

Eyeopener

Interest rate cuts are not discussed by the MPC

Today, flash consumer confidence for May in the US
 NBP governor: asking about rate hikes more adequate than about rate cuts
 Wages in the national economy soared 14.3% y/y in 1Q23
 Zloty under pressure of declining EURUSD, slight decline in bond yields

Today, investors will likely focus on preliminary Michigan index of US consumer confidence in May. The market expects a mild deterioration in sentiment and a lowering of inflation expectations. There will be also final data on April inflation in France and Spain. The NBP will publish minutes from the MPC meeting in April.

The message from the **NBP president's conference** was not very different than in April: the MPC has not ended the tightening cycle, all options are still on the table and next decisions will be data-dependent. Asked about the possible timing of interest rate cuts Adam Glapiński said that the question is very much premature, as inflation remains very high and there are no such considerations in the central bank at the moment. In such situation more appropriate would be – in his view – a question about conditions for rate hikes. He emphasised that the MPC would not hesitate to raise rates if inflation surprises to the upside. However, he also did not rule out that conditions for rate cuts would arise later this year, but it would require a “radical” drop in inflation and no doubts about its convergence towards the target – at this stage it is still too early to be sure about it. We still think interest rates will remain unchanged this year. Read more in the [Economic Comment](#).

Wages in the national economy rose by 14.3% y/y in 1Q23, up from 12.3% y/y in 4Q22. This is more than the average wage growth in 1Q in the enterprise sector (13.2% y/y, 12.3% in 4Q22). All the monthly readings from the enterprise sector in 1Q were stronger than expected at the time of the release and now the broader measure ('national economy' is more than 9mn people, enterprise sector is 6.5mn) added significantly to this upside surprise. It translates to a rapid acceleration of unit labour costs in 1Q to c.16% y/y (its highest since late 90s) after a stabilisation at around 13% y/y in 2H22, assuming that 1Q GDP growth was in line with our forecast (-1.5% y/y, flash release due next week). This, in turn, may mean high inflation persistence.

Inflation in Czechia declined more than forecast to 12.7% y/y. On top of that, it showed the first m/m decline since December 2020 (apart from the sharp fall in October 2022 triggered by the government's programme to protect households from rising energy prices). The reason for the rapid fall in inflation was food, with the central bank immediately cautioning against disinflationary optimism after this reading by pointing out the volatility of this CPI component.

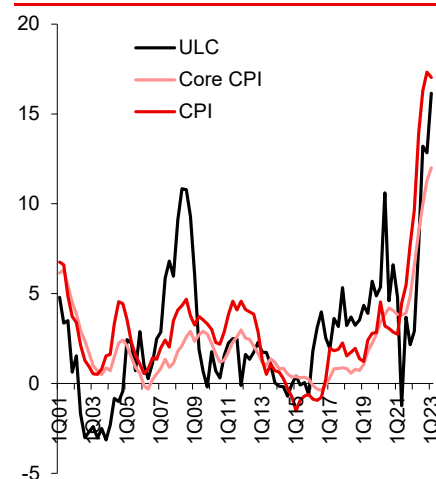
The Bank of England raised rates by 25bp and its communication seemed quite hawkish indicating that the stubbornness of inflation calls for further policy tightening (i.e. a pause in increases cannot yet be afforded). This was underlined by the new CPI forecast with a slower descent in inflation this year and no return to the target in either 2023 or 2024.

Interest rate market: Yesterday's session saw modest increases in PLN FRA6x9 and FRA9x12 rates and falls in longer-term FRA rates, which would be consistent with a more hawkish tone from the NBP president than expected and the publication of wage data. IRS swaps and bond yields fell a few basis points, on a slightly smaller scale than in the core markets. These, in turn, recorded a strengthening on the back of higher-than-forecast new jobless claims data and a deeper fall in US PPI, which could be one of the signals of weakness in the US labour market and the continuation of the disinflationary trend.

EURUSD: The dollar gained slightly during yesterday's session despite the US data, and this may have been helped by low inflation in China, which raised concerns that the reopening of the Chinese economy is as positive for economic growth as expected a few months ago.

CEE currencies: yesterday, the zloty lost the least among the region's currencies against the euro and the dollar. Despite the CNB's comments, the market reacted to the deeper fall in Czech inflation with a drop in FRA rates strengthening rate cut expectations this year weakening the CZK.

Inflation vs. unit labour costs in Poland, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5408	CZKPLN	0.1926
USDPLN	4.1558	HUFPLN*	1.2232
EURUSD	1.0925	RUBPLN	0.0543
CHFPLN	4.6475	NOKPLN	0.3902
GBPPLN	5.2042	DKKPLN	0.6095
USDCNY	6.9472	SEKPLN	0.4024

*for 100HUF

Last session in the FX market 11/05/2023

	min	max	open	close	fixing
EURPLN	4.5144	4.5431	4.5159	4.5398	4.5259
USDPLN	4.1120	4.1649	4.1138	4.1594	4.1414
EURUSD	1.0898	1.0982	1.0974	1.0914	-

Interest rate market 11/05/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.84	7
WS0428 (5Y)	5.72	-4
DS1033 (10Y)	5.76	-5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.72	2	4.89	-3	3.63	2
2L	6.14	0	4.09	-1	3.34	-3
3L	5.61	-2	3.71	-2	3.09	-5
4L	5.36	-1	3.52	-2	2.97	-5
5L	5.23	-1	3.43	-1	2.91	-5
8L	5.17	-2	3.36	-4	2.88	-6
10L	5.21	0	3.37	-6	2.90	-6

WIBOR rates

Term	%	Change (bps)
O/N	6.96	16
T/N	6.82	0
SW	6.84	-1
2W	6.85	2
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	6.85	-2
3x6	6.80	0
6x9	6.47	2
9x12	6.10	5
3x9	6.81	-1
6x12	6.45	2

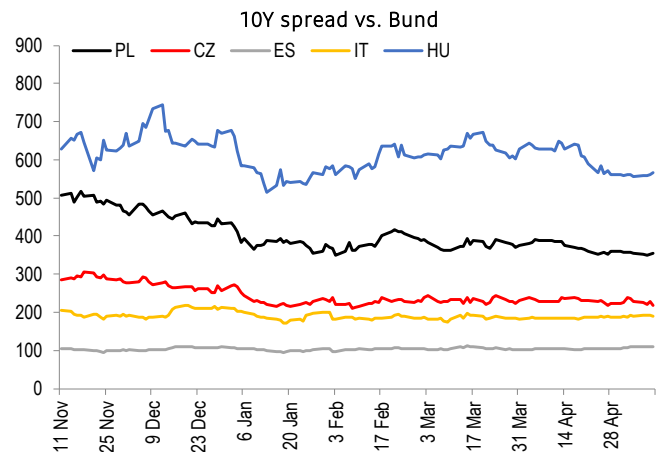
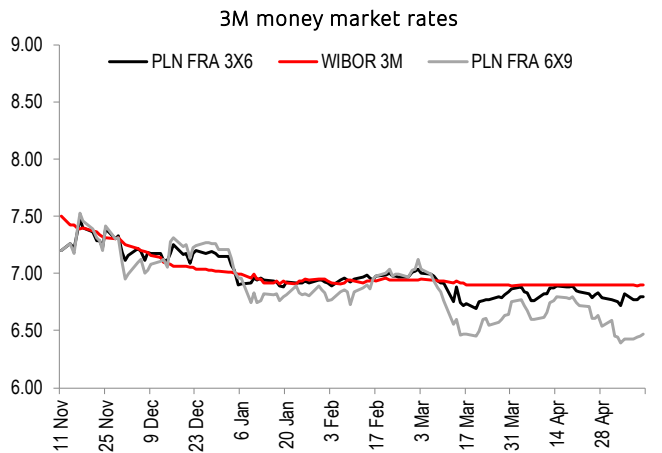
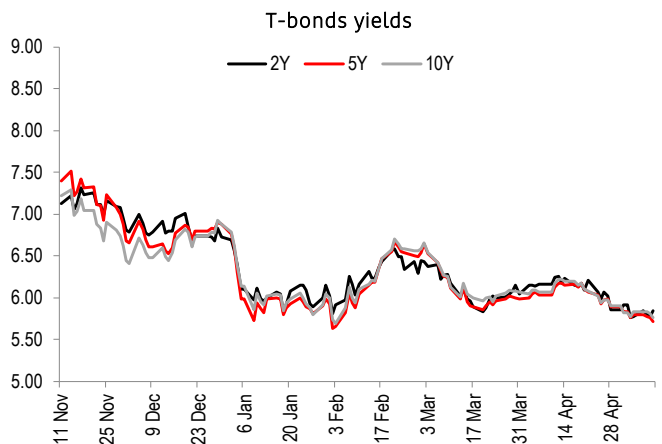
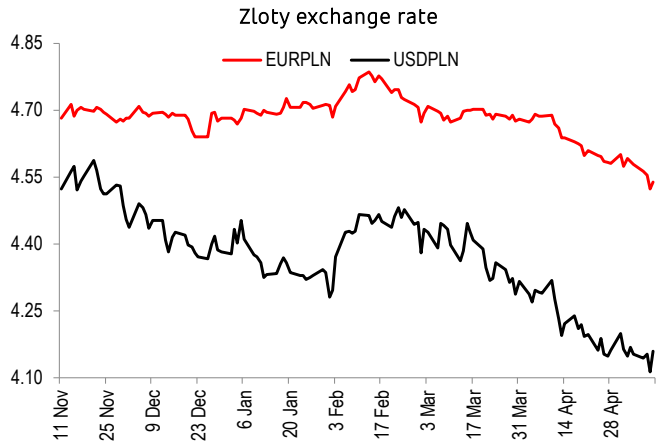
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	0	354	3
France	15	0	58	0
Hungary	172	0	566	4
Spain	54	0	109	0
Italy	49	0	190	-2
Portugal	41	0	84	-1
Ireland	20	0	47	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 (5 May)								
03:45	CN	Caixin China PMI Services	Apr	pts	57.3	56.4	57.8	
08:00	DE	Factory Orders	Mar	% m/m	-2.3	-10.7	4.8	
08:30	HU	Industrial Production SA	Mar	% y/y	-2.7	-4.0	-4.6	
11:00	EZ	Retail Sales	Mar	% m/m	-0.2	-1.2	-0.2	
14:30	US	Change in Nonfarm Payrolls	Apr	k	185	253	165	
14:30	US	Unemployment Rate	Apr	%	3.6	3.4	3.5	
MONDAY (8 May)								
08:00	DE	Industrial Production SA	Mar	% m/m	-1.4	-3.4	2.0	
TUESDAY (9 May)								
09:00	CZ	Industrial Production	Mar	% y/y	1.9	2.4	2.0	
WEDNESDAY (10 May)								
	PL	MPC decision		%	6.75	6.75	6.75	
08:00	DE	HICP	Apr	% m/m	0.6	0.6	0.6	
08:30	HU	CPI	Apr	% y/y	24.1	24.0	25.2	
14:30	US	CPI	Apr	% m/m	0.4	0.4	0.1	
THURSDAY (11 May)								
09:00	CZ	CPI	Apr	% y/y	13.3	12.7	15.0	
13:00	UK	BoE decision	May	%	4.50	4.50	4.25	
14:30	US	Initial Jobless Claims		k	240	264	242	
15:00	PL	NBP governor's press conference						
FRIDAY (12 May)								
16:00	US	Michigan index	May	pts	63.0	-	63.5	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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