

Eyeopener

A rash of election promises

Today, industrial production in the euro zone
 Current account deficit in July close to expectations
 New election promises: minimum wage up 20% in 2023, fixed price for electricity for families, high interest on deposits in state-owned banks
 EURUSD returned below parity, EURPLN rose above 4.72

Today, industrial production in the euro area. No significant data from Poland.

July current account showed EUR1.7bn deficit, close to market and our expectations of around EUR1.8-1.9bn, following two months of significantly lower-than-expected deficits. All parts of C/A were close to our estimates. Exports were up 19.9% y/y in EUR terms (previously 25.8% y/y) and imports grew by 23.5% y/y (down from 31.5%). High growth rates are a function of high inflation in transactional prices, especially in fuels and food. On the exports side the NBP report mentions a rebound in dispatch of motor vehicles and continued high exports of fuel to Ukraine. On the imports side, apart from signalling the record high PLN price of imported oil, the report names smaller deliveries of intermediate goods, which might be seen as a sign of weaker domestic demand. 12M rolling sum of current account deficit widened to 4.0% of GDP from 3.9% in June and in our view it might reach a turning point before the year end.

The government decided that **the minimum wage** will be increased to PLN3490 from 1 January 2023 and to PLN3600 from 1 July 2023 (gross values), compared to PLN3010 in 2022, which means a target increase of 19.6%. This is a substantial jump that could push other salaries upwards and make it more difficult to combat inflation. In 2023, the minimum wage will probably exceed 53% of the average wage in the national economy. The ratio of the minimum wage to the average wage will be one of the highest among OECD and EU countries. Assuming that around 2.2 million employees are paid the minimum wage, the increase means a growth in disposable income of around PLN10bn.

PiS leader J. Kaczyński said during a meeting with voters that the government is aiming at freezing energy prices at current price for households using up to 2000 kWh annually. As a result, around two-thirds of households are not expected to feel any increases in energy prices. He also revealed that talks were being held with state-owned banks to make them increase interest on households deposits to 7-8%. Earlier, Kaczyński promised housing loans with an interest rate of around 2%. For now, it is uncertain how many of these ideas will come into effect, but nevertheless the risk of inflation becoming entrenched at high levels in 2023 is increasing.

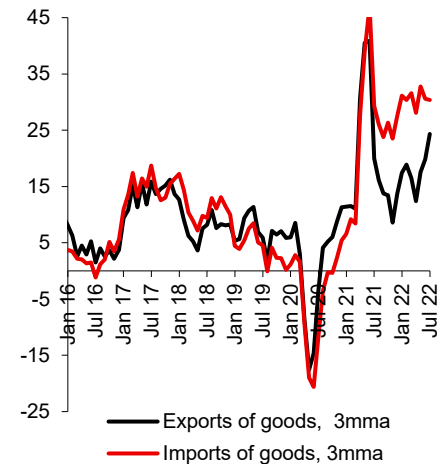
EURUSD, from just above 1.01, tried to attack the 1.02 level again, but a combination of a weak ZEW indicator for the Eurozone and Germany, and above all higher-than-expected inflation data from the US (among other things, the core CPI broke the downward trend that had been in place since March) completely reversed these trends, bringing the rate down to parity by the end of the day, and then below. After signals in recent days from the ECB regarding a possible rate hike in the Eurozone of up to 2%, Tuesday's inflation reading from the US makes scenarios of a possible Fed rate hike above 4% more likely.

EURPLN rose above 4.72 from the area below 4.70. The zloty was hurt by a weak ZEW reading, a widening current account deficit and a strengthening of the dollar in global markets, influenced by rising expectations for the scale of Fed rate hikes, after U.S. core inflation started to rise again.

Other CEE currencies: the EURCZK rose to 24.53. CNB Vice President Eva Zamrazilová said that restrictive monetary policy should be maintained for a longer period until inflation is on a sustainable path toward 2%. In her view, the inflation peak will be lower than is expected, but she is prepared to advocate further rate hikes should wage growth begin to exceed 5-6%. EURHUF rose to 398 from around 397. The value of the forint, as well as other currencies in the region, was negatively affected by the global strengthening of the dollar.

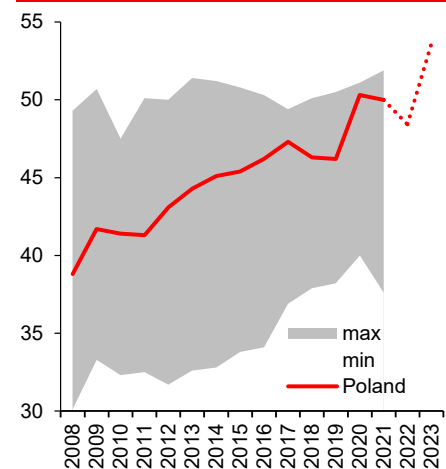
Debt market: The domestic yield curve recorded about a 20 bp decline at the shorter end, with little change at the longer end on Tuesday. The IRS curve began to rise again, as did expectations of a rate hike in the FRA market (which is probably helped by a rash of election promises that increase the risk of inflation being more persistent). Breaking through several months of declines in core inflation in the U.S. has lifted yields in the main markets. US 10Y yields are already very close to June peaks. Breaking them is probably just a matter of time given the strong rise in expectations for a Fed rate hike. Due to the MPC's rhetoric, Polish yields are not following global trends for now, but the scale of the repricing that has occurred in recent days increases, in our view, the likelihood of at least a temporary return of the Polish 10-year above 6%.

Foreign trade turnover, % y/y



Source: NBP, Santander

Minimum wage as % of average wage - Poland vs min/max in EU countries



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.7175	CZKPLN	0.1920
USDPLN	4.7288	HUFPLN*	1.1761
EURUSD	0.9980	RUBPLN	0.0788
CHFPLN	4.9159	NOKPLN	0.4661
GBPPLN	5.4361	DKKPLN	0.6343
USDCNY	6.9630	SEKPLN	0.4423

*for 100HUF

Last session in the FX market 13/09/2022

	min	max	open	close	fixing
EURPLN	4.6897	4.7232	4.6920	4.7219	4.7082
USDPLN	4.6159	4.7232	4.6321	4.7230	4.6363
EURUSD	0.9994	1.0187	1.0126	0.9996	-

Interest rate market 13/09/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0722 (2Y)	6.34	-20
DS0727 (5Y)	6.26	-1
DS0432 (10Y)	5.85	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.45	8	4.21	19	2.08	8
2L	7.00	14	4.07	18	2.38	12
3L	6.51	12	3.88	18	2.39	12
4L	6.22	11	3.71	14	2.41	12
5L	6.06	8	3.62	13	2.43	11
8L	5.85	4	3.48	7	2.49	9
10L	5.82	4	3.45	4	2.55	9

WIBOR rates

Term	%	Change (bps)
O/N	6.51	-5
T/N	6.62	-10
SW	6.87	-2
2W	6.91	0
1M	6.95	-5
3M	7.15	0
6M	7.32	-1
1Y	7.46	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.23	3
3x6	7.30	5
6x9	7.30	11
9x12	7.16	17
3x9	7.44	5
6x12	7.42	10

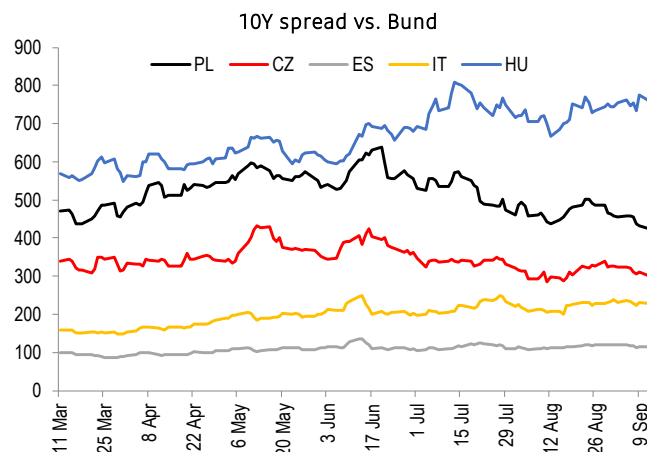
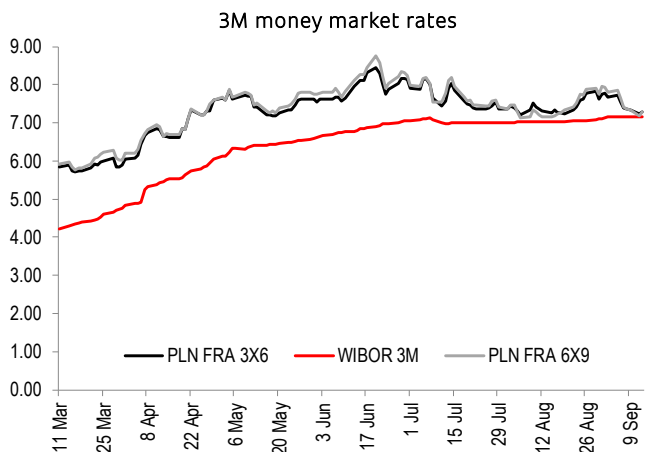
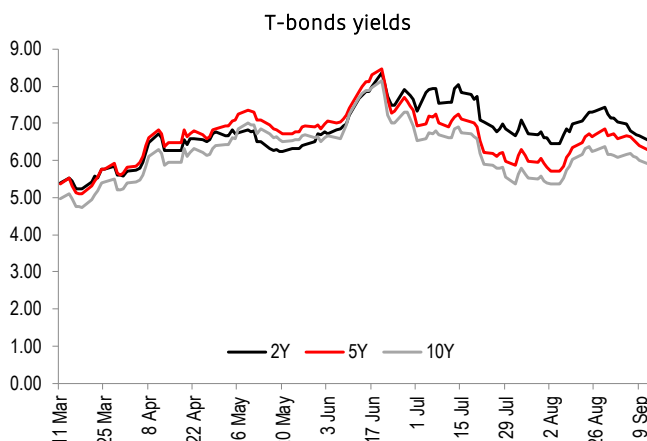
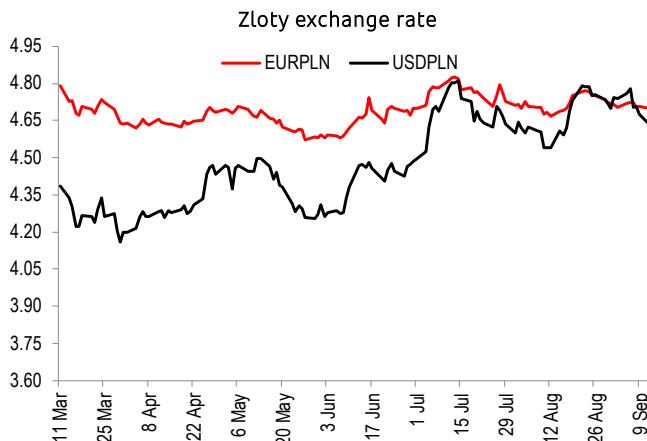
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	135	-5	413	-12
France	13	0	56	-1
Hungary	179	-5	737	-24
Spain	53	0	113	-2
Italy	65	-3	226	-4
Portugal	40	0	105	-2
Ireland	14	0	60	-1
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
MONDAY (12 September)							
09:00	CZ	CPI	Aug	% y/y	17.7	17.2	17.5
TUESDAY (13 September)							
08:00	DE	HICP	Aug	% m/m	0.4	0.4	0.4
11:00	DE	ZEW Survey Current Situation	Sep	pts	-50.1	-60.5	-47.6
14:00	PL	Current Account Balance	Jul	€mn	-1490	-1861	-1735
14:00	PL	Trade Balance	Jul	€mn	-1320	-1330	-1452
14:00	PL	Exports	Jul	€mn	26708	25905	26010
14:00	PL	Imports	Jul	€mn	28080	27235	28925
14:30	US	CPI	Aug	% m/m	-0.1	0.1	0.0
WEDNESDAY (14 September)							
11:00	EZ	Industrial Production SA	Jul	% m/m	-0.7	-	0.7
THURSDAY (15 September)							
	PL	Central Budget Cumul.	Aug	mn PLN	-	-	34660
10:00	PL	CPI	Aug	% y/y	16.1	16.1	-
14:30	US	Initial Jobless Claims		k	235.0	-	222.0
14:30	US	Retail Sales Advance	Aug	% m/m	0.0	-	0.0
15:15	US	Industrial Production	Aug	% m/m	0.2	-	0.56
FRIDAY (16 September)							
11:00	EZ	HICP	Aug	% y/y	9.1	-	8.6
14:00	PL	CPI Core	Aug	% y/y	9.8	9.9	-
16:00	US	Michigan index	Sep	pts	59.3	-	58.2

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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