

13 March 2023

Eyeopener

Failure of a big US bank

16th biggest US bank failed

New NBP forecasts: CPI path dragged lower by energy prices, private consumption higher

US labour market saw a major rise in employment, but other statistics were weaker

Zloty slightly stronger vs euro, domestic yields lower but less than in the USA

No significant data today. Friday saw the **bankruptcy of Silicon Valley Bank**. It was the 16th largest bank in the US and had \$175 billion in deposit liabilities. The FDIC (the equivalent of Poland's BFG) announced over the weekend that it was guaranteeing all of the failed bank's deposits, which is likely to reduce market concerns about the US banking system. In addition, the Fed announced the introduction of a new Bank Term Funding Program facility, under which it will provide liquidity loans to banks in exchange for pledged bonds (at par). An emergency Fed meeting is due to take place today. Additionally, Signature Bank was also closed on Sunday.

The set of **the US labour market** data included another large increase in non-farm employment (NFP) alongside a large increase in the number of people active in the labour market and a higher participation rate. This may underpin the cooling of the wage growth. Manufacturing wages fell by 0.1% m/m (the weakest reading since February 2021) and services wages rose by 0.5% m/m (the best reading since June 2022). Despite the better-than-expected NFP reading from the US, employment growth was concentrated in only a few sectors, supporting the thesis of a gradual cooling of the US labour market. Such an interpretation was also helped by an unexpected rise in unemployment from 3.4% to 3.6%.

NBP released Inflation Report, including a detailed description of the new central bank's staff projection. It reveals that the mild decline of the inflation path vs. the previous, November projection (in 2023 11.9% vs. 13.1%, in 2024 5.7% vs. 5.9%, 2025 unchanged at 3.5%) is a function of lower assumptions about energy prices (their 2023 rise now shown at 13% vs. 20.6% previously) – an exogenous factor for the MPC. Core inflation path went marginally higher, including in 2-4Q23 and in three quarters of 2025. The projection suggests somewhat higher internal pressure on consumer prices than the previous one: private consumption was revised higher (by 0.1pp in 2023, 0.7pp in 2024 and 0.6pp in 2025), and so was nominal and real wage growth in almost all quarters in the projection. Other labour market statistics (employment, unemployment rate) were also improved slightly and taken together show real wage bill some 1pp higher in 2024 than in the previous projection and 0.7pp higher in 2025). Output gap is still shown as negative throughout the whole projection period, but is closer to zero in almost all quarters (e.g. -0.5% instead of -0.8% on average in 2023). Polish GDP growth path was revised marginally higher while the assumed 'GDP growth abroad' (weighted average for major trading partners) was pushed 0.6pp higher in 2023, but cut by 0.3pp in 2024 and by 0.1pp in 2025.

MPC's Joanna Tyrowicz felt that the new projection does not justify the decision to leave interest rates unchanged in March and that discussing rate cuts now is irresponsible. She assessed the risk that CPI will not still go down to 3.5% y/y in mid-2025 as very significant. **Przemysław Litwiniuk** described signalling possible rate cuts this fall as contradictory to the projection. **Henryk Wnorowski** assumes that inflation will fall faster than the projection shows in the second half of 2024 and in 2025. He also said that no discussion of rate cuts was initiated in the Council in March.

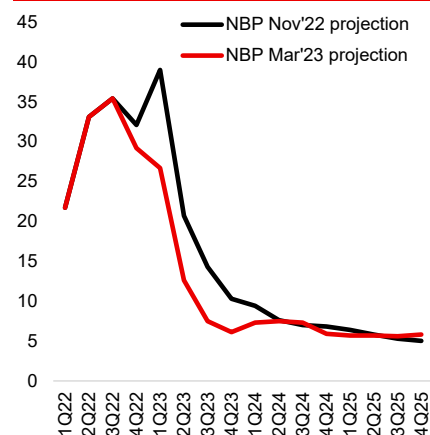
EURUSD rose near 1.07 from levels below 1.06. After the US labour market data, markets began to pull back from pricing in a larger scale of US rate hikes. The Fed's expected rate target (upper range) fell from 5.75% to levels only slightly above 5.25%, which weakened the dollar. Today, the dollar is weakening further due to problems in the US banking system.

EURPLN fell slightly below 4.68 from around 4.69. The zloty was helped by the weakening of the dollar in the European market. However, the high volatility of the exchange rate around 4.68 signals that the appreciation potential of the zloty is running out.

Other CEE currencies: EURCZK fell from 23.66 to around 23.63. At the beginning of the European session, the exchange rate tried to rise above 23.70 after a the Czech CPI reading for February showed a decline vs. January, but by the end of the day it retreated under the influence of the weakening dollar. A factor that further supported the koruna's appreciation was a statement by CNB board member Tomas Holub, who said that a rate hike this year makes sense as it could show the central bank's strong commitment to fight inflation. EURHUF fluctuated in a wide range around 382.

Debt market: The domestic yield curve fell in the middle part and at the longer end by around 12 bp on average. On the longer end of the FRA market, expectations for the level of interest rates in Poland also fell. The entire yield curve took a slightly negative slope, which shows a renewed increase in market fears of a further slowdown in the global and domestic economy following the publication of NFP. In the US, the entire yield curve fell by around 22 bps on average. Problems in the US banking system may translate into a further decline in expectations of US rate hikes and lower bond yields.

Energy price index assumed in NBP staff projections, % y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.6748	CZKPLN	0.1974
USDPLN	4.3608	HUFPLN*	1.2071
EURUSD	1.0721	RUBPLN	0.0577
CHFPLN	4.7693	NOKPLN	0.4128
GBPPLN	5.2802	DKKPLN	0.6282
USDCNY	6.9000	SEKPLN	0.4096

*for 100HUF

Last session in the FX market 10/03/2023

	min	max	open	close	fixing
EURPLN	4.6706	4.6911	4.6856	4.6761	4.6838
USDPLN	4.3685	4.4358	4.4250	4.3861	4.4266
EURUSD	1.0572	1.0700	1.0585	1.0657	-

Interest rate market 10/03/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.18	-10
DS0727 (5Y)	6.12	-12
DS0432 (10Y)	6.12	-13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.92	-7	5.42	-24	3.69	-10
2L	6.34	-15	4.86	-30	3.71	-13
3L	5.90	-15	4.44	-26	3.53	-13
4L	5.69	-16	4.16	-27	3.33	-16
5L	5.58	-18	3.99	-27	3.24	-14
8L	5.48	-18	3.73	-24	3.09	-13
10L	5.49	-19	3.66	-23	3.07	-12

WIBOR rates

Term	%	Change (bps)
O/N	6.57	-12
T/N	6.75	1
SW	6.84	1
2W	6.84	0
1M	6.88	0
3M	6.93	0
6M	7.00	0
1Y	7.09	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.92	-1
3x6	6.92	0
6x9	6.76	-8
9x12	6.40	-11
3x9	6.95	-2
6x12	6.74	-9

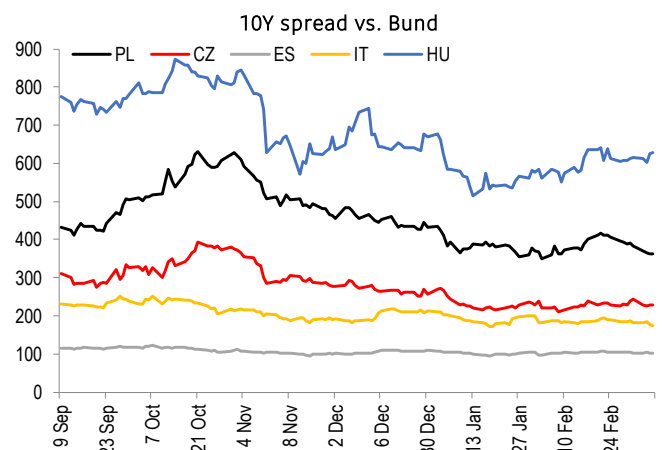
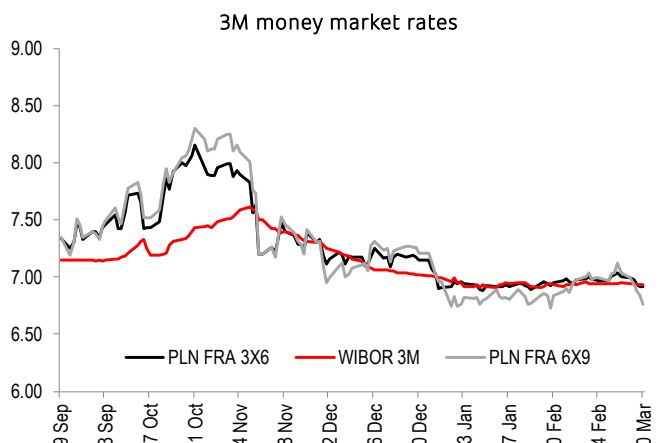
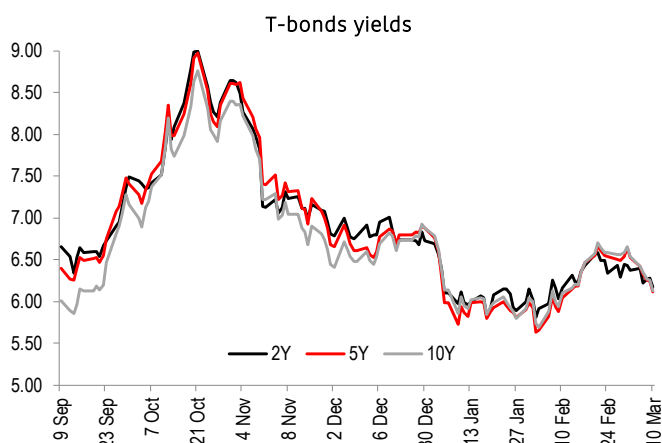
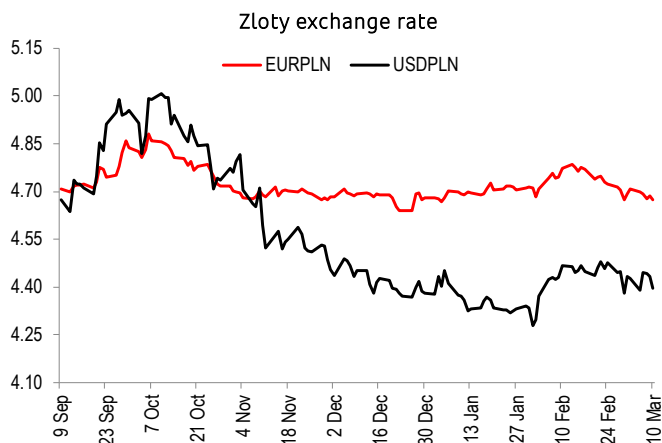
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	89	0	362	0
France	10	0	50	0
Hungary	164	15	629	4
Spain	47	2	101	0
Italy	42	3	175	-3
Portugal	32	1	87	-1
Ireland	18	0	44	-5
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 (10 March)								
08:00	DE	HICP	Feb	% m/m	1.0	-	1.0	0.5
09:00	CZ	Industrial Production	Jan	% y/y	3.2	-	1.3	2.3
09:00	CZ	CPI	Feb	% y/y	16.6	-	16.7	17.5
14:30	US	Change in Nonfarm Payrolls	Feb	k	225.0	-	311.0	504.0
14:30	US	Unemployment Rate	Feb	%	3.4	-	3.6	3.4
MONDAY (13 March)								
No key events or releases								
TUESDAY (14 March)								
13:30	US	CPI	Feb	% m/m	0.4	-	-	0.5
WEDNESDAY (15 March)								
10:00	PL	CPI	Feb	% y/y	18.5	18.4	-	17.2
11:00	EZ	Industrial Production SA	Jan	% m/m	0.5	-	-	-1.1
13:30	US	Retail Sales Advance	Feb	% m/m	0.1	-	-	3.0
THURSDAY (16 March)								
13:30	US	Housing Starts	Feb	% m/m	0.1	-	-	-4.5
14:00	PL	CPI Core	Jan	% y/y	11.8	11.8	-	11.5
14:00	PL	CPI Core	Feb	% y/y	11.9	11.9	-	x
14:00	PL	Current Account Balance	Jan	€mn	-995	-1020	-	-2526
14:00	PL	Trade Balance	Jan	€mn	-1200	-1326	-	-2716
14:00	PL	Exports	Jan	€mn	27281	26458	-	26040
14:00	PL	Imports	Jan	€mn	28034	27784	-	28756
14:15	EZ	ECB Main Refinancing Rate	Mar.23	%	3.5	-	-	3.0
14:30	US	Initial Jobless Claims		k	195	-	-	211
FRIDAY (17 March)								
11:00	EZ	HICP	Feb	% y/y	8.5	-	-	8.6
14:15	US	Industrial Production	Feb	% m/m	0.5	-	-	0.0
15:00	US	Michigan index	Mar	pts	67.0	-	-	67.0

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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