

# Eyeopener

## Exceptionally weak March

Today M3 money supply, Hungarian central bank decision, US consumer sentiment  
 Industry, construction and retail sales in March weaker than forecasts  
 Dąbrowski: MPC ready to raise rates, but possible cuts late this year  
 Złoty resilient on weak domestic data, bond yields down

**Today** domestic money supply data in March, abroad the Hungarian central bank decision, and data from the US: consumer sentiment and home sales.

All main indicators of real economic activity for March proved to be below market expectations. **Industrial production fell by 2.9% y/y (exp -2.2%), construction output declined by 1.5% y/y (exp +0.5%), retail sales in constant prices fell by 7.3% y/y (exp -6.2%). Also, PPI growth slowed to 10.1% y/y vs expected 11.0% y/y.** The data show weakness of the economy at the very end of 1Q23 on all fronts: manufacturing, construction and retail trade, which reaffirms our view that GDP growth in the first quarter most likely fell clearly below zero in y/y terms (flash data to be released in mid-May). If we dig a little deeper, it looks like the industrial production numbers were heavily depressed by the energy sector, where output fell by almost 22% y/y, while the manufacturing output was actually not so bad (-0.4% y/y), driven by production of transport equipment and machinery. In construction, we see deterioration of results as inevitable correction of surprising resilience seen in the previous months, as housing market activity and investments are slowing down. Retail sales saw quite broad-based disappointment, but especially in food and non-durable essentials, which at least partly may be attributed to the net outflow of Ukrainians observed recently. Overall, the data revealed weaker than expected economic activity in March. We have long argued that 1Q23 may see the culmination of the economic slowdown that started after the Russian aggression on Ukraine, and it appears to be the case. The following quarters should see a gradual (slow) recovery, which is heralded by a broad-based improvement of economic sentiment.

**General government deficit is expected to reach 4.7% of GDP in 2023, according to the Convergence Program Update**, said Deputy Finance Minister Piotr Patkowski. In the following years, it is expected to fall to 3.4% in 2024 and then to 2.9% in 2025 - 2026. The higher level of the deficit in 2023 is, among other things, to occur due to an increase in extraordinary and one-off expenditures such as energy shields, which will only partly be covered by a tax on the income of energy companies. According to the Convergence Program Update, average annual inflation is expected to be 12% in 2023, in 2024. 6.5%, and in the following years: 3.9% and 3.1%. Real GDP growth is expected to be 0.9% this year due to the slowdown in the economy, accelerating to 2.8%, 3.2% and 3% in 2026 in the following years.

**MPC member Ireneusz Dąbrowski** said in an interview with Parkiet that the MPC is ready to raise interest rates if necessary, and the condition for the hikes could be information about rising inflation expectations or indicating that the disinflation path will be extended. However, in his view, for the time being there is no such reason in sight and it cannot be ruled out that some room for rate cuts could emerge before the end of the year.

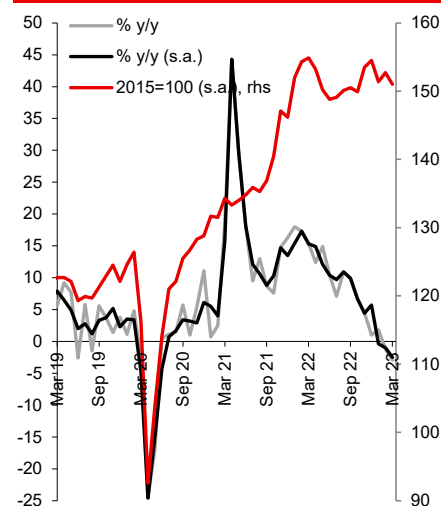
**EURUSD**, after dropping below 1.10 at the start of the day, climbed back up to 1.103 in the following hours, supported among others by a better-than-expected reading of the German Ifo index (the expectations component rose to the highest since February 2022) and a statement by Pierre Wunsch, Governor of the Bank of Belgium, according to whom interest rates in the euro area may rise to 4.0%, and their reduction will only be possible once inflation stabilises at a moderate level.

**EURPLN**, despite weak domestic data for March, continued its march south: after opening close to 4.615, it went below 4.60 at the end of the day. Support for the currency may have been provided, among others, by Polish Development Fund head Paweł Borys' statement that the law resolving the problem of CHF mortgage credit should be a fallback option in the event of an unfavourable CJEU ruling.

**Other CEE currencies:** Czech koruna, after initial strengthening, gradually retreated, ending the day around 23.47 to the euro. EURHUF was fairly stable ahead of today's central bank decision. The MNB will probably leave the main rate unchanged, but signalled the possibility of lowering the upper limit of the market rate corridor, which would be the beginning of a withdrawal from restrictive policy.

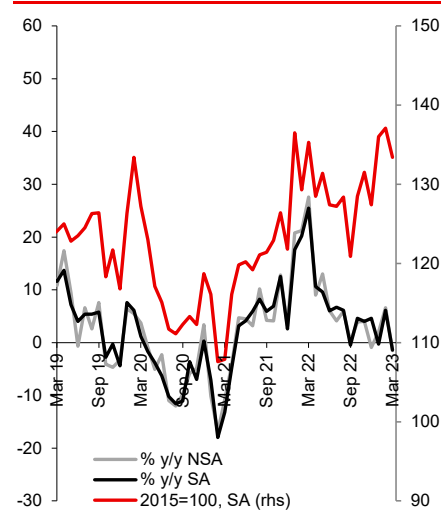
**Debt market:** IRS curve initially reacted to the weaker domestic data by moving down 4-5bp, but by the end of the day some of this movement had retreated and rates finally fell 1.5bp. Bond yields fell by around 5bp along the curve. The Ministry of Finance reported that after Friday's bond auction, the degree of financing of gross borrowing needs for 2023 is around 81%.

### Industrial output



Source: GUS, Santander

### Construction output



Source: GUS, Santander

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### FX market

#### Today's opening

EURPLN	4,6006	CZKPLN	0,1959
USDPLN	4,1614	HUFPLN*	1,2134
EURUSD	1,1052	RUBPLN	0,0512
CHFPLN	4,6893	NOKPLN	0,3946
GBPPLN	5,1969	DKKPLN	0,6224
USDCNY	6,9083	SEKPLN	0,4053

\*for 100HUF

#### Last session in the FX market 24.04.2023

	min	max	open	close	fixing
EURPLN	4,5956	4,6160	4,6107	4,5987	4,6129
USDPLN	4,1659	4,2040	4,1995	4,1708	4,1905
EURUSD	1,0964	1,1036	1,0979	1,1024	-

### Interest rate market 24.04.2023

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6,07	-14
WS0428 (5Y)	6,04	-3
DS1033 (10Y)	6,02	-6

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6,88	-1	5,07	-6	3,81	5
2L	6,45	-2	4,34	-10	3,67	6
3L	5,99	-2	3,94	-11	3,46	5
4L	5,76	-2	3,74	-10	3,33	4
5L	5,64	-2	3,61	-13	3,26	4
8L	5,53	-2	3,47	-9	3,16	3
10L	5,55	-1	3,48	-8	3,15	3

#### WIBOR rates

Term	%	Change (bps)
O/N	6,57	-12
T/N	6,74	0
SW	6,83	0
2W	6,83	0
1M	6,86	0
3M	6,90	0
6M	6,95	0
1Y	7,06	0

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

Term	%	Change (bps)
1x4	6,87	-1
3x6	6,82	-2
6x9	6,71	-1
9x12	6,39	-1
3x9	6,86	-2
6x12	6,71	-1

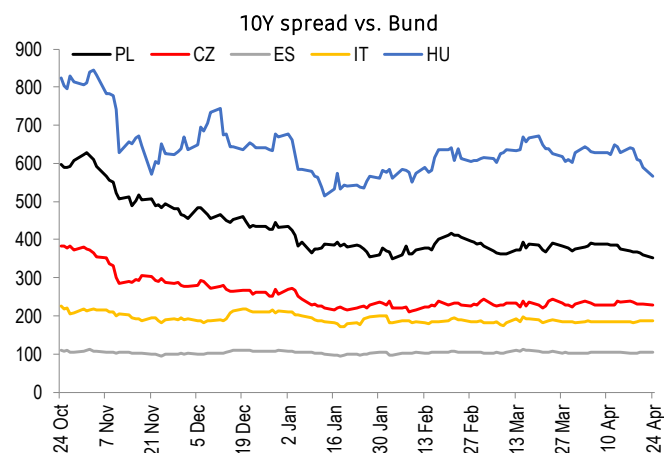
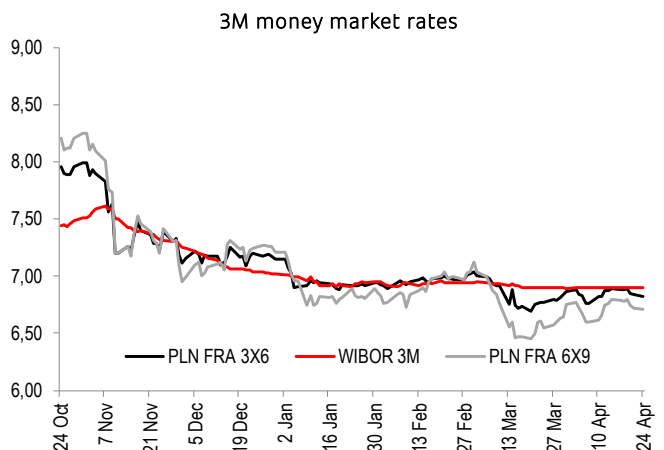
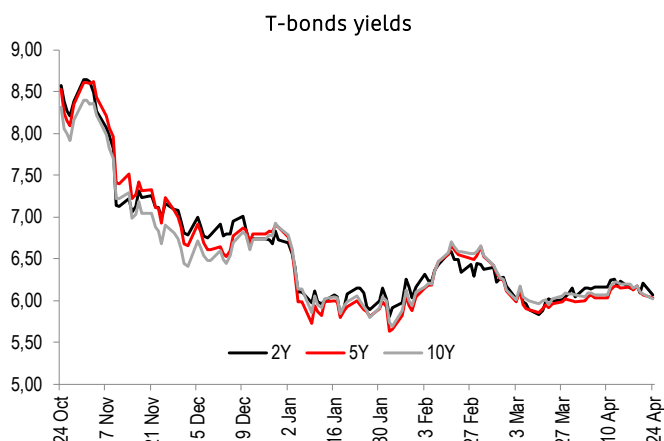
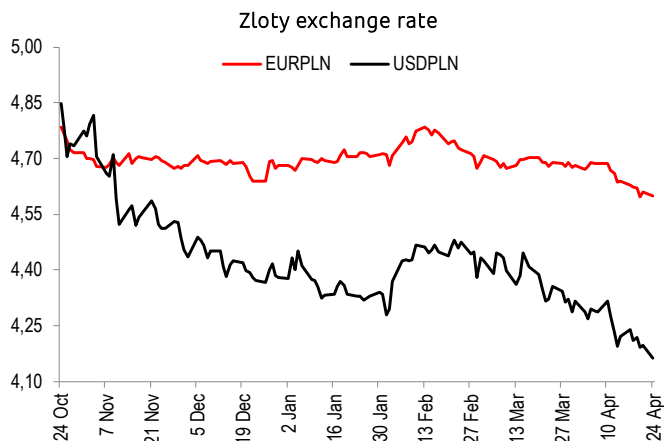
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	95	0	353	-6
France	14	0	57	6
Hungary	174	0	567	-22
Spain	50	1	104	0
Italy	46	0	187	0
Portugal	36	0	85	0
Ireland	21	2	43	2
Germany	12	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	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
<b>FRIDAY (21 April)</b>								
09:30	DE	Germany Manufacturing PMI	Apr	pts	45.7		44.0	44.7
09:30	DE	Markit Germany Services PMI	Apr	pts	53.35		55.7	53.7
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	48.0		45.5	47.3
10:00	EZ	Eurozone Services PMI	Apr	pts	54.5		56.6	55.0
10:00	PL	Employment in corporate sector	Mar	% y/y	0.6	0.5	0.5	0.8
10:00	PL	Average Gross Wages	Mar	% y/y	12.4	12.3	12.6	13.6
<b>MONDAY (24 April)</b>								
10:00	DE	IFO Business Climate	Apr	pts	93.4		93.6	93.2
10:00	PL	Sold Industrial Output	Mar	% y/y	-2.2	-1.9	-2.9	-1.2
10:00	PL	Construction Output	Mar	% y/y	0.5	1.0	-1.5	6.6
10:00	PL	PPI	Mar	% y/y	11.0	10.3	10.1	18.4
10:00	PL	Retail Sales Real	Mar	% y/y	-6.2	-5.5	-7.3	-5.0
<b>TUESDAY (25 April)</b>								
14:00	HU	Central Bank Rate Decision	Apr.23	%	13.0		-	13.0
14:00	PL	Money Supply M3	Mar	% y/y	7.2	7.4	-	7.4
16:00	US	Consumer Conference Board	Apr	pts	104.1		-	104.2
16:00	US	New Home Sales	Mar	% m/m	-1.3		-	1.1
<b>WEDNESDAY (26 April)</b>								
10:00	PL	Unemployment Rate	Mar	%	5.4	5.4	-	5.5
14:30	US	Durable Goods Orders	Mar	% m/m	0.7		-	-1.0
<b>THURSDAY (27 April)</b>								
	DE	Retail Sales	Mar	% m/m	0.0		-	-0.4
11:00	EZ	ESI	Apr	pct.	99.9		-	99.3
14:30	US	GDP Annualized	1Q	% Q/Q	2.0		-	2.6
14:30	US	Initial Jobless Claims	Apr.23	k	240.0		-	245.0
16:00	US	Pending Home Sales	Mar	% m/m	1.0		-	0.85
<b>FRIDAY (28 April)</b>								
10:00	PL	CPI	Apr	% y/y	15.0	14.7	-	16.1
10:00	DE	GDP WDA	1Q	% y/y	0.3		-	0.9
11:00	EZ	GDP SA	1Q	% y/y	1.3		-	1.8
14:00	DE	HICP	Apr	% m/m	0.8		-	1.1
14:30	US	Personal Spending	Mar	% m/m	-0.1		-	0.2
14:30	US	Personal Income	Mar	% m/m	0.2		-	0.3
14:30	US	PCE Deflator SA	Mar	% m/m	0.1		-	0.3
16:00	US	Michigan index	Apr	pts	63.5		-	63.5

Source: Santander Bank Polska, Bloomberg, Parkiet  
\* in the case of a revision the data is updated

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