

24 March 2023

Eyeopener

Corporate margins lower but not low yet

Today flash PMIs, Moody's may update Polish rating in the evening
Further fall of profit margins in Polish companies in 4Q, lower growth of revenues and costs
Zloty stable vs. the euro, Polish yield curve flattened

Today we will get to see preliminary March PMI indices describing activity in manufacturing and services in the euro area and Germany. In addition, durable goods orders in the US are due for release. In the evening, Moody's may update its assessment of Poland's creditworthiness - at the beginning of March, however, a representative of the agency assured that there were no grounds for a rating change. PMIs for Australia, already published, showed a return below the neutral level of 50 points due to weakness in new orders, while optimism about the outlook for business went up. Japan's PMI indices rose, thanks in part to loosened restrictions in China.

Klaas Knot (ECB, Netherlands) said that the ECB will continue to raise rates and that inflation risks are skewed upwards, mainly due to the behaviour of core inflation. In contrast, **Robert Holzmann** (ECB, Austria) said that the ECB will take the recent bank failures into account when making its forthcoming decision, but that so far they have not had a significant impact on the financial system. Yesterday, the SNB raised rates by 50bp and the Bank of England by 25bp, in line with expectations.

In February, the MPC rejected motions for a 100bp rate hike (J. Tyrowicz voted in favour) and a 25bp hike (L. Kotecki and P. Litwiniuk voted in favour). In previous months, there was also a motion for +50bp, supported by J. Tyrowicz and L. Kotecki.

Industrial new orders in February again looked weak, falling 2.2% y/y, with export orders rising 3.5% y/y. However, these are numbers in nominal terms, and adjusting for PPI inflation suggests a deep decline in the real value of orders (-17.4% y/y). This is not a good sign for industrial production, though this data is usually of little use in forecasting future output.

Deflated retail turnover - an alternative measure of consumer spending - fell just 0.7% y/y in February, softening the tone of recent real retail sales data showing a 5% y/y decline.

In 4Q22 **Polish non-financial companies employing 50+ persons made net profit of PLN59.1bn** compared to PLN57.7bn in 3Q22 and PLN60.8bn in 4Q21. In the final quarter of 2022 revenues were up 16.8% y/y (down from 30.0% y/y in 3Q22) while costs rose by 17.7% y/y (32.1% in 3Q22) amid a continued slowdown in the Polish economy. Wage costs were up 13.7% y/y (19.4% in 3Q22). The decrease of total costs growth was achieved thanks to much lower contributions from materials and business services. Average profit margin moved to 5.3% (0.8pp lower y/y) from 5.4% (1.5pp lower y/y) and its 4Q moving average fell to 6.1% from 6.3% which means it is still close to the levels seen during the 2007 peak of activity and way higher than before pre-pandemic (c.4.5%). This would mean that despite the high cost pressure built-up during 2022 and collapsing private consumption in 2H22, companies were not forced to greatly reduce their margins. This may help explain the observed inflation persistence in Poland. The margin data are distorted by very high readings in mining and oil refining, but other sectors also look decent with more than 70% of them still showing better margin levels than before the pandemic, and their 4Q moving average moving from 6.1% to 5.7%.

Investment outlays in companies employing 50 or more people increased at constant prices by 7.6% y/y in 4Q22 after 5.7% in 3Q22. The higher pace was underpinned by purchases of transport equipment (+9.9% y/y vs. 5.2% previously), while a further slowdown was seen in investment in buildings (6.4% y/y after 7.8% in 3Q). The acceleration of investment growth was mainly driven by two sectors: energy and transport and storage.

EURUSD, after breaching the level of 1.09, fell to about 1.085 around which it started the day. Support for the dollar's quotations turned out to be higher-than-expected US home sales data.

EURPLN oscillated around the level of 4.68. The zloty fluctuated between improving investment sentiment in European markets and concerns about a faster slowdown in the global economy.

Other CEE currencies: **EURCZK** fell to 23.63 from around 23.71. **EURHUF** fell to around 383 from around 386. The Fed's more dovish policy helped stimulate demand for the region's currencies.

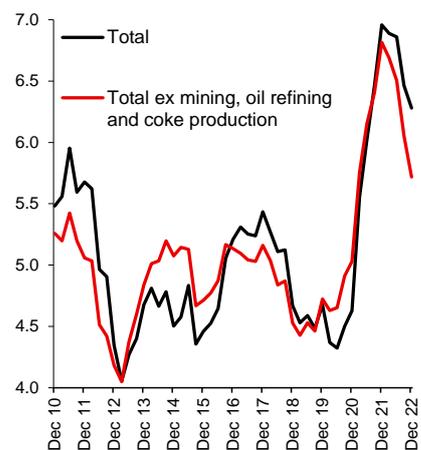
Debt market: Domestic yields rose about 13 bps on 2Y, falling in the middle part of the curve and at the longer end by a few bps. The flattening of the curve is the result of the market adjusting to the scenario of stable policy rate for longer. In the FRA market, expectations for interest rates in Poland rose slightly. Improved sentiment in global markets led to a narrowing of the asset swap spread across the width of the curve.

Retail sales and retail trade turnover



Source: GUS, Santander

Average sales margin, %, 4Q moving average



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.6799	CZKPLN	0.1978
USDPLN	4.3198	HUFPLN*	1.2208
EURUSD	1.0832	RUBPLN	0.0567
CHFPLN	4.7137	NOKPLN	0.4152
GBPPLN	5.3048	DKKPLN	0.6281
USDCNY	6.8492	SEKPLN	0.4177

*for 100HUF

Last session in the FX market **23.03.2023**

	min	max	open	close	fixing
EURPLN	4.6737	4.6880	4.6799	4.6807	4.6817
USDPLN	4.2822	4.3101	4.2904	4.2962	4.3011
EURUSD	1.0865	1.0929	1.0904	1.0894	-

Interest rate market **23.03.2023**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.02	3
DS0727 (5Y)	5.91	-4
DS0432 (10Y)	5.96	-5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.78	0	4.77	-12	3.36	-1
2L	6.20	2	4.18	-7	3.31	3
3L	5.69	2	3.88	-19	3.15	-9
4L	5.47	1	3.67	-14	3.01	-15
5L	5.38	1	3.51	-7	2.99	0
8L	5.33	3	3.41	-6	2.91	-9
10L	5.35	3	3.41	-2	2.91	-8

WIBOR rates

Term	%	Change (bps)
O/N	6.51	5
T/N	6.69	-1
SW	6.83	0
2W	6.84	0
1M	6.85	0
3M	6.90	0
6M	6.95	0
1Y	7.06	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.89	0
3x6	6.77	1
6x9	6.61	1
9x12	6.17	1
3x9	6.80	1
6x12	6.58	1

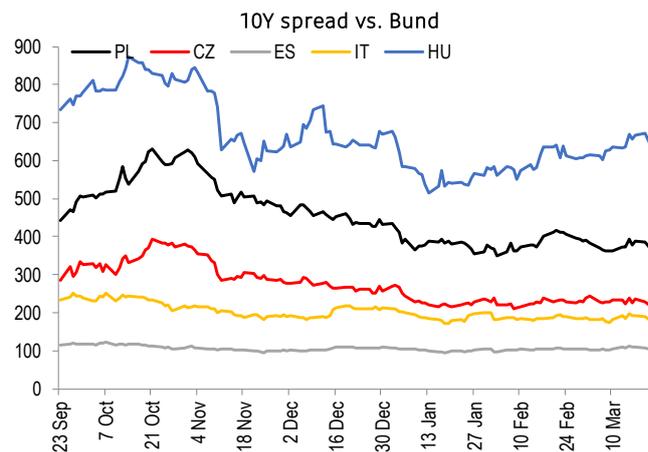
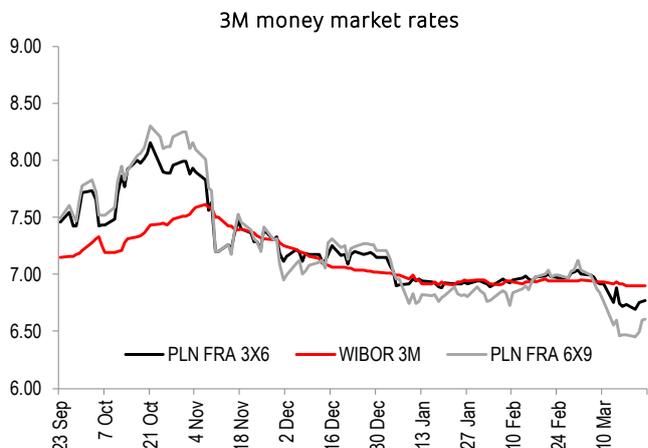
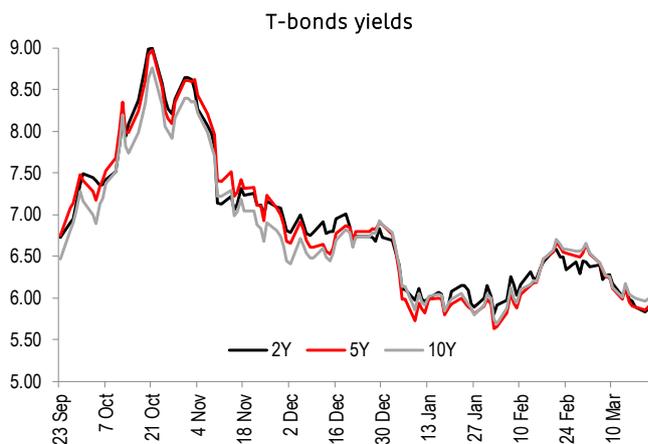
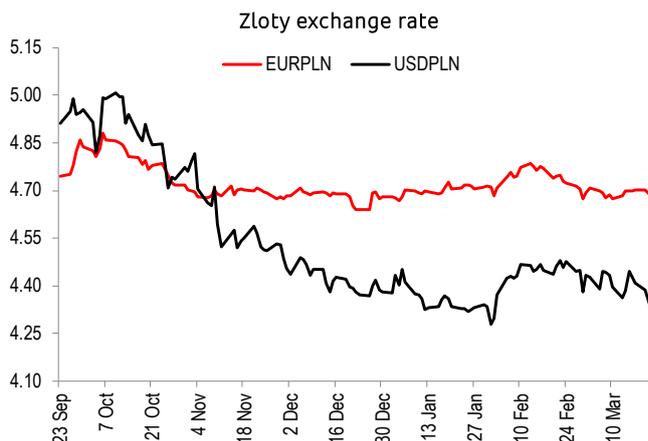
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	102	-1	377	9
France	14	0	53	0
Hungary	173	4	637	-1
Spain	53	2	105	1
Italy	49	-2	186	1
Portugal	36	1	89	0
Ireland	21	0	45	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 (17 March)							
11:00	EZ	HICP	Dec.23	% y/y	8.5	-	8.5
14:15	US	Industrial Production	Dec.23	% m/m	0.2	-	0.0
15:00	US	Michigan index	Jan.23	pts	67.0	-	63.4
MONDAY (20 March)							
10:00	PL	Employment in corporate sector	Feb	% y/y	1.0	0.9	0.8
10:00	PL	Sold Industrial Output	Feb	% y/y	1.1	1.4	-1.2
10:00	PL	PPI	Feb	% y/y	17.7	17.7	18.4
10:00	PL	Average Gross Wages	Feb	% y/y	11.9	12.0	13.6
TUESDAY (21 March)							
10:00	PL	Construction Output	Feb	% y/y	1.0	0.7	6.6
10:00	PL	Retail Sales Real	Feb	% y/y	-1.5	-1.2	-5.0
11:00	DE	ZEW Survey Current Situation	Mar	pts	-45.0	-	-46.5
15:00	US	Existing Home Sales	Feb	% m/m	4.8	-	14.5
WEDNESDAY (22 March)							
14:00	PL	Money Supply M3	Feb	% y/y	6.5	6.4	7.4
19:00	US	FOMC decision (lower bound of range)			4.75	-	4.75
THURSDAY (23 March)							
10:00	PL	Unemployment Rate	Feb	%	5.5	5.5	5.5
13:30	US	Initial Jobless Claims	week	k	197	-	191
15:00	US	New Home Sales	Feb	% m/m	-3.0	-	1.1
FRIDAY (24 March)							
09:30	DE	Germany Manufacturing PMI	Mar	pts	47.0	-	-
09:30	DE	Markit Germany Services PMI	Mar	pts	51.0	-	-
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.0	-	-
10:00	EZ	Eurozone Services PMI	Mar	pts	52.5	-	-
13:30	US	Durable Goods Orders	Feb	% m/m	1.5	-	-
	PL	Rating review by Moody's				A2/stable	A2/stable

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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