

2 March 2023

Eyeopener

Polish PMI rose and beat forecasts once again

Today flash Eurozone inflation
 Polish manufacturing PMI reached 48.5 pts in February
 CEE currencies gained
 Further rise of expected policy rate paths in Poland, Eurozone and the US

Today, we will get to see the preliminary estimate of HICP inflation in the euro area in February and data on the number of unemployed in the US. 4Q22 GDP data published this morning in Hungary confirmed the preliminary estimate that growth there had slowed from 4% y/y to 0.4% y/y.

Yesterday's PMI indices for the major economies were rather mixed. The indices for Germany, the Eurozone and France were in line with their preliminary readings, or slightly weaker, representing a deterioration compared to January. However, the sub-index of delivery times, which suggested their shortening, played a role in this decline. This indicator enters the headline PMI index with a minus sign, as usually an increase in delivery times is associated with a strong economy. The indexes for Italy and the US (ISM) climbed in turn. German inflation data indicated stabilisation (CPI) or a slight increase (HICP), while suggesting a further rise in core inflation, probably to 6.0% from 5.6% in January.

François Villeroy de Galhau said that the ECB should reach its target interest rates by September. According to him euro zone inflation is forecast to peak in the first half of the year and halve by the end of the year. **Joachim Nagel**, on the other hand, said that in addition to the planned interest rate hike in March, further large increases are possible. He also advocates a steeper path of asset reduction.

Polish manufacturing PMI increased to 48.5 pts in February, in line with our forecast and above market consensus. The survey signalled that production and new orders in the manufacturing sector have continued declining, but at the slowest pace in 10-12 months. Companies were lowering new purchases and using existing inventories, which decreased for the ninth straight month. Firms also reported a decrease in employment, but mainly through non-replacement of leavers rather than active job cuts. The input cost inflation has decreased to the lowest since July 2020 and prices of finished goods also slowed. Firms' expectations for the next 12 months were the most optimistic in 10 months. Overall, the survey reflects still below-trend activity in Polish manufacturing sector, but with prospects of gradual improvement in the months ahead. We think it fits into our economic scenario in which 1Q23 will mark the bottom of economic cycle and will be followed by a slow economic recovery.

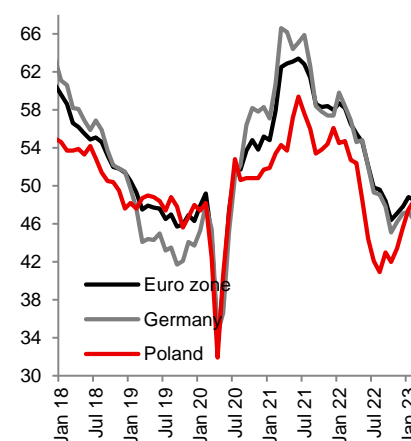
EURUSD rose from below 1.06 to around 1.07. The single currency was supported by inflation readings from Germany for February, which turned out to be higher than expected: CPI inflation did not fall from a month earlier (8.7% y/y vs. 8.5% expected and 8.7% a month earlier), and HICP inflation rose instead of falling as expected (9.3% y/y vs. 9% expected and 9.2% previously). The higher inflation readings were also followed by more hawkish rhetoric from the ECB suggesting a continuation of 50bp hikes after March this year. As a result, rate hike expectations in the euro area have started to move upwards again.

EURPLN fell to 4.67 from around 4.70. The rather large scale of appreciation of the zloty for a single day was the result of the higher manufacturing PMI reading from Poland and a more pronounced improvement in sentiment in emerging markets after a stronger-than-expected rebound in February PMIs from China (both Caixin and NBS), signalling better business climate there after it began to back away from tough anti-covid restrictions.

Other CEE currencies: EURHUF fell below 373 from around 377. Despite a further increase in PPI inflation in February (35% y/y vs. 34.9% previously), the forint was supported by a higher industrial PMI reading (56.5 points vs. 55 previously). EURCZK fell from 23.49 to 23.37. The Czech koruna strengthened on a wave of improved sentiment in emerging markets following the Chinese PMIs.

Debt market: Domestic yield curve rose along its entire length: at the short end by 13 bps and in the middle part and at the long end by about 5 bps. Interest rate expectations also rose on the longer end of the domestic FRA market. Domestic yields were helped by better PMI readings from Poland and China, as well as rising yields in the main markets primarily in the Eurozone, following higher inflation readings from Germany and hawkish rhetoric coming from the ECB.

PMI indices in manufacturing, pts



Source: S&P Global, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarostaw Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4.6799	CZKPLN	0.1998
USDPLN	4.3989	HUFPLN*	1.2524
EURUSD	1.0635	RUBPLN	0.0583
CHFPLN	4.6616	NOKPLN	0.4209
GBPPLN	5.2643	DKKPLN	0.6286
USDCNY	6.9031	SEKPLN	0.4192

*for 100HUF

Last session in the FX market 01.03.2023

	min	max	open	close	fixing
EURPLN	4.6607	4.7019	4.7012	4.6690	4.6925
USDPLN	4.3667	4.4399	4.4386	4.3753	4.4094
EURUSD	1.0588	1.0691	1.0589	1.0674	-

Interest rate market 01.03.2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.45	16
DS0727 (5Y)	6.54	5
DS0432 (10Y)	6.59	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.13	1	5.57	2	3.68	7
2L	6.74	4	5.21	6	3.84	6
3L	6.31	4	4.78	7	3.68	6
4L	6.12	4	4.49	6	3.54	6
5L	6.03	4	4.33	7	3.45	6
8L	5.96	3	4.07	7	3.31	4
10L	5.98	3	3.99	7	3.28	4

WIBOR rates

Term	%	Change (bps)
O/N	6.64	-10
T/N	6.74	1
SW	6.83	-1
2W	6.86	-1
1M	6.87	-2
3M	6.94	0
6M	7.00	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.00	3
3x6	7.02	1
6x9	7.04	1
9x12	6.79	4
3x9	7.07	2
6x12	7.11	4

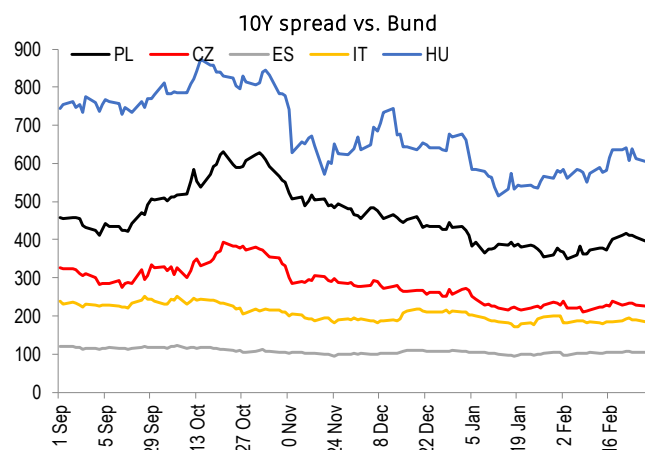
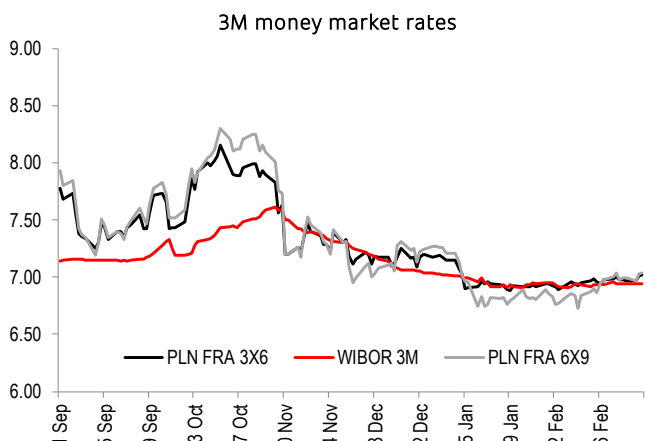
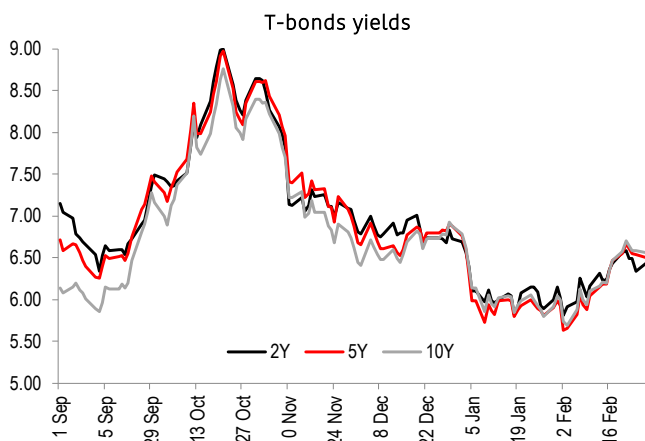
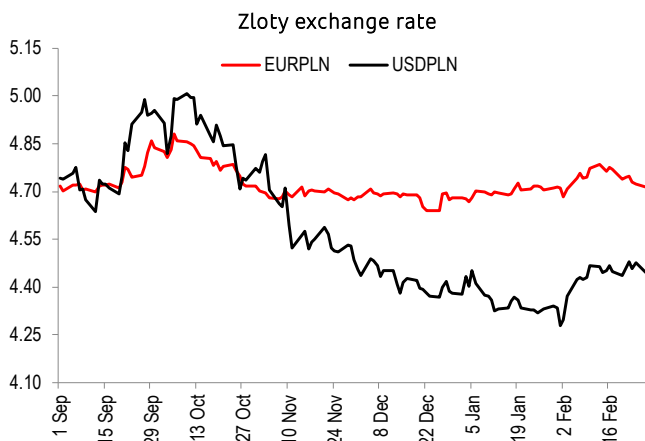
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	-2	388	-5
France	10	0	48	1
Hungary	160	-5	607	0
Spain	45	0	103	-1
Italy	38	0	185	1
Portugal	30	0	88	0
Ireland	17	0	48	-2
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 (24 February)								
08:00	DE	GDP WDA	4Q	% y/y	1.1	-	0.9	1.4
14:30	US	Personal Spending	Jan	% m/m	1.3	-	1.8	-0.1
14:30	US	Personal Income	Jan	% m/m	1.0	-	0.6	0.3
14:30	US	PCE Deflator SA	Jan	% m/m	0.5	-	0.6	0.2
16:00	US	Michigan index	Feb	pts	66.4	-	67.0	64.9
16:00	US	New Home Sales	Jan	% m/m	0.7	-	7.2	7.2
MONDAY (27 February)								
11:00	EZ	ESI	Feb	pct.	101.0	-	99.7	99.9
14:30	US	Durable Goods Orders	Jan	% m/m	-3.9	-	-4.5	5.1
16:00	US	Pending Home Sales	Jan	% m/m	0.9	-	8.1	1.1
TUESDAY (28 February)								
10:00	PL	GDP	4Q	% y/y	2.0	2.0	2.0	3.6
14:00	HU	Central Bank Rate Decision	Feb.23	%	13.0	-	13.0	13.0
16:00	US	Consumer Conference Board	Feb	pts	108.4	-	102.9	106.9
WEDNESDAY (1 March)								
09:00	PL	Poland Manufacturing PMI	Feb	pts	47.7	48.5	48.5	47.5
09:55	DE	Germany Manufacturing PMI	Feb	pts	46.5	-	46.3	47.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	48.5	-	48.5	48.8
14:00	DE	HICP	Feb	% y/y	9.0	-	9.3	9.2
16:00	US	ISM manufacturing	Feb	pts	47.8	-	47.7	47.4
THURSDAY (2 March)								
08:30	HU	GDP	4Q	% y/y	0.4	-	0.4	4.0
11:00	EZ	Flash HICP	Feb	% y/y	8.1	-	-	8.5
11:00	EZ	Unemployment Rate	Jan	%	6.6	-	-	6.6
14:30	US	Initial Jobless Claims	Feb.23	k	200.0	-	-	192.0
FRIDAY (3 March)								
02:45	CN	Caixin China PMI Services	Feb	pts	54.8	-	-	52.9
08:00	DE	Exports SA	Jan	% m/m	2.0	-	-	-5.9
09:00	CZ	GDP SA	4Q	% y/y	0.4	-	-	1.5
09:55	DE	Markit Germany Services PMI	Feb	pts	51.3	-	-	50.7
10:00	EZ	Eurozone Services PMI	Feb	pts	53.0	-	-	50.8
16:00	US	ISM services	Feb	pts	54.5	-	-	55.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. at. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.