

3 March 2023

Eyeopener

Lowest unemployment on record

Today a set of services PMIs
All-time low in Polish unemployment in January
Moody's representative suggests stability of Polish rating
Stronger dollar softened the zloty, Polish yields went up

Today, we will get to see PMI indices for services in the major economies and PPI inflation in the euro area. The Caixin PMI for China's services sector confirmed the solid improvement in February signalled by its counterpart published by the government agency. Like the readings for manufacturing, the result beat market forecasts reinforcing expectations that the awaited rebound in the Chinese economy due to the lifting of Covid restrictions is already materialising. Moreover, Germany's exports (January data) also surprised, rising by 2.1% m/m, although this did not cover the significant decline from December (-6.3% m/m). An unexpected drop in German imports pushed the trade balance to its highest in nearly two years.

Eurozone HICP inflation data pointed to a slight decline in February, to 8.5% y/y from 8.6% y/y. However, the data had a rather hawkish tone, mainly due to the rise in core inflation to 5.6% y/y from 5.3% y/y (a new record since the euro has existed).

MPC's Ludwik Kotecki said that macroeconomic policy should be directed at bringing inflation down to target as soon as possible, otherwise it will anchor at elevated levels. In his view, bringing CPI down to around 12 per cent may be quite easy, but further reductions, to a few per cent, will already be a challenge due to the entrenchment of high price growth in the minds of consumers and businesses.

According to Eurostat, the **seasonally adjusted LFS unemployment rate in Poland** fell to 2.8% in January, returning to the record low level last seen in February-May 2022. The number of the unemployed decreased by 14k m/m and reached 480k, the lowest level on record. The LFS data suggest no weakening of the labour market. In the euro zone, meanwhile, the unemployment rate remained stable at 6.7%.

Three weeks before the agency's scheduled review of Poland's rating, **Moody's** Colin Ellis expressed his belief that the country's current rating (A2) is very solid and stable, and should remain so. He stressed the country's investment attractiveness due to the resilience and diversification of the economy and the good chances of benefiting from post-pandemic nearshoring. The agency's concerns over Poland-EU tensions do not, in his view, affect the country's fairly high assessment of its institutional strength.

ECB Minutes indicated that the current level of interest rates roughly corresponds to neutral interest rate levels, but at this stage the Council supports further rate increases to ensure sufficient monetary policy tightness. The Council noted that core inflation is currently a more important indicator of inflationary pressures for markets than the headline HICP inflation index. It stressed that although wage pressures are building up there are no signs of a growing wage-price spiral. Better economic growth indicators will work to strengthen inflationary pressures. The council expressed broad support for the idea of not making a 75bp hike in February but a 50bp hike in March, and instead a 50bp hike in March as well. However, not everyone supported the idea that the scale of the March rate hike should be announced in advance.

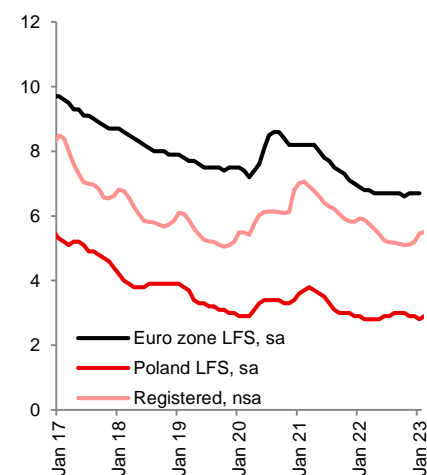
EURUSD went from the area above 1.065 down closer to 1.06. Supporting the dollar were hawkish signals coming from the Fed. Some of its members (including Neel Kashkari) want to raise rates above 5.5%, while others opt for holding rates at 5.25% for longer (e.g. Rafael Bostic). Both options are favourable for the dollar, as not long ago markets were pricing a rate cut before the end of this year.

EURPLN rose above 4.69 from around 4.67. The zloty was hurt by the strengthening of the dollar on European markets.

Other CEE currencies: EURCZK rose to 23.46 from around 23.34. CNB board member Jan Frait did not rule out a resumption of rate hikes, although at the same time he noted that current monetary conditions in the Czech Republic cannot be called expansionary. Further monetary tightening will be done either by affecting the exchange rate or interest rates. EURHUF rose to 372 from 366. The forint was hurt by a weak Q4 GDP reading confirming a strong slowdown in the economy.

Debt market: Domestic yield curve rose across the board by about 9 bps on average. Interest rate expectations in the FRA market also rose on longer terms. Higher yield levels were the result of rising expectations for rate hikes in the core markets after consecutive inflation readings came in higher than market expectations.

Unemployment rate, %



Source: Eurostat, GUS, Santander

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FX market

Today's opening

EURPLN	4.6971	CZKPLN	0.1999
USDPLN	4.4240	HUFPLN*	1.2454
EURUSD	1.0613	RUBPLN	0.0586
CHFPLN	4.7122	NOKPLN	0.4245
GBPPLN	5.2997	DKKPLN	0.6310
USDCNY	6.9001	SEKPLN	0.4217

*for 100HUF

Last session in the FX market 02/03/2023

	min	max	open	close	fixing
EURPLN	4.6635	4.6953	4.6719	4.6951	4.675
USDPLN	4.3853	4.4362	4.3903	4.4319	4.4002
EURUSD	1.0580	1.0644	1.0637	1.0592	-

Interest rate market 02/03/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.43	-2
DS0727 (5Y)	6.64	10
DS0432 (10Y)	6.66	7

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.17	4	5.54	-3	3.70	3
2L	6.82	8	5.22	1	3.85	1
3L	6.40	9	4.81	3	3.69	1
4L	6.20	9	4.56	7	3.55	2
5L	6.13	9	4.39	6	3.47	2
8L	6.06	10	4.13	6	3.34	3
10L	6.09	11	4.06	7	3.32	4

WIBOR rates

Term	%	Change (bps)
O/N	6.55	-9
T/N	6.74	0
SW	6.83	0
2W	6.84	-2
1M	6.88	1
3M	6.94	0
6M	7.00	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.98	-2
3x6	7.04	2
6x9	7.12	8
9x12	6.85	6
3x9	7.09	2
6x12	7.17	6

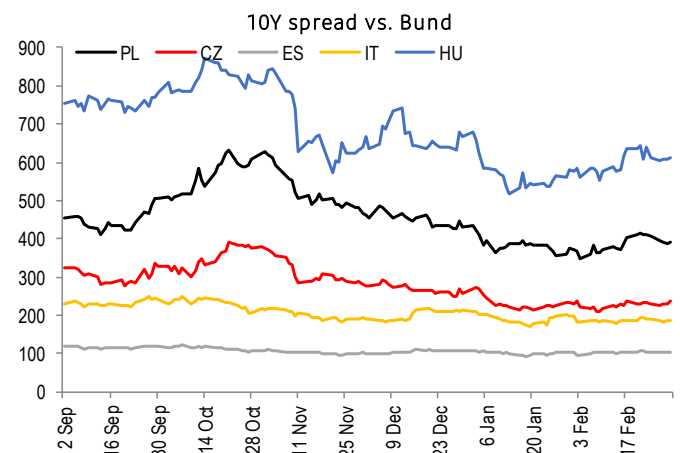
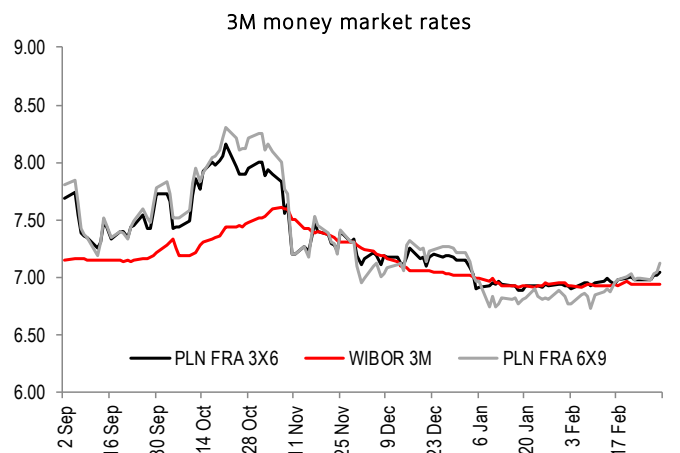
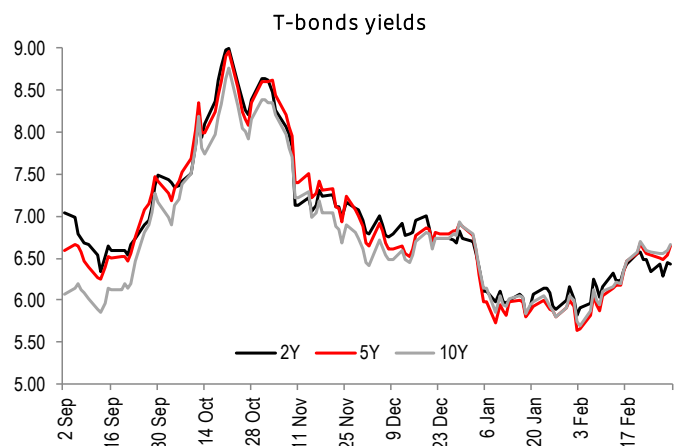
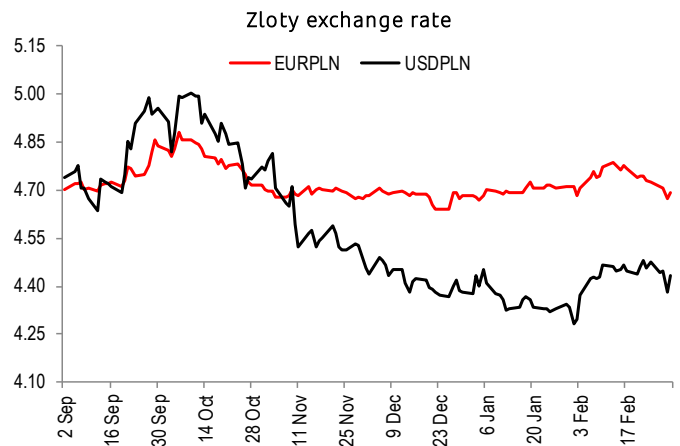
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	0	391	3
France	10	0	49	1
Hungary	159	0	614	7
Spain	43	-2	104	1
Italy	38	0	188	3
Portugal	28	-2	89	1
Ireland	18	0	49	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		
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	8.5
11:00	EZ	Unemployment Rate	Jan	%	6.6	-	6.7	6.6
14:30	US	Initial Jobless Claims	Feb.23	k	200	-	190	192
FRIDAY (3 March)								
02:45	CN	Caixin China PMI Services	Feb	pts	54.8	-	55.0	52.9
08:00	DE	Exports SA	Jan	% m/m	2.0	-	2.1	-5.9
09:00	CZ	GDP SA	4Q	% y/y	0.4	-	0.2	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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