

# Eyeopener

## GDP down but less than expected

Today euro zone inflation  
Polish GDP fell by 0.2% y/y, core inflation a notch lower  
Złoty close to the strongest levels since the war outbreak, yields kept rising

**Today**, HICP inflation in the euro area and US housing market data.

The **German ZEW expectations index** came in noticeably worse than expected in May, mainly due to more pessimistic expectations for economic growth. **US retail sales** data in April were also weaker than forecast. In contrast, **US industrial production** data in April were better than expectations, but the previous two months were revised downwards. In contrast, **GDP growth in the euro area** came in at 1.3% y/y and 0.1% q/q, in line with expectations.

**Polish GDP fell in 1Q23** by 0.2% y/y, and was markedly better than assumed by us (-1.5% y/y) and the market (-0.9% y/y). Seasonally adjusted growth rate amounted to +3.9% q/q after -2.3% q/q in 4Q22. As we have stated before, seasonally adjusted data have become highly volatile and thus their informative value is minimal. GDP outcome is slightly better than forecast by the NBP staff (-0.4% y/y) and thus it does not support rate cuts. Yesterday's release did not reveal any details about growth breakdown and we have to wait until 31 May. Still, the 1Q release is likely to shift forecasts for 2023 upwards. Our call at 0.7% is thus probable to move towards 1.0%. We think that 1Q23 set the trough of economic cycle in Poland and the following quarters will see an improvement, so annual GDP growth is likely to turn positive again in 2Q23 or in 2H23 at the latest.

All **core inflation** measures declined in April, with inflation ex food and energy prices down to 12.2% y/y from 12.3% y/y, ex administered prices to 14.0% y/y from 15.7% y/y, ex most volatile prices to 15.3% y/y from 16.0% y/y, 15% trimmed mean to 14.3% y/y from 15.5% y/y. Core inflation ex food and energy prices fell for the first time since June 2021 and we think that it will follow a downward trend from now on. Still, in monthly terms core prices advanced by 1.2% m/m vs 1.3% m/m, so no major decline in momentum is visible. We think core inflation is likely to go below 10% by the year-end.

The **GUS foreign trade in goods data** for March showed exports up by 5.5% y/y and imports up by 0.4% y/y, resulting in a trade deficit of €2.1bn. This is a different picture than drawn by the NBP data for the same period (exports +15.5% y/y, imports -3.0% y/y and a surplus of €0.6bn). However, significant revisions in the trade data happen often of late, so perhaps these figures will also converge over time. On the export side, the GUS showed growth to the EU of just 1.4% y/y (the weakest rate since May 2020). An important support for the export was delivered by shipments to Ukraine, with growth close to 200% (there had been a brief dip in this trade relationship a year earlier with the outbreak of war). Imports from the EU fell by 2.1% y/y, including a 7.9% y/y drop from Germany. Chinese imports were also down (-14.2% y/y), while imports from South Korea rose by 200% y/y and Saudi Arabia by nearly 80% y/y. Russia has already dropped out of Poland's top ten suppliers, so it is not included in the preliminary GUS information on foreign trade.

The **NBP's data on the housing market** showed a further deceleration in price growth trends in 1Q23. In the primary market, prices continued to rise, but at a slower rate than in previous quarters, e.g. in Warsaw by 3.9% y/y after 10.4% y/y in 4Q22, in the six largest cities by 7.8% y/y against 10.3% y/y in 4Q22, while prices in the secondary market declined, with prices in Warsaw 2.5% lower than a year earlier. Warsaw also saw a decline in the hedonic price index (i.e. prices adjusted for the quality of flats sold), by 1.9% y/y. In our view, a further price correction in the market is possible, but we do not believe it will be deep, especially as there have been signs of a rebound in demand in the housing market in recent months.

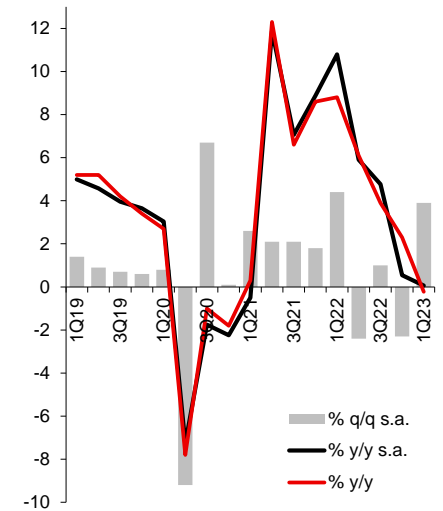
**MPC's Henryk Wnorowski** said that the planned increase of the 500+ child benefit by 60% would have a stimulating effect on inflation, noting that inflation would probably no longer be such a significant problem in Poland when the additional benefit is potentially introduced (from the start of 2024).

**EURUSD**: After a weaker opening, the dollar gained against the euro, influenced by weak data from the euro zone (ZEW) and good data from the US (production, sales). EURUSD still remains in a narrow range of 1.08-1.09 with a chance of a temporary bounce downwards, although today's property market data may not be conducive to this. Yesterday's negotiations between the US president and politicians over the debt limit failed to produce a breakthrough.

**CEE currencies**: The Czech koruna remained the weakest currency in the region, the forint strengthened slightly despite a fall in GDP, and **EURPLN** fell towards another support of 4.48 close to the strongest levels since the outbreak of the conflict in Ukraine, helped by GDP data and an upward movement in market rates.

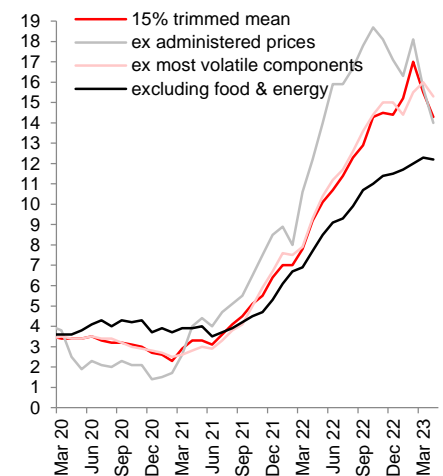
**Interest rate market**: Market rates continued their upward movement, particularly in the longer FRA rates and the IRS curve with a slightly smaller rise in bond yields. The swap auction was not very successful with quite little demand, which was perhaps not helped by the news on the prospects of fiscal easing related to the unfolding election campaign. In the short term, we see chances of sustained upward movement. Fiscal easing bidding ahead of autumn elections may slow the decline in inflation and reduce market expectations for rate cuts this year, which would be in line with our scenario for the first MPC move in 2024, contrary to the Prime Minister's prediction yesterday that a cut could occur between September and December this year.

### GDP growth



Source: GUS, Santander

### Core inflation measures, % y/y



Source: NBP, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 691 393 119  
**Cezary Chrapek, CFA** +48 887 842 480  
**Marcin Luzziński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

### FX market

#### Today's opening

EURPLN	4.4854	CZKPLN	0.1897
USDPLN	4.1317	HUFPLN*	1.2219
EURUSD	1.0857	RUBPLN	0.0512
CHFPLN	4.6055	NOKPLN	0.3843
GBPPLN	5.1479	DKKPLN	0.6022
USDCNY	6.9962	SEKPLN	0.3964

\*for 100HUF

#### Last session in the FX market 16.05.2023

	min	max	open	close	fixing
EURPLN	4.4818	4.5091	4.5068	4.4886	4.4904
USDPLN	4.1118	4.1502	4.1405	4.1318	4.1228
EURUSD	1.0853	1.0904	1.0881	1.0863	-

### Interest rate market 16.05.2023

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.02	6
WS0428 (5Y)	5.92	5
DS1033 (10Y)	5.97	11

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.77	0	5.02	4	3.69	3
2L	6.25	5	4.25	7	3.44	7
3L	5.75	6	3.86	6	3.20	6
4L	5.51	6	3.67	6	3.08	6
5L	5.38	9	3.58	5	3.03	6
8L	5.33	9	3.50	4	2.98	5
10L	5.36	10	3.51	3	3.00	5

#### WIBOR rates

Term	%	Change (bps)
O/N	6.82	-8
T/N	6.77	0
SW	6.83	0
2W	6.83	0
1M	6.87	-3
3M	6.90	0
6M	6.95	0
1Y	7.06	0

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

Term	%	Change (bps)
1x4	6.86	-3
3x6	6.82	-1
6x9	6.53	1
9x12	6.19	3
3x9	6.84	0
6x12	6.53	3

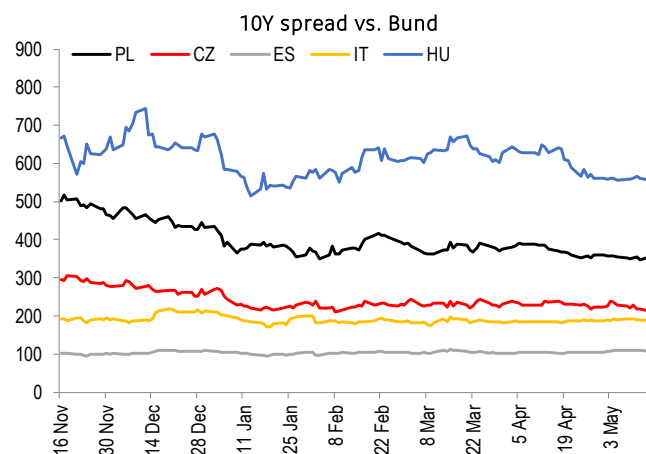
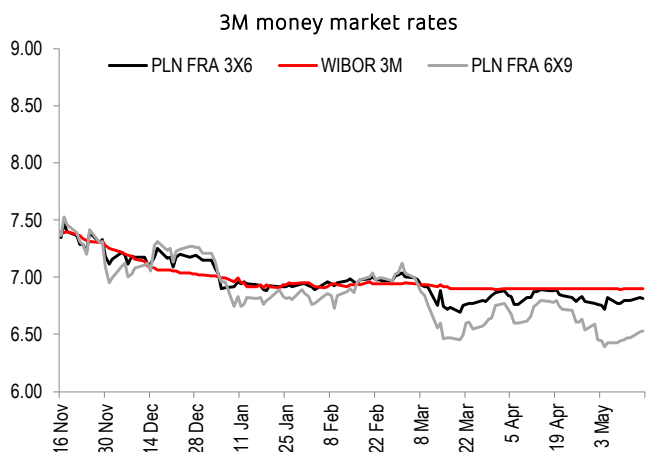
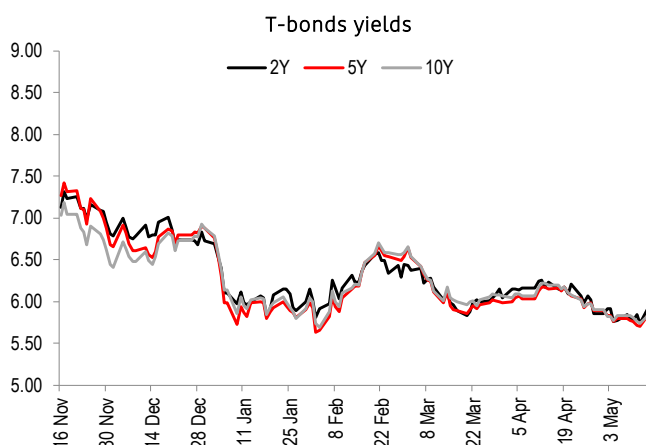
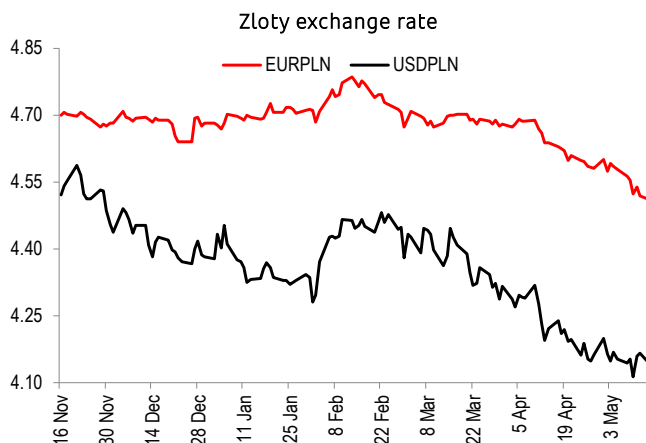
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	0	363	8
France	15	0	59	1
Hungary	172	0	546	-11
Spain	54	0	107	0
Italy	49	0	188	0
Portugal	41	0	82	-1
Ireland	20	0	49	2
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		
<b>FRIDAY (12 May)</b>							
16:00	US	Michigan index	May	pts	63.0	57.7	63.5
<b>MONDAY (15 May)</b>							
10:00	PL	CPI	Apr	% y/y	14.7	14.7	14.7
11:00	EZ	Industrial Production SA	Mar	% m/m	-1.3	-	-4.1
14:00	PL	Current Account Balance	Mar	€mn	2465	3014	1643
14:00	PL	Trade Balance	Mar	€mn	1401	1407	608
14:00	PL	Exports	Mar	€mn	28595	28064	30012
14:00	PL	Imports	Mar	€mn	27322	26657	29404
<b>TUESDAY (16 May)</b>							
08:30	HU	GDP	1Q	% y/y	-1.1	-0.9	0.4
10:00	PL	GDP	1Q	% y/y	-0.9	-1.5	-0.2
11:00	EZ	GDP SA	1Q	% y/y	1.3	1.3	1.8
11:00	DE	ZEW Survey Current Situation	May	pts	-38.0	-34.8	-32.5
14:00	PL	CPI Core	Apr	% y/y	12.2	12.1	12.2
14:30	US	Retail Sales Advance	Apr	% m/m	0.7	0.4	-0.7
15:15	US	Industrial Production	Apr	% m/m	0.0	0.5	0.4
<b>WEDNESDAY (17 May)</b>							
11:00	EZ	HICP	Apr	% y/y	7.0	-	7.0
14:30	US	Housing Starts	Apr	% m/m	-1.4	-	-0.8
<b>THURSDAY (18 May)</b>							
14:30	US	Initial Jobless Claims		k	245	-	264
16:00	US	Existing Home Sales	Apr	% m/m	-3.3	-	-2.4
<b>FRIDAY (19 May)</b>							
No major events and releases							

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.