

Eyeopener

Between FOMC and ECB

Today ECB decision, services PMIs in Europe
 FOMC raised rates by 25bp and signalled a possible pause
 MPC members again started mentioning possible rate cut this year
 Polish manufacturing did not avoid a sentiment deterioration, seen across Europe
 PLN in similar place as before the long weekend, bond yields lower

Today, the ECB decides on monetary policy parameters. The market assumes a 25bp hike after Wednesday's data confirmed a weakening in Eurozone m/m inflation and a gentle decline in core inflation (from 5.7% to 5.6% y/y). Also significant could be the signal from the ECB's credit survey of the strongest tightening of credit conditions since the 2011 debt crisis.

The FOMC raised interest rates by 25bp, as expected, while signalling a possible pause in hikes by removing from the statement the fragment about anticipated further tightening. The Fed chairman left all options open, saying that future decisions would be heavily data-dependent, but was also critical of suggestions of interest rate cuts this year, citing the slow return of inflation to the target.

The topic of interest rate cuts before the end of 2023, on the other hand, returned in remarks by Polish MPC members: **Adam Glapiński** said that he counted on the possibility of a rate cut towards the end of this year, provided that CPI and GDP continue to develop in line with the NBP's projections. According to **Henryk Wnorowski**, a fall in inflation below 10% already in 3Q will make it possible to talk more bravely about a rate cut. **Ireneusz Dąbrowski** stressed that the fall in inflation had accelerated and was faster than the MPC had assumed, which would allow it to seriously consider cutting rates after the summer holidays. **Gabriela Masłowska** also mentioned single-digit inflation prospects and its sustained downward trend. As recently as in April, the same MPC members claimed that consideration of rate cuts is premature.

The quarterly NBP Quick Monitoring survey showed a further broad deterioration in business sentiment in 1Q. Firms expect 2Q to show a slight rebound in foreign demand and a halt to the decline in domestic demand. The anticipated upturn over the horizon of one year is also based on a rebound in foreign demand. The report suggests better conditions for a decline in inflation: weakening labour demand, stabilisation of wage pressures and their lesser translation into wage hike plans than previously, expected large declines in input prices.

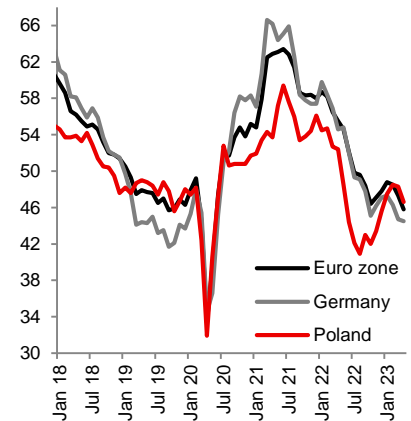
In April **Polish manufacturing PMI** fell to 46.6 pts from 48.3 pts, much below market consensus and our call, both at 47.9 pts. The April report points to a marked decline of current output and new orders, naming the month as the most challenging one so far this year. Export orders gauge was the lowest since November 2022 with respondents claiming that demand from European industry looks as if that market was in a recession. Purchasing activity was the lowest in three months amid signals that inventory levels became too high already. Companies also remained cautious in their staffing decisions. Producer optimism regarding future activity eased somewhat. On the price front, the report mentions the first drop of prices paid for inputs in seven years, transmitted to output prices. The weakness of manufacturing PMI in last two months is not only a Polish phenomenon, but is observed in majority of countries. At the same time, in most economies it is accompanied by the strength in services activity. In Poland, services PMI is not reported, but we think the situation may be similar and thus we still believe that 1Q23 was the cycle low for GDP growth. Yet, the April PMI suggests that the rebound in manufacturing sector is yet to come, and 2Q may be still a challenging period for the industry.

CPI inflation fell in April to 14.7% y/y, below market consensus at 15.0% y/y. Food price growth was particularly low for April – by historical standards – at +0.5% m/m, while in April 2022 it was as much as 4.1% m/m, which implies a huge “base effect” lowering CPI inflation now. We estimate that core inflation fell slightly to 12.1% y/y, after a rise in core prices by 1.1% m/m, which shows that the underlying price momentum remains very strong. Read more in [Economic Comment](#).

EURUSD rose after the FOMC decision and this morning is at c.1.108. **EURPLN** temporarily rose to around 4.60 during the local early May holiday break, but retreated quite quickly. Further appreciation of the zloty, in our view, could be hindered by a rebound in the dollar, an increase in geopolitical risks and a more dovish message from the MPC. **Other CE3 currencies** have already started to feel the negative change in the markets' attitude towards risk in recent days.

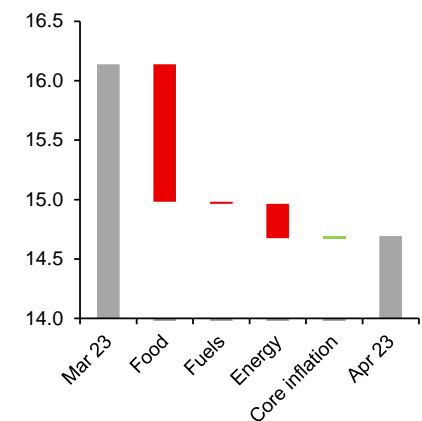
Debt market: the last few days have been marked by a slight fall in yields in the domestic market and in the core markets.

Manufacturing PMIs, pts



Source: S&P Global, Santander

Decomposition of the April change of CPI inflation, %/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5845	CZKPLN	0.1949
USDPLN	4.1377	HUFPLN*	1.2162
EURUSD	1.1085	RUBPLN	0.0522
CHFPLN	4.6856	NOKPLN	0.3856
GBPPLN	5.2027	DKKPLN	0.6153
USDCNY	6.9049	SEKPLN	0.4040

*for 100HUF

Last session in the FX market 03/05/2023

	min	max	open	close	fixing
EURPLN	4.5690	4.5917	4.5739	4.5849	4.5892
USDPLN	4.1394	4.1571	4.1511	4.1492	4.1823
EURUSD	1.1012	1.1059	1.1020	1.1046	-

Interest rate market 03/05/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.92	0
WS0428 (5Y)	5.84	0
DS1033 (10Y)	5.82	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.70	0	4.89	-12	3.64	0
2L	6.15	-1	4.08	-16	3.45	2
3L	5.69	0	3.73	-12	3.17	-2
4L	5.46	0	3.52	-12	3.04	-2
5L	5.35	0	3.39	-14	3.00	0
8L	5.26	0	3.34	-9	2.93	-1
10L	5.29	0	3.36	-7	2.93	-2

WIBOR rates

Term	%	Change (bps)
O/N	6.69	5
T/N	6.72	-2
SW	6.80	-3
2W	6.77	-3
1M	6.84	-2
3M	6.90	0
6M	6.95	-1
1Y	7.06	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.85	-1
3x6	6.75	-1
6x9	6.45	0
9x12	6.03	0
3x9	6.79	1
6x12	6.44	0

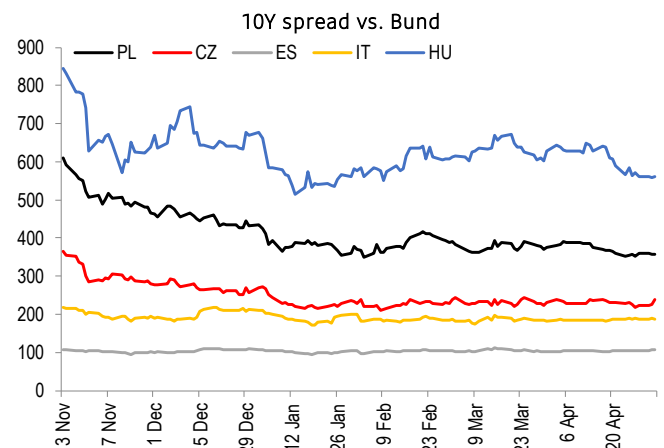
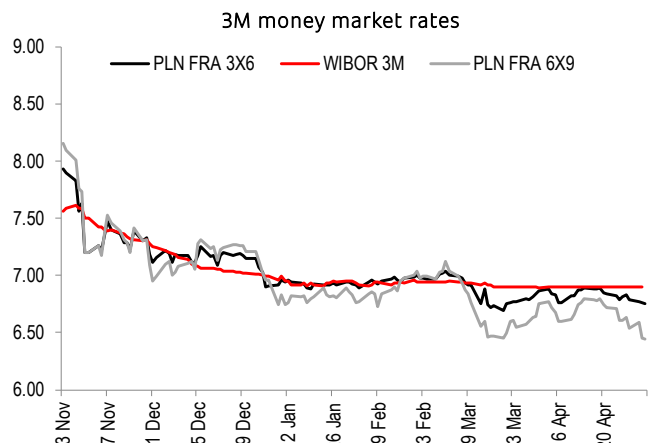
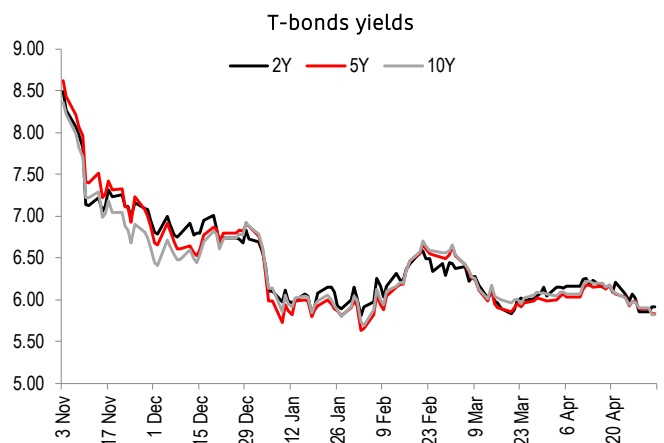
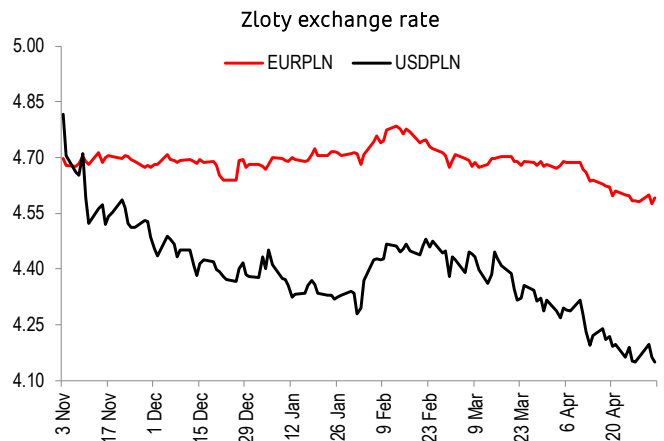
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	90	0	357	0
France	15	1	59	-1
Hungary	172	0	560	2
Spain	54	0	107	0
Italy	48	0	188	-3
Portugal	39	2	86	0
Ireland	20	-1	45	2
Germany	11	-1	-	-

* 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 (28 April)								
10:00	PL	CPI	Apr	% y/y	15.0	15.4	14.7	16.1
10:00	DE	GDP WDA	1Q	% y/y	0.3		-0.1	0.8
11:00	EZ	GDP SA	1Q	% y/y	1.4		1.3	1.8
14:00	DE	HICP	Apr	% m/m	0.8		0.6	1.1
14:30	US	Personal Spending	Mar	% m/m	-0.1		0.0	0.1
14:30	US	Personal Income	Mar	% m/m	0.2		0.3	0.3
14:30	US	PCE Deflator SA	Mar	% m/m	0.1		0.1	0.3
16:00	US	Michigan index	Apr	pts	63.5		63.5	62.0
MONDAY (1 May)								
16:00	US	ISM manufacturing	Apr	pts	46.8		47.1	46.3
TUESDAY (2 May)								
08:00	DE	Retail Sales	Mar	% m/m	0.4		-2.4	-0.3
09:00	CZ	GDP SA	1Q	% y/y	-0.5		-0.2	0.3
09:00	PL	Poland Manufacturing PMI	Apr	pts	47.9	47.9	46.6	48.3
09:55	DE	Germany Manufacturing PMI	Apr	pts	44.0		44.5	44.7
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	45.5		45.8	47.3
11:00	EZ	Flash HICP	Apr	% y/y	6.9		7.0	6.9
16:00	US	Durable Goods Orders	Mar	% m/m	3.2		3.2	-1.2
16:00	US	Factory Orders	Mar	% m/m	1.2		0.9	-1.1
WEDNESDAY (3 May)								
11:00	EZ	Unemployment Rate	Mar	%	6.6		6.5	6.6
14:15	US	ADP report	Apr	k	140		296	145
14:30	CZ	Central Bank Rate Decision			7.00		7.00	7.00
16:00	US	ISM services	Apr	pts	51.9		51.9	51.2
20:00	US	FOMC decision			5.25		5.25	5.00
THURSDAY (4 May)								
08:00	DE	Exports SA	Mar	% m/m	-2.2		-5.2	4.0
09:55	DE	Markit Germany Services PMI	Apr	pts	55.7		-	53.7
10:00	EZ	Eurozone Services PMI	Apr	pts	56.6		-	55.0
14:15	EZ	ECB Main Refinancing Rate	May.23	%	3.75		-	3.50
14:30	US	Initial Jobless Claims	Apr.23	k	245		-	230
FRIDAY (5 May)								
03:45	CN	Caixin China PMI Services	Apr	pts	57.3		-	57.8
08:00	DE	Factory Orders	Mar	% m/m	-2.5		-	4.8
08:30	HU	Industrial Production SA	Mar	% y/y	-2.8		-	-4.6
11:00	EZ	Retail Sales	Mar	% m/m	-0.3		-	-0.8
14:30	US	Change in Nonfarm Payrolls	Apr	k	180		-	236
14:30	US	Unemployment Rate	Apr	%	3.6		-	3.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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