeting of US and Russian officials in Saudi Arabia ended with a signal of readiness for further talks not only on the end of the war in Ukraine, but also on the normalisation of diplomatic relations and economic cooperation. A Kremlin spokesman suggested that a direct meeting between D.Trump and V.Putin was possible before the end of this month (i.e. in the nearest week), but a bit later optimism on the matter was somewhat cooled by the US Secretary of State, who said that the timing of this meeting would depend on progress in the talks on ending the war.
- Just after the weekend, however, attention will focus on **the results of the German election**. Polls still show the biggest (yet declining) support for CDU/CSU and it looks like the leader of this party will take over as Chancellor. From the markets' point of view, the exact distribution of seats in parliament will be crucial, affecting the ability of the winning party to form a stable coalition.
- Locally, on Monday we will see the **January retail sales**, which we believe continued to grow in real terms (1.3% y/y), but at a slower pace than in December. There will also be data on the **M3 money supply** and (on Tuesday) the GUS Statistical Bulletin with, among other things, unemployment rate and information on industrial orders. On Thursday, a **detailed 4Q GDP data** will provide information on private consumption (which we expect to have rebounded from 0.3% to above 3%) and investment (which may have also accelerated, but to a lesser extent).
- Abroad, new sentiment indicators will be released: the Ifo and GfK indices for German business and consumers respectively, the ESI indices for EU countries. The week will also see the release of flash February inflation in Germany, France and Spain, as well as full data on January inflation in the euro area and the US (PCE deflator). We will also see revised GDP estimates for Q4 in Germany and the US, as well as a reading for the Czech Republic.
- The Hungarian central bank will decide on interest rates and the general view is that they will pause once again. The MNB halted rate cuts last September to counteract the forint's ongoing depreciation. The EURHUF has already made quite a downward move this year, which could fuel the discussion of rate cuts renewal, but more likely as early as March under a new governor.

Markets next week

- The fate of Ukraine remains, in our view, a key factor for the zloty and the other CEE currencies. The vision of an imminent end to the war generally continues to work in their favour, even if communication from the US administration suggests that the solution being prepared may be less favourable for Ukraine and Europe than might have been assumed a few weeks ago. **A descent of EURPLN to 4.15 or below cannot be ruled out if the truce scenario becomes even more likely.** But this coin has two sides: any signals that the road to a ceasefire is much more complicated and distant may cause the excitement on this topic to dim and trade policy issues, among others, to come to the fore. In our view, **the looming increase of US tariffs is a fundamental argument for a weakening of the euro and CEE currencies against the dollar.** An additional risk for the euro would also be such an election outcome in Germany, which would imply little chance of a stable government coalition.
- Negative sentiment towards Polish bonds has been felt in the debt market in recent days. The 10-year yield spread vs core markets widened by around 10 bp and the domestic yield curve steepened by 12 bp. The news of a relatively low budget deficit in 2024 (thanks to lower than planned spending) did not stop the negative trend. Also, data showing a further deceleration in wages in January - including in the services sector - which in principle should bring the MPC closer to considering rate cuts, failed to prevent a rise in rates in the domestic swap market. **Developments in the peace talks may be key to the direction that the Polish debt market will take, as with the FX market,** with the need for increased arms spending in Europe and the vision of loosening EU fiscal criteria more likely to create upward pressure on yields. An additional risk for the European debt market is possible declaration by German politicians after the elections on the abandonment of the 'debt brake'.

Money supply and retail sales, % y/y

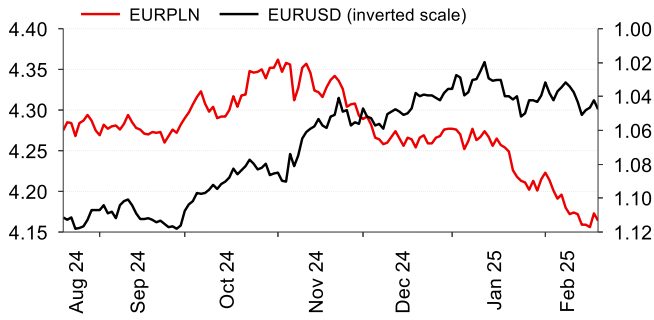


Source: GUS, NBP, Santander

Economic Analysis Department:

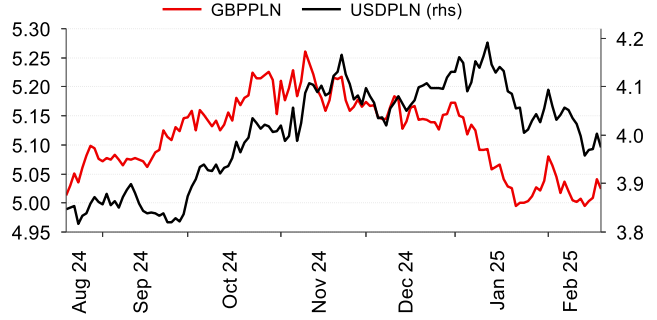
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EURPLN and EURUSD



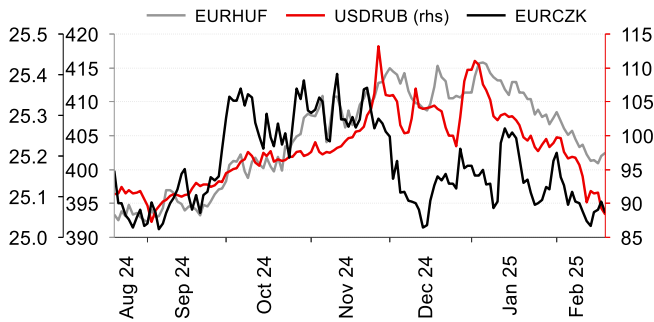
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



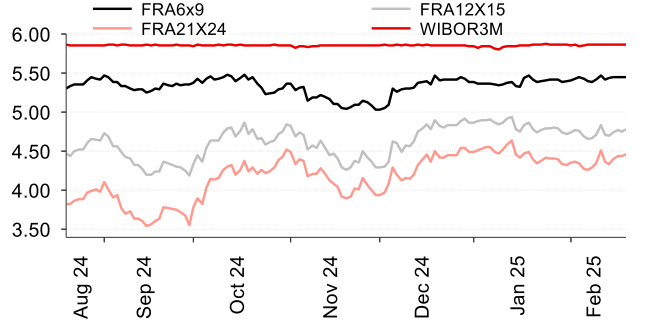
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



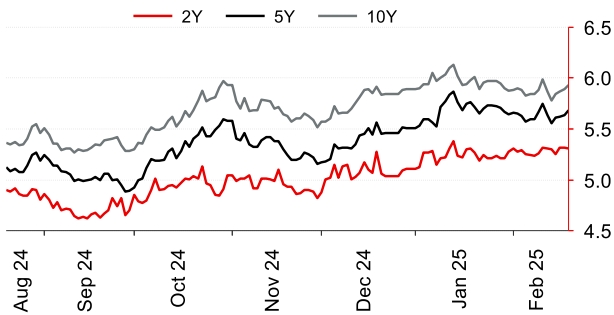
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



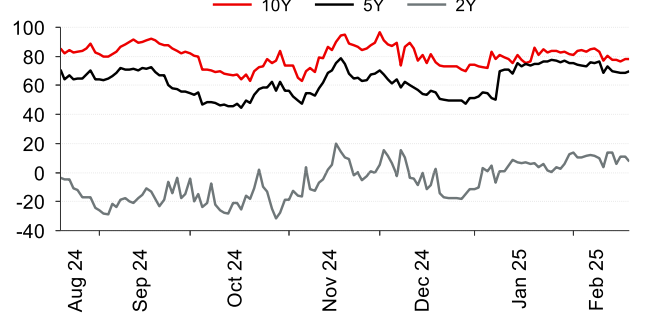
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



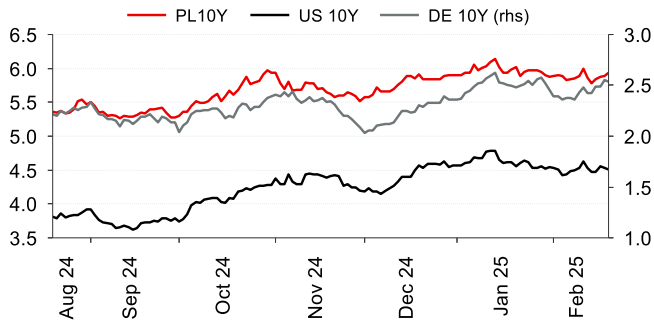
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



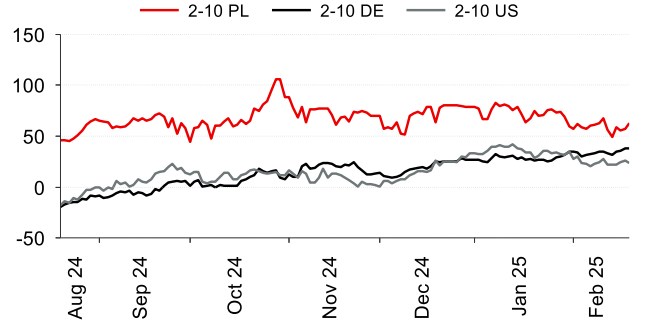
Source: LSEG Datastream, Santander Bank Polska

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 (24 February)						
10:00	DE	IFO Business Climate	Feb	pts	85.8	85.1
10:00	PL	Retail Sales Real	Jan	% y/y	1.5	1.9
11:00	EZ	HICP	Jan	% y/y	2.5	2.4
14:00	PL	Money Supply M3	Jan	% y/y	9.1	9.3
TUESDAY (25 February)						
08:00	DE	GDP WDA	4Q	% y/y	-0.2	-0.3
10:00	PL	Unemployment Rate	Jan	%	5.4	5.1
14:00	HU	Central Bank Rate Decision	Feb	%	6.50	6.50
16:00	US	Consumer Conference Board	Feb	pts	103.2	104.1
WEDNESDAY (26 February)						
16:00	US	New Home Sales	Jan	% m/m	-2.9	3.6
THURSDAY (27 February)						
10:00	PL	GDP	4Q	% y/y	3.2	2.7
11:00	EZ	ESI	Feb	pct.	96.0	95.2
14:30	US	Durable Goods Orders	Jan	% m/m	2.2	-2.2
14:30	US	GDP Annualized	4Q	% q/q	2.3	3.1
14:30	US	Initial Jobless Claims	weekly	k	215	219
16:00	US	Pending Home Sales	Jan	% m/m	-1.2	-5.5
FRIDAY (28 February)						
08:00	DE	Retail Sales	Jan	% m/m	0.0	-1.1
09:00	CZ	GDP SA	4Q	% y/y	1.6	1.4
14:00	DE	HICP	Feb	% m/m	0.5	-0.2
14:30	US	Personal Spending	Jan	% m/m	0.2	0.7
14:30	US	Personal Income	Jan	% m/m	0.3	0.4
14:30	US	PCE Deflator SA	Jan	% m/m	0.3	0.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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