

2 February 2023

Eyeopener

Polish PMI strongly up, today focus on ECB

Today ECB and CNB decide on interest rates
 Polish PMI strongly up
 Fed raised rates by 25bp to 4.50-4.75%
 Zloty stable vs euro, domestic yields lower

No major publications from the country **today**. Abroad, the ECB and the CNB will be making decisions on interest rates. We expect the ECB, in line with previous announcements, to raise rates by 50bp and to signal its willingness to raise rates further, due to high inflation. In our view, the CNB will not change its current exchange rate-focused monetary policy and will leave interest rates unchanged. US industrial orders and durable goods data for December are rather marginal in light of yesterday's Fed meeting.

The Fed raised rates by 25bp to a range of 4.50-4.75% and announced 'a few more' increases to ensure the monetary policy is sufficiently restrictive to suppress inflation. The target interest rate level has not yet been decided. However, it is likely to be higher than what was expected in December. The slower pace of rate hikes in the following months is expected to ensure that monetary policy is better calibrated to achieve the central bank's objectives. However, the Fed does not assume a pause during the cycle. Once the target rate level is reached, restrictive monetary policy will have to be maintained for 'some time', as history teaches that monetary policy loosening after a tightening cycle cannot happen too quickly. Inflation has been falling for the last three months, but the disinflationary processes taking place in the US economy are still in the early stages. According to Jerome Powell, bringing inflation down to target will require lowering the rate of economic growth below its long-term trend and reducing imbalances in the labour market. Cooling the labour market is key to a sustained reduction in inflation. Gaining confidence that inflation is on a sustained downward trajectory requires significantly more observation.

Polish PMI rose in January to 47.5pts, its highest since May 2022, continuing the rebound from the very low level and catching up with other European indicators. While in 2H22 the index fell the most among other EU states, now it has already outpaced Germany, Spain, UK and clearly points towards improving business sentiment in the sector. The survey shows that the output and new orders in Polish manufacturing continued contracting, but at a slowing pace. Companies were still reporting weak demand, continued cutting jobs and were trimming inventories. However, forecasts regarding future output and sales have improved. Even though firms were signalling a surge in input costs and were rising output prices, they were also expecting prices to stabilise in the coming 12 months. Overall, a revival in PMI index is a good sign for the manufacturing sector outlook, but it seems that the index improvement reflects mainly the better expectations component, while the production in the nearest few months may be still under pressure.

Eurozone's preliminary estimate of HICP inflation for January fell to 8.5% y/y against expectations of 9% and 9.2% in December. The lowest reading since May 2022 was due to declines in energy price growth (to 17.2% y/y from 25.5% y/y in December), and services (to 4.2% y/y from 4.4% y/y). However, the prices of food (to 14.1% y/y from 13.8% y/y) and non-energy industrial goods (to 6.9% y/y from 6.4% y/y) accelerated. As a result, preliminary HICP core inflation remained at 5.2% y/y in January.

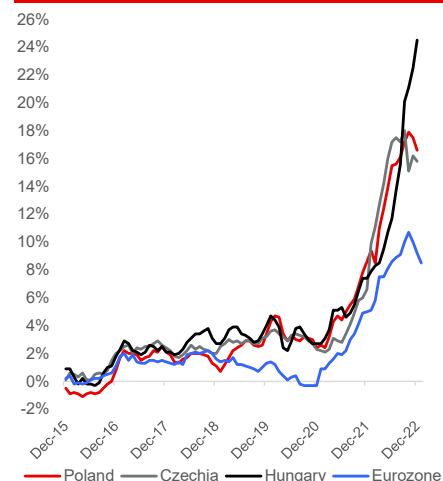
EURUSD rose from about 1.085 to around 1.10. Better-than-expected PMI data from the Eurozone and worse ISM data from the US gradually lifted the exchange rate towards and above 1.09 during the European trading hours. After the Fed's decision and Jerome Powell's press conference, the exchange rate rose to 1.10. The market did not believe that the Fed after reaching its interest rate target would be able to maintain it for an extended period of time

EURPLN oscillated between 4.70 and 4.71 for the better part of the European session. The better-than-expected domestic PMI reading failed to impress the domestic currency market.

Other CEE currencies: EURCZK stayed close to 23.77. EURHUF oscillated around 389. PMIs from the Czech Republic (better than expected) and Hungary (below expectations) had no impact on these currency pairs.

Debt market: domestic yield curve fell by about 5bp on average. The slight strengthening of debt is more the result of lower HICP inflation in the Eurozone than of a higher-than-expected PMI reading from Poland.

Inflation in CE3 & the Eurozone



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.7051	CZKPLN	0.1972
USDPLN	4.2738	HUFPLN*	1.2090
EURUSD	1.1002	RUBPLN	0.0611
CHFPLN	4.7212	NOKPLN	0.4333
GBPPLN	5.3398	DKKPLN	0.6322
USDCNY	6.7149	SEKPLN	0.4158

*for 100HUF

Last session in the FX market 01/02/2023

	min	max	open	close	fixing
EURPLN	4.7005	4.7115	4.7065	4.7088	4.708
USDPLN	4.3089	4.3340	4.3289	4.3139	4.3254
EURUSD	1.0864	1.0924	1.0871	1.0915	-

Interest rate market 01/02/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.02	-13
DS0727 (5Y)	5.92	-7
DS0432 (10Y)	6.00	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.96	-2	4.98	-5	3.27	0
2L	6.33	-4	4.34	-11	3.30	1
3L	5.77	-5	3.93	-8	3.08	-4
4L	5.49	-5	3.69	-8	2.96	-4
5L	5.36	-6	3.55	-10	2.90	-4
8L	5.26	-6	3.41	-8	2.85	-2
10L	5.30	-6	3.39	-7	2.85	-2

WIBOR rates

Term	%	Change (bps)
O/N	6.62	17
T/N	6.60	-8
SW	6.85	2
2W	6.86	0
1M	6.86	0
3M	6.95	0
6M	6.99	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.93	-2
3x6	6.93	-2
6x9	6.83	-3
9x12	6.42	-7
3x9	6.95	-2
6x12	6.82	-4

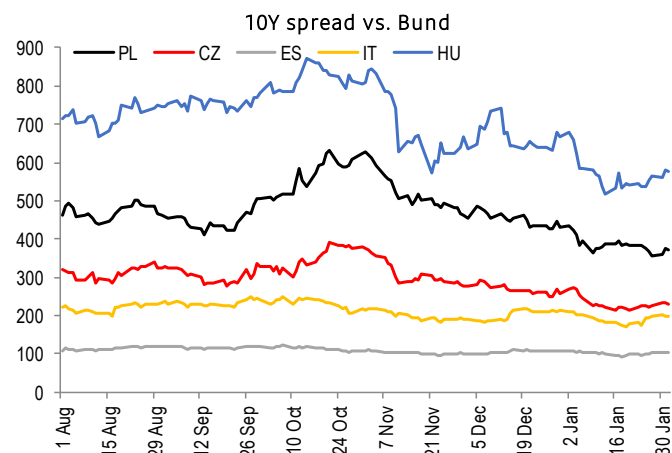
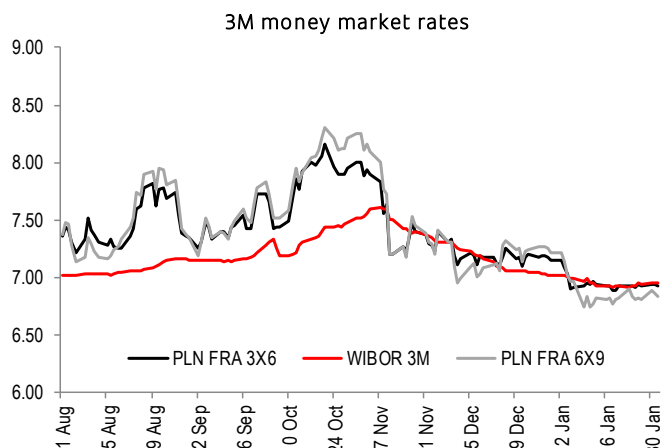
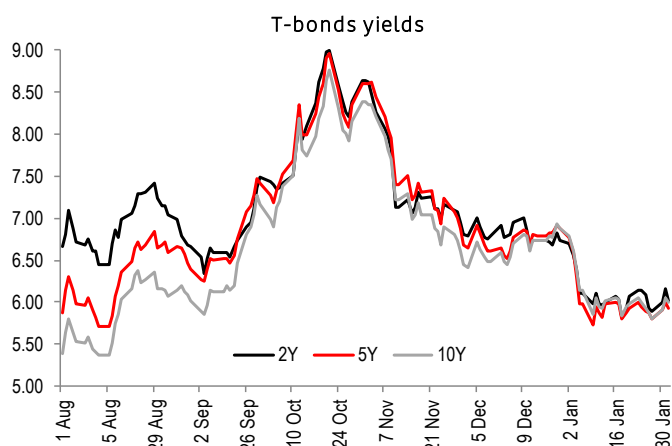
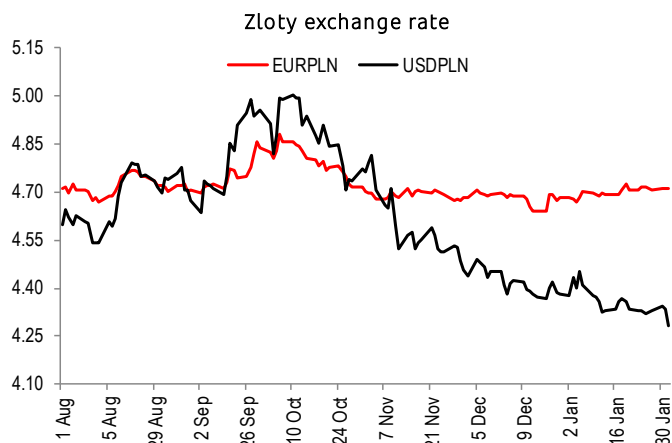
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	107	-2	371	-6
France	10	0	47	0
Hungary	187	-5	576	-6
Spain	45	0	105	0
Italy	45	0	200	1
Portugal	30	0	93	1
Ireland	18	0	44	-3
Germany	11	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 (27 January)								
14:30	US	Personal Spending	Dec	% m/m	-0.1	-	-0.2	0.1
14:30	US	Personal Income	Dec	% m/m	0.2	-	0.2	0.3
14:30	US	PCE Deflator SA	Dec	% m/m	-	-	0.1	0.1
16:00	US	Michigan index	Jan	pts	64.6	-	64.9	59,7
16:00	US	Pending Home Sales	Dec	% m/m	-1.0	-	2.5	-2.6
MONDAY (30 January)								
10:00	PL	GDP	2022	% y/y	4.8	4.8	4.9	6.8
10:00	DE	GDP WDA	4Q	% y/y	1.3	-	1.1	1.4
11:00	EZ	ESI	Jan	pct.	97	-	99.9	97.1
TUESDAY (31 January)								
08:00	DE	Retail Sales	Dec	% m/m	-0.2	-	-5,3	1.9
09:00	CZ	GDP SA	4Q	% y/y	0.2	-	0.4	1.5
11:00	EZ	GDP SA	4Q	% y/y	1.8	-	1.9	2.3
16:00	US	Consumer Conference Board	Jan	pts	109.4	-	107.1	109
WEDNESDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	-	46.0	47.5	45.6
09:55	DE	Germany Manufacturing PMI	Jan	pts	47.0	-	47.3	47.1
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	48.8	-	48.8	47.8
11:00	EZ	Flash HICP	Jan	% y/y	9.1	-	8.5	9.2
11:00	EZ	Unemployment Rate	Dec	%	6.5	-	6.6	6.6
14:15	US	ADP report	Jan	k	160	-	106	253
16:00	US	ISM manufacturing	Jan	pts	48.2	-	47.4	48.4
20:00	US	FOMC decision		%	4.75	-	4.75	4.5
THURSDAY (2 February)								
08:00	DE	Exports SA	Dec	% m/m	-3.0	-	-6.3	0.4
14:15	EZ	ECB Main Refinancing Rate		%	3.00	-	-	2.50
14:30	US	Durable Goods Orders	Dec	% m/m	2.5	-	-	5.6
14:30	US	Initial Jobless Claims	week	k	205.0	-	-	186.0
14:30	CZ	Central Bank Rate Decision			7.0	-	-	7.0
16:00	US	Factory Orders	Dec	% m/m	1,2	-	-	-1.8
FRIDAY (3 February)								
02:45	CN	Caixin China PMI Services	Jan	pts	-	-	-	48.0
09:55	DE	Markit Germany Services PMI	Jan	pts	50.4	-	-	49,2
10:00	EZ	Eurozone Services PMI	Jan	pts	50.7	-	-	49,8
14:30	US	Change in Nonfarm Payrolls	Jan	k	175,0	-	-	223
14:30	US	Unemployment Rate	Jan	%	3,6	-	-	3.5
16:00	US	ISM services	Jan	pts	50.5	-	-	49.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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