6 February 2023

Eyeopener

Strong US data

Today Eurozone retail sales
US labour market data much stronger than expected
Zloty weaker, bond yields up

Today, few important data releases. Eurozone retail sales for December is worth mentioning. The next few days will be a bit more interesting: on the domestic front, the MPC decision (Wednesday) will be in the foreground, followed by a conference of the NBP president (probably Thursday at 15:00CET). On Tuesday, the Sejm session begins, at which the Senate's amendments to the law on the Supreme Court will be considered (its enactment is a key milestone to unlock the recovery fund). On Thursday, the European Commission will publish the winter edition of its economic forecasts for Europe. Today's publication of German industrial new orders for December showed a stronger m/m rebound than the market had expected after a weak November, but in y/y terms this only means that the growth remained close to -10%.

ECB Governing Council member Pierre Wunsch said that the ECB views its Thursday decision (a 50 bp rate increase) as hawkish and is surprised that the market interpreted it differently. In his view, rates in the euro area will go up by at least 25-50 points in May, an important benchmark for monetary policy in the euro area will be the decisions of central banks in the US and the UK. According to Wunsch, if core inflation remains stubborn, 3.50% is the lowest level to which the Eurozone rate can rise (currently: 3.00%).

The January **PMI indices from Germany and the Eurozone** turned out to be slightly better than the flash readings. In particular, indices for services improved significantly and, in the case of the Eurozone, managed to pull the composite index above 50pts (manufacturing index remains below this level). The show was stolen, however, by January's US non-farm employment data. These statistics showed an increase of more than half a million, while market expectations were below 200k. In addition, the December results were revised slightly upwards. Most jobs were created in private services, particularly in leisure, education and trade. In the manufacturing sector, the change was minimal. This roughly means that the improvement was not observed widely and could partly be due to one-off or seasonal factors. However, the sectors where strong employment growth was observed are important from the point of view of inflationary pressures.

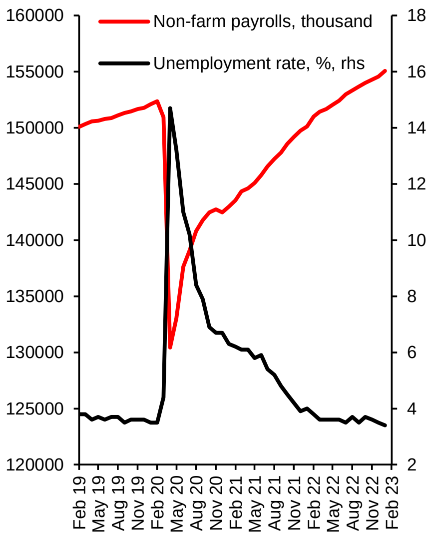
EURUSD has slipped below 1.085 from around 1.09 and this morning is already slightly below 1.08. The dollar's strengthening is the result of much-better-than-expected data from the US labour market, which boosted expectations for US rate hikes. Expectations for the target interest rate in 2023 jumped up by about 10 bp.

EURPLN rose above 4.71 from levels below 4.70. The zloty was hurt by the strengthening of the dollar on global markets, which came on the back of rising expectations of rate hikes in the US.

Other CEE currencies: EURCZK rose to 23.75 from around 23.73. The CNB announced that the baseline scenario for the path of interest rates is for them to stabilise until the end of 2023, which means it is more hawkish than market valuations, which expect rates to fall over this horizon. EURHUF rose above 387 from around 385. The forint, like other currencies in the region, lost ground on a wave of global dollar strengthening.

Debt market: Domestic yield curve at the shorter end rose by about 9 bp. In the middle part and at its longer end, it remained relatively stable. The weaker reaction of the Polish debt market to the strong data from the US is primarily the result of the Prime Minister's statement, who signalled possible interest rate cuts in Poland later this year. The US yield curve rose by an average of about 16 bp, and the synthetic yield curve for the Eurozone as a whole rose by about 10 bp. The increases in yields on the core markets were the result of both strong data from the US labour market and hawkish statements by ECB members expressing surprise at the dovish perception of Thursday's conference by the institution's head Christine Lagarde.

US labour market statistics



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.7153	CZKPLN	0.1980
USDPLN	4.3693	HUFPLN*	1.2158
EURUSD	1.0789	RUBPLN	0.0619
CHFPLN	4.7152	NOKPLN	0.4271
GBPPLN	5.2616	DKKPLN	0.6331
USDCNY	6.7806	SEKPLN	0.4140

*for 100HUF

Last session in the FX market 03.02.2023

	min	max	open	close	fixing
EURPLN	4.6806	4.7108	4.6832	4.7102	4.692
USDPLN	4.2852	4.3577	4.2990	4.3510	4.2928
EURUSD	1.0807	1.0939	1.0891	1.0824	-

Interest rate market 03.02.2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.91	10
DS0727 (5Y)	5.66	2
DS0432 (10Y)	5.69	-5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.93	4	5.14	16	3.26	5
2L	6.22	2	4.56	22	3.19	3
3L	5.66	4	4.11	22	2.99	8
4L	5.37	6	3.86	21	2.88	9
5L	5.23	7	3.72	18	2.81	6
8L	5.13	8	3.54	14	2.75	11
10L	5.17	8	3.50	13	2.75	11

WIBOR rates

Term	%	Change (bps)
O/N	6.64	-10
T/N	6.70	-1
SW	6.83	-1
2W	6.84	-3
1M	6.86	-4
3M	6.92	-1
6M	6.99	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.90	-3
3x6	6.89	-3
6x9	6.77	1
9x12	6.36	5
3x9	6.93	0
6x12	6.78	5

Measures of fiscal risk

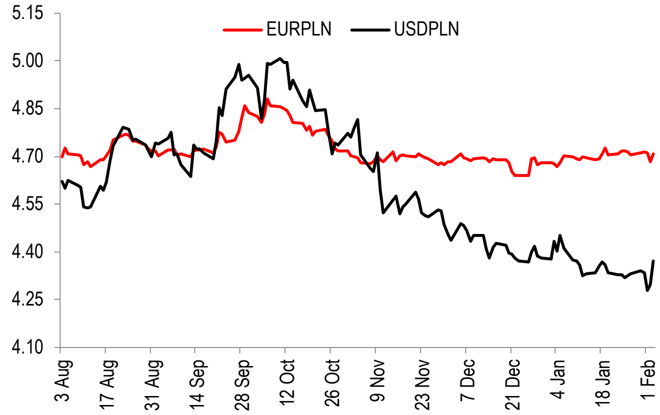
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	100	0	350	-18
France	10	2	45	0
Hungary	164	-6	563	-21
Spain	43	0	97	0
Italy	43	0	183	0
Portugal	27	0	86	1
Ireland	17	2	41	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

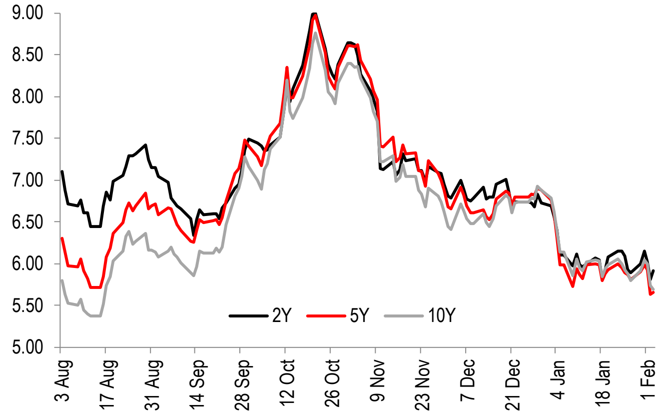
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

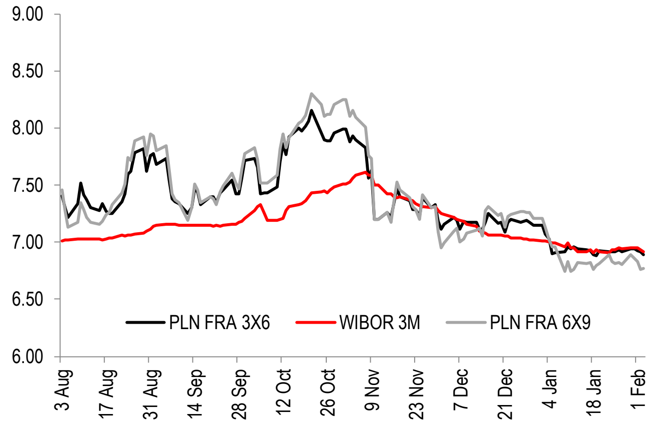
Zloty exchange rate



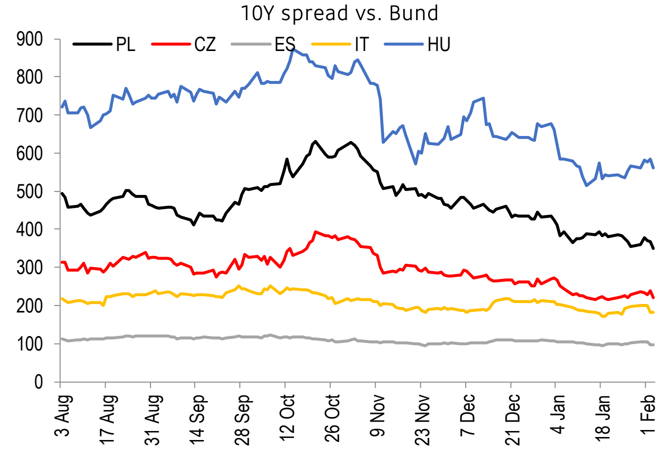
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (3 February)					
02:45	CN	Caixin China PMI Services	Jan	pts	51.0	-	52.9	48.0
09:55	DE	Markit Germany Services PMI	Jan	pts	50.4	-	50.7	49.2
10:00	EZ	Eurozone Services PMI	Jan	pts	50.7	-	50.8	49.8
14:30	US	Change in Nonfarm Payrolls	Jan	k	185	-	517	260
14:30	US	Unemployment Rate	Jan	%	3.6	-	3.4	3.5
16:00	US	ISM services	Jan	pts	50.5	-	-	49.2
			MONDAY (6 February)					
08:00	DE	Factory Orders	Dec	% m/m	2.0	-	3.2	-4.4
09:00	CZ	Industrial Production	Dec	% y/y	3.3	-	-	0.5
11:00	EZ	Retail Sales	Dec	% m/m	-2.5	-	-	0.8
			TUESDAY (7 February)					
08:00	DE	Industrial Production SA	Dec	% m/m	-0.8	-	-	0.2
08:30	HU	Industrial Production SA	Dec	% y/y	-0.5	-	-	0.8
			WEDNESDAY (8 February)					
	PL	**MPC decision**		**%**	**6.75**	**6.75**	**-**	**6.75**
			THURSDAY (9 February)					
08:00	DE	HICP inflation	Jan	% m/m	1.4			-1.2
14:30	US	Initial Jobless Claims		k	195	-	-	183
			FRIDAY (10 February)					
08:30	HU	CPI	Jan	% y/y	25.1	-	-	24.5
09:00	CZ	CPI	Jan	% y/y	17.1	-	-	15.8
16:00	US	Michigan index	Feb	pts	65.0	-	-	64.9

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*