

20 February 2023

# Eyeopener

## Awaiting the first January data

Today important data from January: industrial output, employment, PPI inflation  
 S&P confirmed Poland's rating  
 Zloty ended the week stronger despite negative factors  
 Last week markets acknowledged the risk of a less pronounced disinflation

This week will see a big batch of domestic January data, much of it **today**: industrial production, PPI inflation, wages and employment. We believe that today's wage and production data may surprise the market upwards - their surprisingly weak readings in December were partly caused by transitory factors. We only have doubts about PPI - by our estimates it could have fallen to just over 18% y/y against a median forecast of 18.5%, but the same inflation indicator for the US and Germany surprised in January with a slower-than-expected decline. As for the employment reading, it is worth bearing in mind that with the new year the Central Statistical Office (GUS) is revising the pool of surveyed enterprises (the data refers to companies employing 10 or more people), so the shift relative to December may be significant, but not necessarily reflecting current changes in the labour demand (apart January, the range of forecasts for annual employment growth is no greater than 0.4 pp, and in January it can be three times larger - now it is 1.3-2.5%).

**S&P affirmed Poland's rating at A-** with a stable outlook. According to the agency, Poland is able to cope with the recent macroeconomic shocks, mainly thanks to the diversification of the economy, the flexibility of the labour market and an educated workforce. Pressure on the rating would arise if the war in Ukraine intensified, or if EU transfers were reduced. A rating upgrade, on the other hand, could occur if Poland returned to a fast growth path and recorded better-than-expected fiscal performance.

The Ministry of Agriculture and Rural Development has signalled that **Poland has experienced an oversupply of cereals** causing downward pressure on their prices. This is the result of a good domestic harvest and an influx of grain from Ukraine. This is a factor that could accelerate the disinflation in food prices. We assume that inflation in this slice of the CPI basket will retreat in 2023 from over 20% y/y in 1Q to just under 10% by year-end.

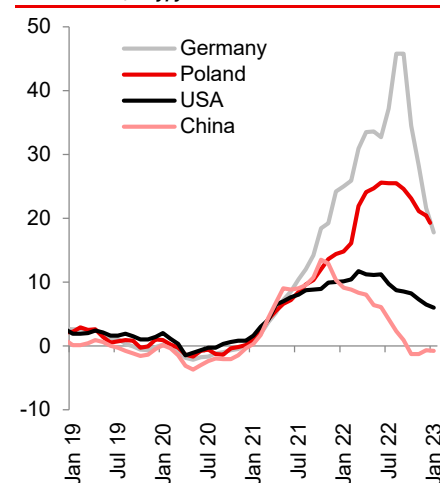
**MPC's Cezary Kochalski** acknowledged that interest rate cuts in Poland are a long way off and the upcoming March NBP projection will not give a signal to start them. In his opinion, the projection will paint a picture of a 'soft landing' of the Polish economy with the path of inflation going below 10% in 3Q and to 7-8% in 4Q. The last projection, from November 2022, showed 11.1% and 8.0% respectively in these periods and GDP growth for one quarter going below zero (-0.8% y/y in 1Q2023).

On Friday **EURUSD** decided to zero out the weekly change and rose to 1.068 quite abruptly. This may have been helped by statements from ECB members. Isabel Schnabel pointed out that the strength of inflationary pressures and the acceleration in wages as well as the possible weaker response of the economy to rate hikes were at odds with the approach of the markets, pricing in a smooth reduction of inflation. Francois Villeroy deemed current inflation too high and possibly stubborn and assured that the ECB's efforts to stifle inflation would not trigger a recession. He stated that the target level for the Eurozone's main interest rate will be somewhere above 3% (on Friday the money market fully priced its rise to 3.75% for the first time) and the bank would get there by September this year and then maintain that level for as long as needed. In our view, however, EURUSD has not broken out of its downtrend.

**EURPLN** did not seek new levels on Friday. The EURUSD's quick approach allowed the zloty to strengthen to close to 4.76 per euro, but this move did not break it out of the previous days' trading range. This morning, the zloty is slightly stronger and EURPLN slipped to 4.75. EURCZK and EURHUF were also fairly quiet. Jan Frait's message from the CNB about keeping interest rates at elevated levels for a long time did not affect the koruna because it is historically very strong anyway.

**The domestic debt market** started the session with a sell-off lifting yields by nearly 20bp, but half of this was later offset. By the end of the day, the yield curve was already gently positively sloping (4 bp difference between 10Y and 2Y yield). German and US government securities strengthened intraday, causing the spread of the Polish 10-year to the Bund to exceed 400bp for the first time since the first days of January. In the course of the week, there was a marked upward revision of expectations for future path of NBP interest rates (FRA rates looking one year ahead and beyond rose by 30-50bp). It seems the market has finally realised (rightly, in our view) that lagging behind the global trend of a return of reflationary fears in the case of Poland is not very justified. Poland is nevertheless seen as relatively resilient to shocks and faces the risk of slower disinflation than in other countries.

PPI inflation, % y/y



Source: Bloomberg, Santander

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**FX market**

Today's opening			
EURPLN	4.7497	CZKPLN	0.2009
USDPLN	4.4398	HUFPLN*	1.2402
EURUSD	1.0698	RUBPLN	0.0602
CHFPLN	4.8119	NOKPLN	0.4322
GBPPLN	5.3936	DKKPLN	0.6406
USDCNY	6.8595	SEKPLN	0.4256

\*for 100HUF

Last session in the FX market						17/02/2023
	min	max	open	close	fixing	
EURPLN	4.7594	4.7812	4.7711	4.7605	4.7747	
USDPLN	4.4568	4.5017	4.4856	4.4603	4.4888	
EURUSD	1.0611	1.0682	1.0638	1.0675	-	

**Interest rate market** 17/02/2023

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.44	7
DS0727 (5Y)	6.47	12
DS0432 (10Y)	6.47	12

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.07	1	5.40	1	3.45	0
2L	6.70	5	4.92	-2	3.51	0
3L	6.21	8	4.50	-4	3.33	-1
4L	5.97	9	4.24	-6	3.20	-1
5L	5.85	8	4.07	-2	3.12	-1
8L	5.71	8	3.84	-5	3.00	-2
10L	5.72	8	3.79	-5	2.99	-3

**WIBOR rates**

Term	%	Change (bps)
O/N	6.56	-3
T/N	6.75	0
SW	6.82	-1
2W	6.84	0
1M	6.91	1
3M	6.93	-1
6M	7.00	0
1Y	7.10	0

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	6.95	1
3x6	6.98	3
6x9	6.98	3
9x12	6.69	3
3x9	7.03	0
6x12	6.97	1

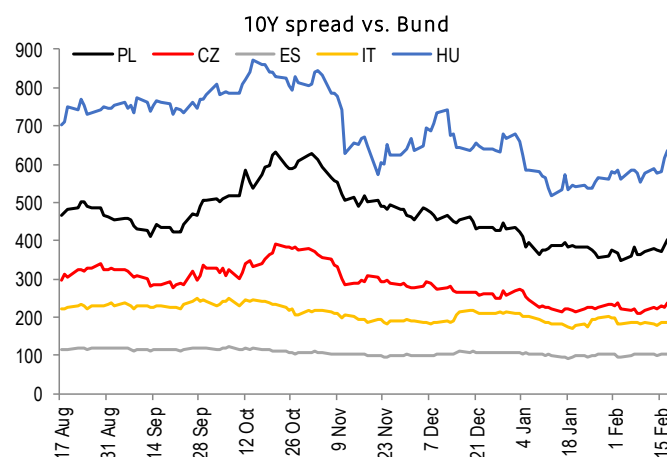
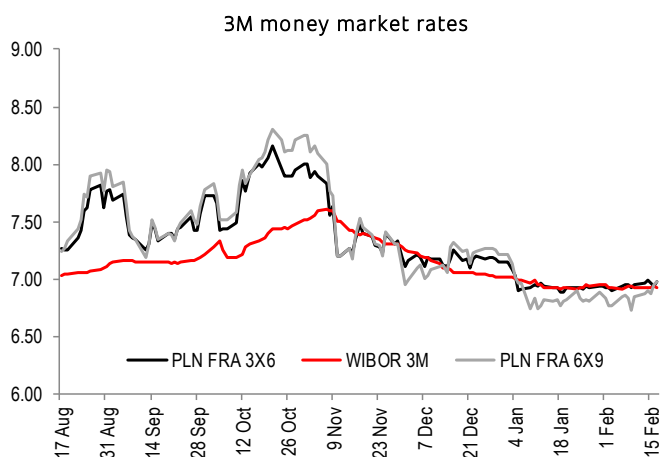
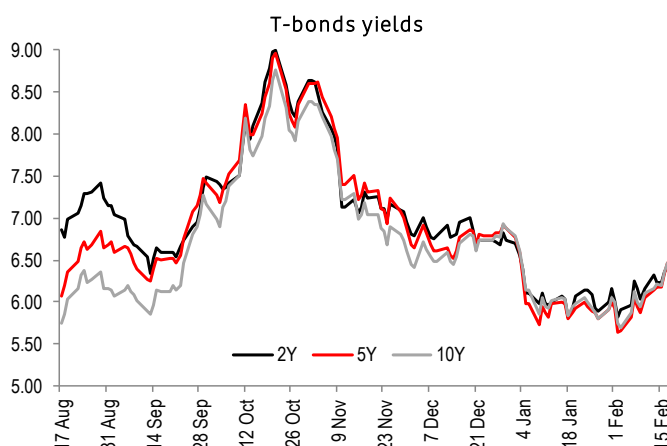
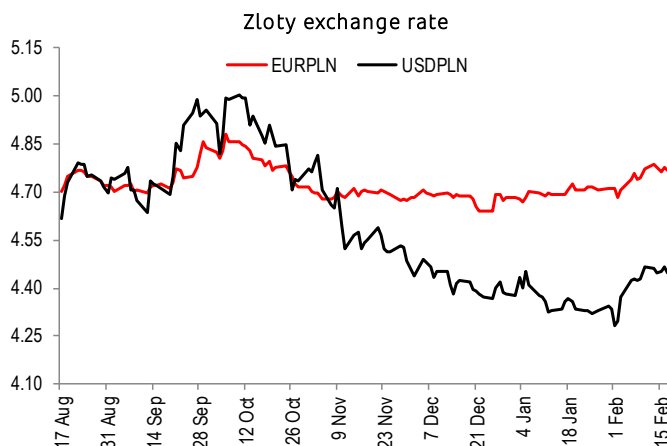
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	98	2	401	14
France	10	0	45	-1
Hungary	164	0	635	20
Spain	45	0	105	0
Italy	40	0	185	0
Portugal	30	0	90	0
Ireland	18	0	44	-1
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		
<b>FRIDAY (17 February)</b>								
	PL	S&P rating/outlook review					A-/stable	A-/stable
<b>MONDAY (20 February)</b>								
10:00	PL	Employment in corporate sector	Jan	% y/y	1.8	2.0	-	2.2
10:00	PL	Sold Industrial Output	Jan	% y/y	4.7	5.1	-	1.0
10:00	PL	PPI	Jan	% y/y	18.5	18.2	-	20.4
10:00	PL	Average Gross Wages	Jan	% y/y	12.7	13.8	-	10.3
<b>TUESDAY (21 February)</b>								
09:30	DE	Germany Manufacturing PMI	Feb	pts	48.0	-	-	47.3
09:30	DE	Markit Germany Services PMI	Feb	pts	51.0	-	-	50.7
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	49.3	-	-	48.8
10:00	EZ	Eurozone Services PMI	Feb	pts	51.3	-	-	50.8
10:00	PL	Construction Output	Jan	% y/y	-4.7	-1.9	-	-0.8
10:00	PL	Retail Sales Real	Jan	% y/y	1.1	1.2	-	0.2
11:00	DE	ZEW Survey Current Situation	Feb	pts	-52.0	-	-	-58.6
16:00	US	Existing Home Sales	Jan	% m/m	2.1	-	-	-1.5
<b>WEDNESDAY (22 February)</b>								
08:00	DE	HICP	Jan	% m/m	0.5	-	-	-1.2
10:00	DE	IFO Business Climate	Feb	pts	91.0	-	-	90.2
14:00	PL	Money Supply M3	Jan	% y/y	6.1	5.6	-	5.4
20:00	US	FOMC Meeting Minutes	Feb.23					
<b>THURSDAY (23 February)</b>								
10:00	PL	Unemployment Rate	Jan	%	5.45	5.5	-	5.2
11:00	EZ	HICP	Jan	% y/y	8.6	-	-	9.2
14:30	US	GDP Annualized	4Q	% q/q	2.9	-	-	3.2
14:30	US	Initial Jobless Claims		k	200.0	-	-	194.0
<b>FRIDAY (24 February)</b>								
08:00	DE	GDP WDA	4Q	% y/y	1.1	-	-	1.4
14:30	US	Personal Spending	Jan	% m/m	1.0	-	-	-0.2
14:30	US	Personal Income	Jan	% m/m	1.0	-	-	0.2
14:30	US	PCE Deflator SA	Jan	% m/m	0.4	-	-	0.1
16:00	US	Michigan index	Feb	pts	66.4	-	-	64.9
16:00	US	New Home Sales	Jan	% m/m	0.7	-	-	2.3

Source: Santander Bank Polska. Bloomberg. Parkiet

\* in the case of a revision the data is updated

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