

20 December 2022

Eyeopener

What decelerates faster: production or its prices?

Today a set of important domestic data, including wages, production and PPI inflation
Ifo index for Germany suggests "bottoming out" in business sentiment
In an attempt to strengthen the zloty, the domestic yield curve reduces its negative slope

Today, we will get to see statistics from the domestic labour market in November (employment and wages in the corporate sector), on consumer sentiment in December, as well as November industrial production and PPI inflation. Wage growth is likely to remain around 5 percentage points below inflation.

Ifo index of German business sentiment came in higher than previously and above expectations in December, both in its component describing the current economic situation and that reflecting companies' expectations. The upturn was particularly felt by industry and the retail sector, and we link this to the unblocking of supply bottlenecks and the calming of energy prices. In our view, sentiment indicators among commodity producers may already be hitting a bottom, but at the same time there are slim chances for a vigorous rebound.

MPC's Henryk Wnorowski said that with the major central banks still tightening their policies and uncertainty still high, there is no need to announce the end of rate hikes. In contrast, November's fall in inflation removes the reason for a return to hikes, but also does not yet provide grounds for discussing cuts. In his view, a series of three consecutive falls in inflation would bring such a possible consideration at the MPC closer - and such a discussion will be undertaken during 2023, but rate changes are unlikely to happen.

MPC's Gabriela Mastowska said she believes that the baseline scenario in the NBP's interest rate policy is to stabilise rates for several months after the last rate hike decision. Rate cuts could occur in 2024 in the event of a gradual decline in inflation. Decisions to cut them as early as 2023 are less likely, as they would require extraordinary circumstances, especially a very strong fall in the CPI. In contrast, a possible return of rate hikes next year would be possible with surprisingly high GDP growth rates and no extinction of inflation.

ECB Vice-President Luis de Guindos announced that the central bank will continue to raise rates but has no predetermined level to aim for. It also has no plans to increase the 2% medium-term inflation target, as its stable level is a matter of monetary policy credibility.

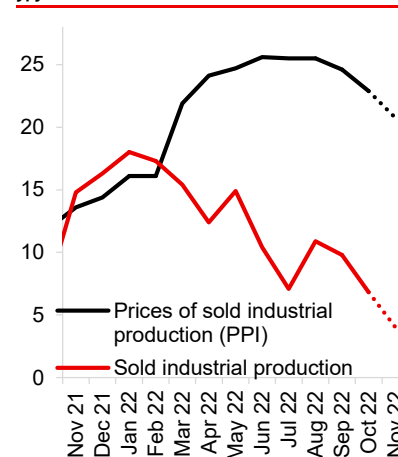
EURUSD fluctuated around the 1.06 level for another day in a row. A better-than-expected and and Ifo index from Germany, which was also better than last month, did not help the single currency, as the scale of growth in labour costs and wages in the euro area in Q3 declined.

EURPLN fluctuated in the area between 4.68 and 4.70 in anticipation of domestic data releases later this week. This was also in line with the stable dollar against the euro.

Other CEE currencies: EURHUF fluctuated around 403. Today the MNB meeting takes place. Due to positive signals regarding the possibility of an imminent unblocking of EU funds for Hungary, the central bank is unlikely to attempt further interventionist interest rate hikes. The **EURCZK** has been oscillating around 24.22. The krona is waiting for tomorrow's CNB meeting. In our view, the central bank will keep its current policy unchanged, signalling a possible readiness to raise rates in the first half of 2023.

Debt market: Domestic yield curve rose by around 9 bps on average. The Polish market remained influenced by German yields rising due to the hawkish ECB rhetoric. However, in our view, today's domestic data package may lead to a reversal of these trends and a strengthening of domestic debt by showing further weakening of wage and price pressures in the Polish economy.

Poland: industrial production in constant prices and price index of industrial production (PPI), % y/y



Source: GUS, Santander

Economic Analysis Department:

aL. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Jarosław Kosaty +48 887 842 480
 Marcin Luźniński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4,6873	CZKPLN	0,1924
USDPLN	4,4225	HUFPLN*	1,1515
EURUSD	1,0599	RUBPLN	0,0638
CHFPLN	4,7317	NOKPLN	0,4469
GBPPLN	5,3776	DKKPLN	0,6294
USDCNY	6,9781	SEKPLN	0,4263

*for 100HUF

Last session in the FX market 19.12.2022

	min	max	open	close	fixing
EURPLN	4,6728	4,6932	4,6811	4,6893	4,6886
USDPLN	4,3966	4,4347	4,4145	4,4136	4,4153
EURUSD	1,0574	1,0657	1,0606	1,0622	-

Interest rate market 19.12.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	7,01	6
DS0727 (5Y)	6,86	9
DS0432 (10Y)	6,82	12

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,33	-5	5,04	2	3,05	3
2L	6,96	-1	4,54	5	3,17	2
3L	6,49	1	4,11	6	3,04	2
4L	6,22	2	3,88	8	2,96	1
5L	6,07	2	3,76	8	2,91	0
8L	5,92	2	3,57	8	2,84	1
10L	5,94	3	3,56	11	2,85	3

WIBOR rates

Term	%	Change (bps)
O/N	6,52	-4
T/N	6,62	-16
SW	6,84	0
2W	6,88	0
1M	6,98	-2
3M	7,06	0
6M	7,19	-1
1Y	7,30	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,05	-3
3x6	7,17	-9
6x9	7,24	-8
9x12	7,06	-4
3x9	7,26	-9
6x12	7,31	-7

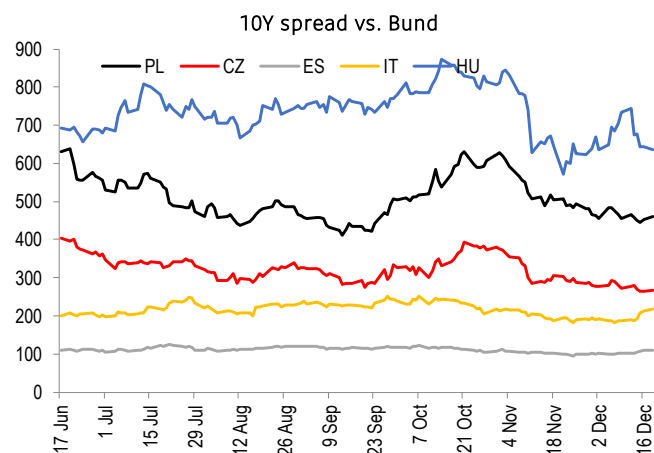
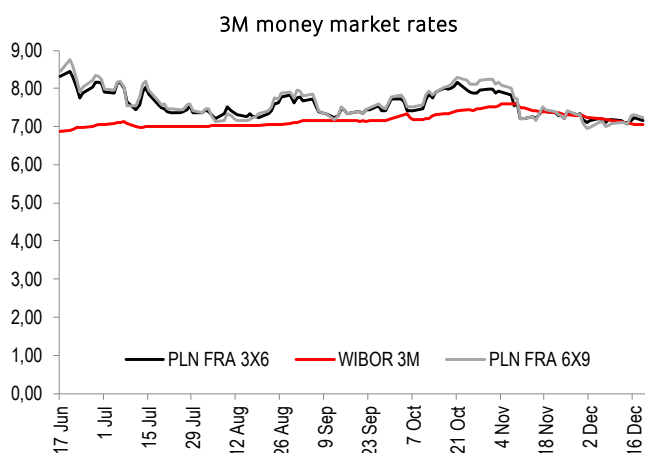
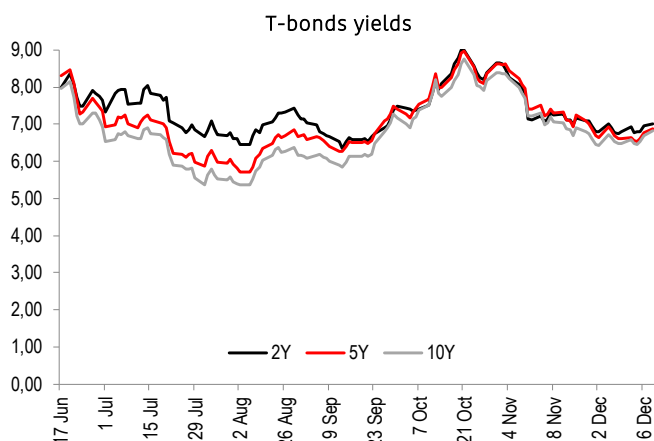
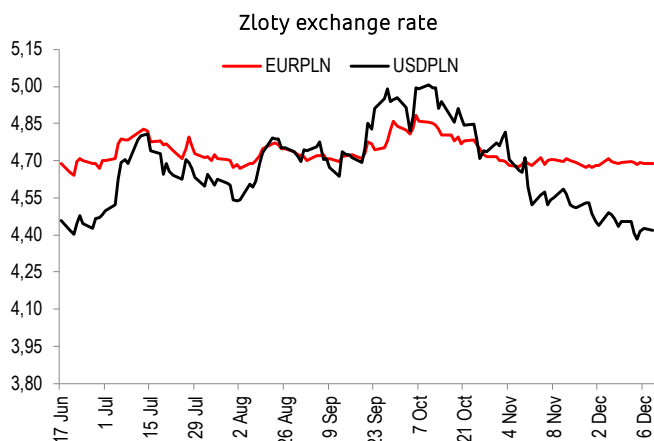
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	117	0	462	9
France	15	0	52	0
Hungary	202	0	637	-6
Spain	58	0	109	-1
Italy	58	0	218	4
Portugal	43	0	103	0
Ireland	22	0	51	2
Germany	15	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		
FRIDAY (16 December)							
09:30	DE	Germany Manufacturing PMI	Dec	pts	46.3	47.4	46.2
09:30	DE	Markit Germany Services PMI	Dec	pts	46.3	49.0	46.1
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	47.1	47.8	47.1
10:00	EZ	Eurozone Services PMI	Dec	pts	48.5	49.1	48.5
11:00	EZ	HICP	Nov	% y/y	10.0	10.1	10.6
14:00	PL	CPI Core	Nov	% y/y	11.3	11.4	11.0
MONDAY (19 December)							
10:00	DE	Ifo Business Climate	Dec	pts	87.5	88.6	86.4
TUESDAY (20 December)							
10:00	PL	Employment in corporate sector	Nov	% y/y	2.3	2.3	-
10:00	PL	Sold Industrial Output	Nov	% y/y	2.2	4.0	-
10:00	PL	PPI	Nov	% y/y	21.1	20.7	-
10:00	PL	Average Gross Wages	Nov	% y/y	12.8	12.7	-
14:00	HU	Central Bank Rate Decision	Dec.22	%	-	-	13.0
14:30	US	Housing Starts	Nov	% m/m	-1.8	-	-4.2
WEDNESDAY (21 December)							
10:00	PL	Construction Output	Nov	% y/y	-1.6	-2.2	-
10:00	PL	Retail Sales Real	Nov	% y/y	0.3	-0.2	-
14:30	CZ	Central Bank Rate Decision	Dec.22		-	-	7.0
16:00	US	Consumer Conference Board	Dec	pts	101.0	-	100.2
16:00	US	Existing Home Sales	Nov	% m/m	-5.2	-	-5.9
THURSDAY (22 December)							
14:00	PL	Money Supply M3	Nov	% y/y	5.9	5.7	-
14:30	US	GDP Annualized	3Q	% Q/Q	2.9	-	-0.6
14:30	US	Initial Jobless Claims		k	232	-	230
FRIDAY (23 December)							
10:00	PL	Unemployment Rate	Nov	%	5.1	5.1	-
14:30	US	Durable Goods Orders	Nov	% m/m	-0.5	-	1.0
14:30	US	Personal Spending	Nov	% m/m	0.2	-	0.8
14:30	US	Personal Income	Nov	% m/m	0.2	-	0.7
14:30	US	PCE Deflator SA	Nov	% m/m	0.3	-	0.3
16:00	US	Michigan index	Dec	pts	59.1	-	56.8
16:00	US	New Home Sales	Nov	% m/m	-5.1	-	7.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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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.