

24 January 2023

Eyeopener

Economy slowing down

Today M3 money supply in Poland, flash PMI indices in January
December data slowing more than expected (industrial and construction output, retail sales),
PPI fell less than expected
EURPLN lower after domestic data, yields higher

Today, we will see the most important data Europe has to offer this week: the preliminary readings of the PMI indices for industry and services from Germany and the Eurozone (taken as a whole). If these indices rebounded further in January, it would be a signal suggesting a rather shallow and short-lived economic slowdown there, but also in Poland. Also today, Hungary's central bank decides on interest rates - the market is quite confident that for the fourth time in a row rates will not be changed (main rate at 13.00%, tightening phase from May 2021, starting at 0.60%). In Poland, we will see money supply data for December.

ECB President Christine Lagarde said that inflation in the Eurozone is far too high and the ECB is determined to bring it down, so interest rates will rise sharply.

December data on **industrial and construction output** as well as on **retail sales** showed a stronger deceleration than expected (to 1.0% y/y, -0.8% y/y, 0.2% y/y, respectively), after a rather strong November, and we think their annual growth rates are likely to fall below zero in the coming months. In our view, the data suggest that GDP growth in 4Q22 was close to 2% y/y, roughly in line with our forecast. **PPI inflation**, on the other hand, fell less than expected in December, to 20.4% y/y vs market consensus 19.4% and our forecast 19.0% y/y, from 21.1% y/y (revised up) in November. The data are in line with our macroeconomic scenario: the real economy is decelerating and will apparently record a bottom of this cycle in 1Q23, while inflationary trends will prove more persistent than the market anticipates. For the central bank, the ambiguous data set is an argument to maintain a wait-and-see attitude while waiting for clearer and more reliable signals on the outlook for the economy and inflation. Read more in our [Economic Comment](#).

In 3Q2022, the **general government sector deficit** reached 2.3% of GDP (as a four-quarter sum) and public debt was at 50.3% of GDP, compared with 55.9% of GDP a year earlier. We expect the deficit to be 2.6% of GDP at the end of the year and to rise above 5% of GDP in 2023. However, the debt-to-GDP ratio will continue to decline, amid rapid nominal GDP growth.

The **Conference Board's US economic leading** indicator fell by 1% in December (the market was anticipating -0.7%) and its behaviour throughout 4Q last year suggests that US GDP growth was 1.8% q/q (the median forecast of economists collected by Bloomberg is 2.0% q/q) after 3.2% q/q in 3Q and could be even weaker in 1Q2023.

EURUSD remained above 1.085. In the early part of the day, in reaction to hawkish assurances from ECB members that February and March Eurozone rates will rise by 50 bps and further hikes in the following months, the rate even exceeded 1.09, but by the end of the day it returned below 1.09.

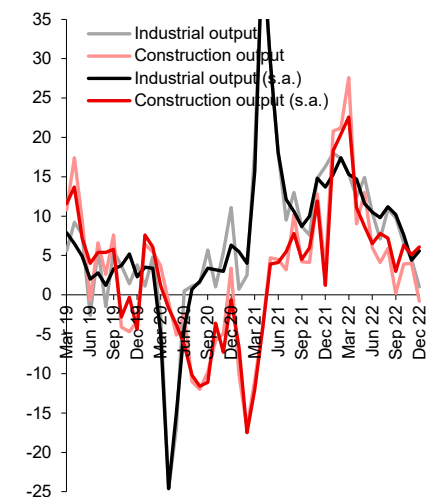
EURPLN, despite attempts to rise to 4.72 after weaker domestic manufacturing and retail sales data for December, by the end of the day slipped to around 4.70. Support for the zloty came from a weak drop in producer inflation, which lifted interest rate expectations in the longer-dated domestic FRA market contracts.

Other CEE currencies: EURHUF rose from around 392 to around 396. The forint weakened after Fitch lowered its rating outlook to negative. The smaller scale of the Hungarian currency's depreciation than in previous months was due to higher interest rates, including the 18% rate on 1D deposit tender, introduced in October 2022. EURCZK fell to around 23.85 from around 23.90.

Debt market: domestic yield curve rose in the belly and at the longer end by about 8 bps on average. The entire curve moved above 6% again. Expectations of higher interest rates also rose on longer-dated FRA contracts. The market's reaction was due to the stagflationary nature of the data from Poland released on Monday.

The Finance Ministry sold bonds for PLN8.5bn against a demand of PLN12.3bn and an indicative supply of PLN5-9bn given by the MF last week. Particularly strong demand was recorded for the 5-year floating-coupon bond, but it was only half covered. For the 10- and 25-year fixed-coupon bonds, however, every interested party got the papers. After the auction, the borrowing needs for 2023 were financed in about 50%.

Industrial and construction output, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.7090	CZKPLN	0.1970
USDPLN	4.3228	HUFPLN*	1.1764
EURUSD	1.0891	RUBPLN	0.0630
CHFPLN	4.6956	NOKPLN	0.4412
GBPPLN	5.3600	DKKPLN	0.6328
USDCNY	6.7825	SEKPLN	0.4234

*for 100HUF

Last session in the FX market						23/01/2023
	min	max	open	close	fixing	
EURPLN	4.7024	4.7214	4.7050	4.7036	4.7186	
USDPLN	4.3125	4.3435	4.3228	4.3299	4.3242	
EURUSD	1.0844	1.0926	1.0891	1.0862	-	

Interest rate market 23/01/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.15	7
DS0727 (5Y)	6.00	8
DS0432 (10Y)	6.05	6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.95	2	5.07	2	3.23	4
2L	6.34	9	4.45	4	3.24	4
3L	5.76	12	4.00	6	3.05	5
4L	5.46	13	3.78	7	2.94	5
5L	5.34	15	3.66	7	2.87	5
8L	5.24	15	3.49	4	2.79	5
10L	5.28	15	3.47	3	2.80	5

WIBOR rates

Term	%	Change (bps)
O/N	6.48	-5
T/N	6.67	-4
SW	6.82	-1
2W	6.82	-2
1M	6.88	-2
3M	6.91	-1
6M	6.99	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.89	0
3x6	6.92	0
6x9	6.89	8
9x12	6.44	7
3x9	6.97	2
6x12	6.89	10

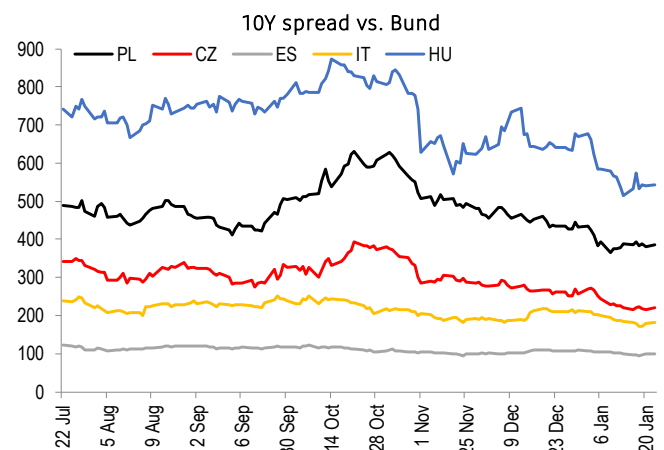
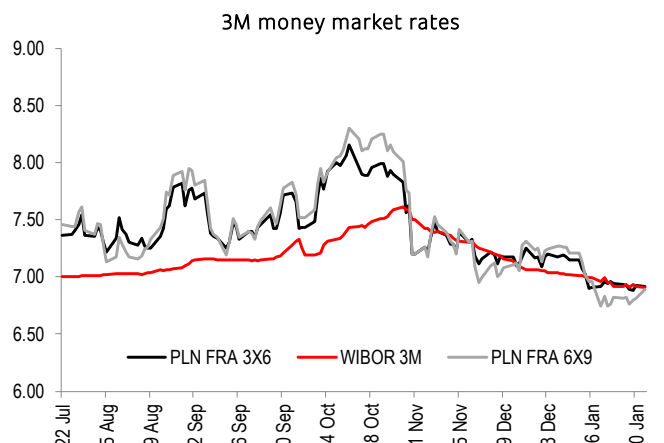
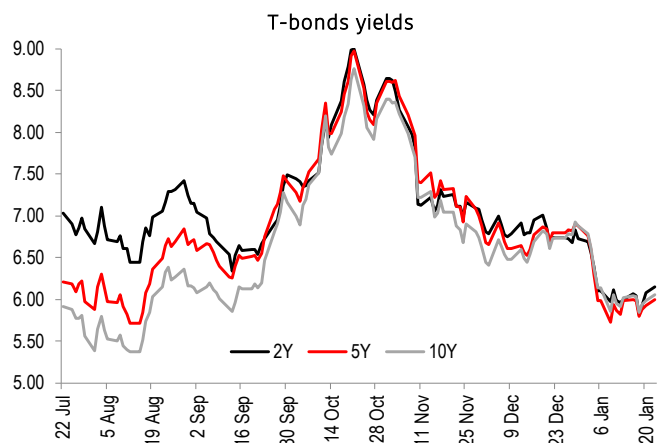
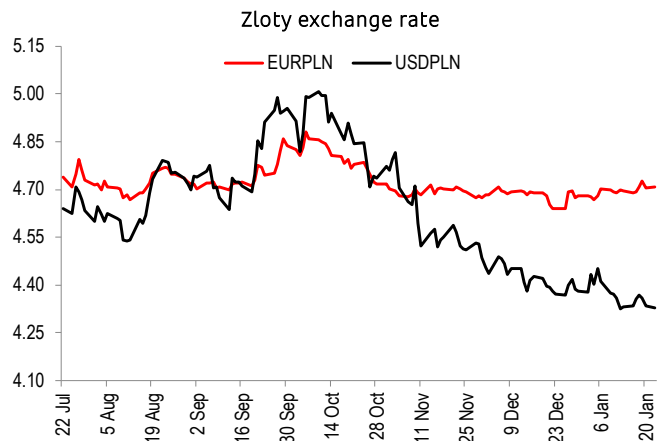
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	-5	385	3
France	12	0	45	0
Hungary	194	-5	544	3
Spain	48	0	100	1
Italy	45	0	182	1
Portugal	33	0	89	1
Ireland	18	0	42	0
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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (20 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	2.3	2.3	2.2	2.3
10:00	PL	Average Gross Wages	Dec	% y/y	13.1	12.3	10.3	13.9
16:00	US	Existing Home Sales	Dec	% m/m	-3.4		-1.5	-7.9
MONDAY (23 January)								
10:00	PL	Sold Industrial Output	Dec	% y/y	2.4	1.4	1.0	4.5
10:00	PL	Construction Output	Dec	% y/y	2.7	1.8	-0.8	4.0
10:00	PL	PPI	Dec	% y/y	19.8	19.0	20.4	21.1
10:00	PL	Retail Sales Real	Dec	% y/y	2.1	1.2	0.2	1.6
TUESDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	48.0		-	47.1
09:30	DE	Markit Germany Services PMI	Jan	pts	49.6		-	49.2
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	48.5		-	47.8
10:00	EZ	Eurozone Services PMI	Jan	pts	50.2		-	49.8
14:00	HU	Central Bank Rate Decision	Jan.23	%	13.0		-	13.0
14:00	PL	Money Supply M3	Dec	% y/y	6.1	5.8	-	5.6
WEDNESDAY (25 January)								
10:00	DE	IFO Business Climate	Jan	pts	90.2		-	88.6
10:00	PL	Unemployment Rate	Dec	%	5.2	5.2	-	5.1
THURSDAY (26 January)								
14:30	US	Durable Goods Orders	Dec	% m/m	2.8		-	-2.1
14:30	US	GDP Annualized	4Q	% Q/Q	2.6		-	3.2
14:30	US	Initial Jobless Claims	Jan.23	k	214		-	190.0
16:00	US	New Home Sales	Dec	% m/m	-4.1		-	5.8
FRIDAY (27 January)								
14:30	US	Personal Spending	Dec	% m/m	-0.1		-	0.1
14:30	US	Personal Income	Dec	% m/m	0.2		-	0.4
14:30	US	PCE Deflator SA	Dec	% m/m	0.0		-	0.1
16:00	US	Michigan index	Jan	pts	64.6		-	59.7
16:00	US	Pending Home Sales	Dec	% m/m	-1.0		-	-4.03

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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