

21 December 2022

Eyeopener

Further deceleration of the economy

Today construction output, retail sales, consumer sentiment
Industrial production decelerates less than forecast, PPI down sharply
EURPLN below 4.68, domestic yield curve fell at short end.

Today in Poland new data releases: construction output, retail sales, consumer confidence. We think the data will indicate a further slowdown in the economy, with both production and sales printing a negative growth y/y. Abroad, US house sales and the Conference Board consumer optimism index, in the Czech Republic the central bank's decision on interest rates.

Yesterday, markets were influenced by a **hawkish move by the Bank of Japan**, which raised the tolerable deviation of the 10-year yield from its target to 0.50 percentage points from 0.25 pp. **German PPI inflation** slipped again to its lowest level since February, while **US housing market data** was mixed but pointed to a correction in this sector of the economy.

Industrial production increased 4.6% y/y in November, at the slowest pace in more than twenty months, but more than forecast. **Labour market data** did not come as a negative surprise either - employment increased in line with expectations (2.3% y/y), and wages even accelerated (13.9% y/y). A little deeper look shows that the better-than-expected November results can be attributed, at least to some extent, to the impact of transitory factors (including bonus payments in the mining industry, production jump in the energy sector), but overall the data fit the picture of an economy decelerating still a little less sharply than we anticipated. This does not change the macroeconomic scenario significantly, but it could mean that further deceleration and disinflation may be slower than the market forecasts assume. See more in our [Economic Comment](#).

MPC's Henryk Wnorowski said that in his view, each successive month after February 2023 should see a lower inflation reading. Yet, he added that average annual inflation in 2023 would remain above 10%. This is not a controversial view. The key question is what will be the pace of disinflation next year and we are less optimistic than the central bank.

According to Credit Information Bureau (BIK), **mortgage lending fell by 70.7% y/y** in November. We think that the mortgage market will remain in poor shape also next year, mainly due to high interest rates and the banks' planned tightening of lending criteria.

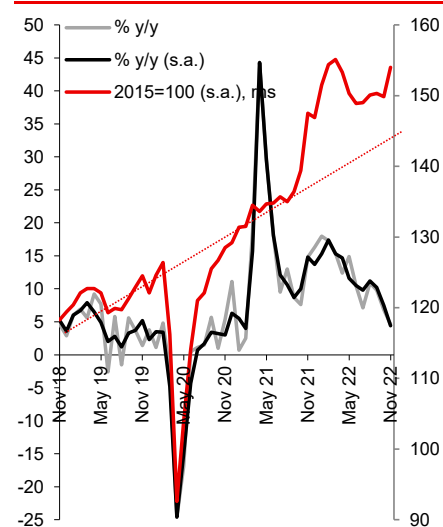
EURUSD moved closer to 1.065 from around 1.06. The dollar's sell-off in Asian markets also helped the single currency. The signal was set by the Bank of Japan's turn to dovish monetary policy.

EURPLN moved from the 4.68 - 4.70 zone below the lower limit of this range. The exchange rate was helped by a rise in rate expectations on the longer domestic FRA market in recent days.

Other CEE currencies: **EURHUF** fluctuated around 402, with the MNB announcing that it would maintain its current restrictive monetary conditions for an extended period. The current level of rates was deemed sufficient to drag inflation down to target in 2024. MNB Deputy Governor Barnabas Virag said that the central bank expects a gradual decline in inflation in 2H23. **EURCZK** fell to 24.18 from around 24.24. The koruna was helped by improving investment sentiment in Europe.

Debt market: Domestic yield curve fell at the shorter end by around 20bp causing it to flatten further. The decline in Poland's PPI inflation has made the scenario of a stabilisation of interest rates in 2023 more plausible, while at the same time the slower pace of slowing industrial production puts off the prospect of rate cuts next year.

Industrial output, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4,6718	CZKPLN	0,1924
USDPLN	4,3945	HUFPLN*	1,1455
EURUSD	1,0626	RUBPLN	0,0622
CHFPLN	4,7551	NOKPLN	0,4469
GBPPLN	5,3776	DKKPLN	0,6294
USDCNY	6,9683	SEKPLN	0,4263

*for 100HUF

Last session in the FX market 20.12.2022

	min	max	open	close	fixing
EURPLN	4,6713	4,6905	4,6847	4,6738	4,6804
USDPLN	4,3864	4,4279	4,4265	4,3942	4,4001
EURUSD	1,0581	1,0658	1,0586	1,0633	-

Interest rate market 20.12.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6,86	-15
DS0727 (5Y)	6,85	-2
DS0432 (10Y)	6,79	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,34	1	5,03	-1	3,09	4
2L	6,93	-3	4,55	1	3,24	7
3L	6,47	-2	4,14	3	3,12	7
4L	6,21	0	3,93	5	3,04	9
5L	6,07	1	3,81	5	3,00	9
8L	5,92	1	3,64	8	2,94	11
10L	5,95	2	3,62	6	2,94	10

WIBOR rates

Term	%	Change (bps)
O/N	6,58	6
T/N	6,64	2
SW	6,84	0
2W	6,86	-2
1M	6,98	0
3M	7,06	0
6M	7,19	0
1Y	7,29	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,05	0
3x6	7,17	0
6x9	7,26	2
9x12	7,03	-2
3x9	7,26	0
6x12	7,29	-2

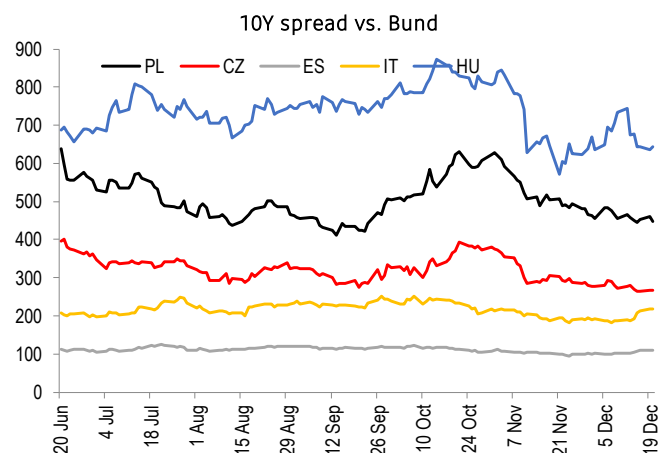
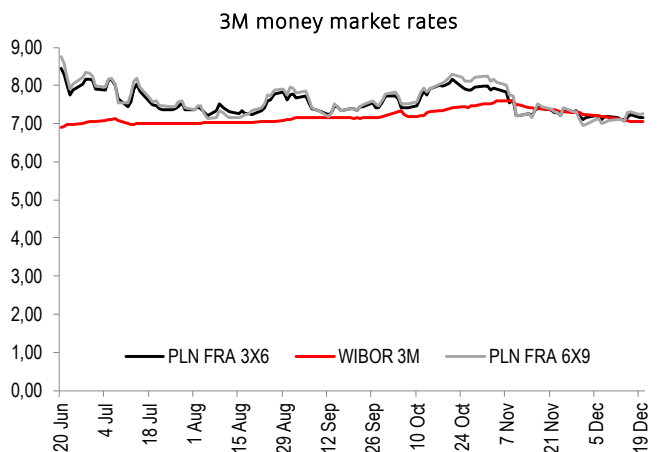
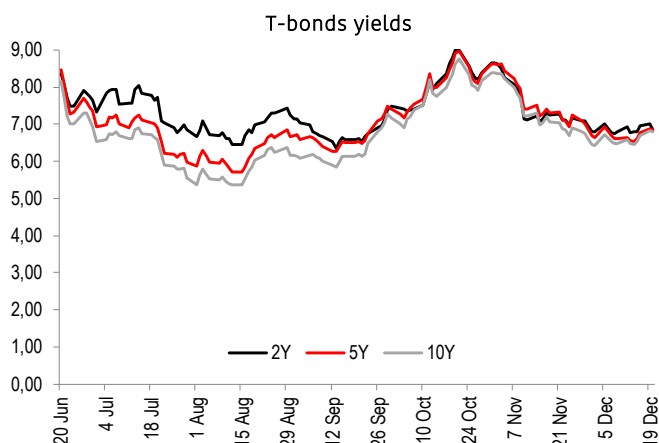
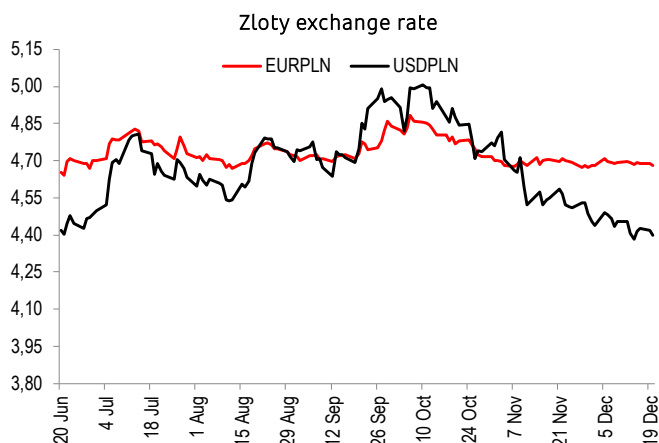
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	117	0	449	-13
France	15	0	54	2
Hungary	202	0	644	7
Spain	58	0	111	2
Italy	58	0	217	-1
Portugal	43	0	106	3
Ireland	23	0	52	1
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	2.4
10:00	PL	Sold Industrial Output	Nov	% y/y	2.2	4.0	6.8
10:00	PL	PPI	Nov	% y/y	21.1	20.7	22.9
10:00	PL	Average Gross Wages	Nov	% y/y	12.8	12.7	13.9
14:00	HU	Central Bank Rate Decision	Dec.22	%	-	13.00	13.00
14:30	US	Housing Starts	Nov	% m/m	-1.8	-0.5	-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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