

23 May 2023

Eyeopener

Deepening decline in industrial output

Today domestic retail sales, construction output, flash PMIs
Industrial output disappointed again, strong decline in PPI, rebound in employment
EURPLN back at 4.50 amid stable EURUSD
Small changes on the domestic interest rate market

Today, other important data from Poland: retail sales and construction production. In our view, the former could have collapsed by as much as 10% y/y in constant prices - recent months have revealed a weakness in demand, which this time will be amplified by base effect (a strong influx of refugees a year ago, boosting purchases of necessity goods). Construction output, on the other hand, may have recorded a gentle increase y/y. Also today, preliminary readings of the PMI indices for May - the market does not expect a further deterioration in the assessment of business conditions by European industry, but the levels to which these indices have already fallen (44-46 points) suggest a clear decline in activity. The Hungarian central bank decides on rates today, it made a large cut in the lending rate at its previous meeting.

Debt limit talks between President Biden and House of Representatives Speaker Kevin McCarthy failed to produce a breakthrough, but both sides assessed them as constructive, which is a good sign for the future.

The MPC's Henryk Wnorowski said that the pro-inflationary election proposals could prolong the 'wait and see' phase in monetary policy and that the current moment is not a good time to start discussing interest rate cuts. Wnorowski is rated by the market as the most hawkish of the MPC members not selected by the Senate.

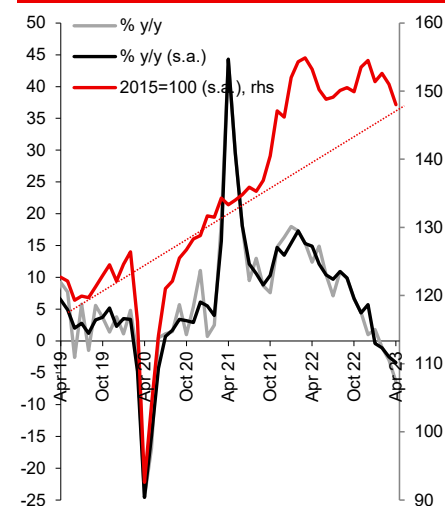
In April, apart from the fifth consecutive surprisingly weak reading of **industrial production** (-6.4% y/y against expectations of -4.3% y/y) and a strong fall in **PPI inflation** (to 6.8% y/y from 10.3%), the Polish economy showed an unexpected rebound in **employment** in the corporate sector (+0.4% y/y, with 7.5k jobs added m/m). **Wages** rose by 12.1% y/y in April, more or less in line with forecasts. A set of sectoral **business confidence indicators** for May revealed a decline in optimism and interrupted a series of improving expectations. All in all, the data bode ill for what the economy may show in 2Q, although we are still hoping for a rebound in GDP growth in that period. Read more in [Economic Comment](#).

EURUSD remained near 1.08 with higher German PPI and weaker euro zone consumer confidence data and hawkish comments from both ECB and Fed. We maintain our view that a EURUSD decline towards 1.07 is more likely in the medium term on the back of dampening expectations of US rate cuts.

CEE currencies gained amid a stable EURUSD and the zloty was again one of the best-performing currencies of the emerging economies. The correction of the zloty did not last too long and, as we signalled a few days ago, the limiting factor for the upward movement of EURPLN may be the activity of the Ministry of Finance in the market amid high level of foreign currency deposits (EUR 10 bn at the end of April). However, we did not think the correction would be so short-lived, as more depreciation might have been expected due to weak activity data. Short-term investors might have also bought the zloty as evidenced by the strengthening of the entire CEE basket. The forint gained, despite expectations of a rate cut at the end of the week, and the koruna strengthening broke the weakening trend from previous sessions.

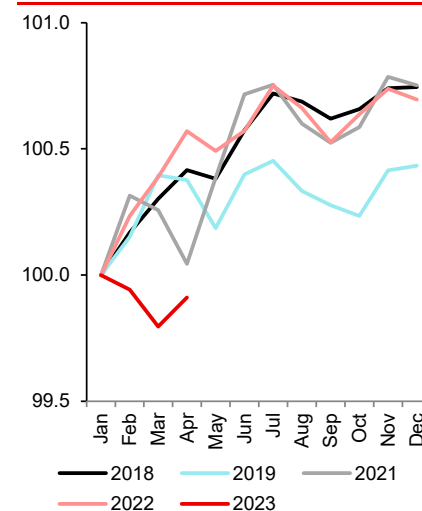
Interest rate market: FRA rates fell by 2-5 bps, while the IRS curve was not significantly changed and bond yields rose slightly. After early drop in market rates supported by weak manufacturing data and low PPI growth rate later on an upward movement dominated, supported by core markets and hawkish comments from the MPC (H. Wnorowski). In core markets, apparently hawkish comments from central bankers are still more important (yesterday J. Bullard spoke about the need for 2 rate hikes in the US, hawkish de Cos) than negative net issuance in the euro area or favourable credit developments (rating: Portugal, Ireland, elections: Greece). Today, the domestic market may again at least temporarily react with a drop in rates to weak sales data.

Industrial output in Poland



Source: GUS, Santander

Employment in the corporate sector, % y/y



Source: GUS, Santander

Economic Analysis Department:

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

FX market

Today's opening			
EURPLN	4.4965	CZKPLN	0.1894
USDPLN	4.1600	HUFPLN*	1.1913
EURUSD	1.0808	RUBPLN	0.0518
CHFPLN	4.6286	NOKPLN	0.3807
GBPPLN	5.1688	DKKPLN	0.6037
USDCNY	7.0459	SEKPLN	0.3935

*for 100HUF

Last session in the FX market 22/05/2023

	min	max	open	close	fixing
EURPLN	4.4945	4.5418	4.5409	4.4991	4.5269
USDPLN	4.1594	4.2000	4.1983	4.1637	4.1881
EURUSD	1.0794	1.0831	1.0817	1.0803	-

Interest rate market 22/05/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.00	4
WS0428 (5Y)	6.01	7
DS1033 (10Y)	6.06	8

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.81	-1	5.18	3	3.76	6
2L	6.32	-1	4.49	5	3.58	3
3L	5.85	0	4.11	5	3.36	4
4L	5.62	1	3.92	5	3.23	1
5L	5.50	2	3.80	3	3.16	3
8L	5.44	2	3.71	5	3.09	3
10L	5.47	2	3.72	7	3.10	2

WIBOR rates

Term	%	Change (bps)
O/N	6.63	-17
T/N	6.78	0
SW	6.84	0
2W	6.84	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	6.88	0
3x6	6.84	-1
6x9	6.56	-2
9x12	6.22	-4
3x9	6.86	-2
6x12	6.57	0

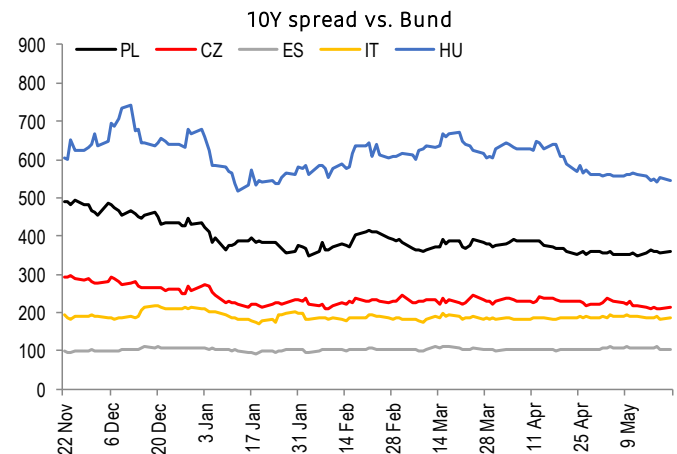
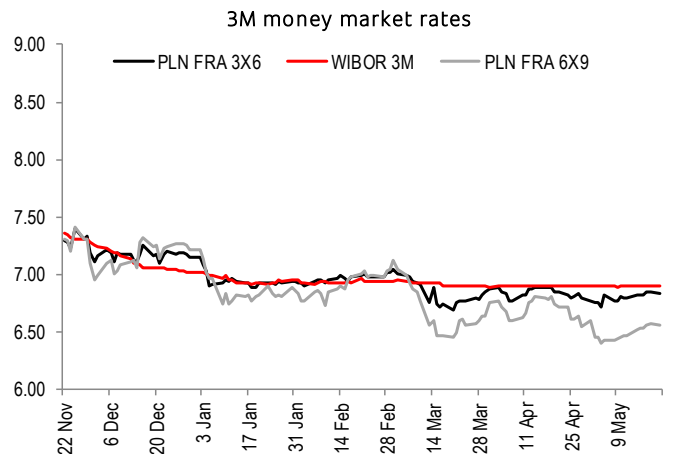
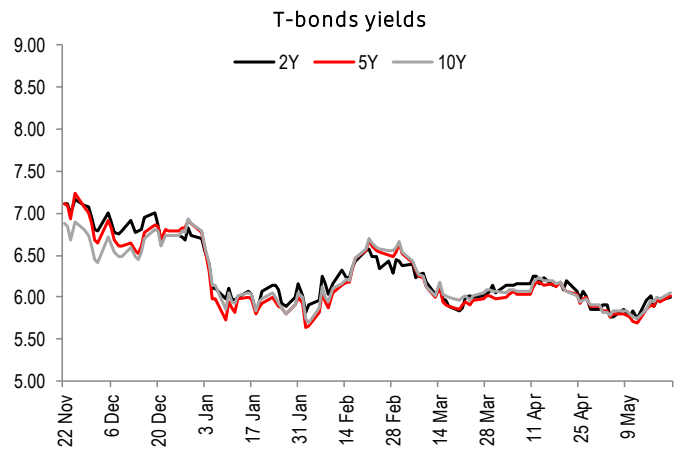
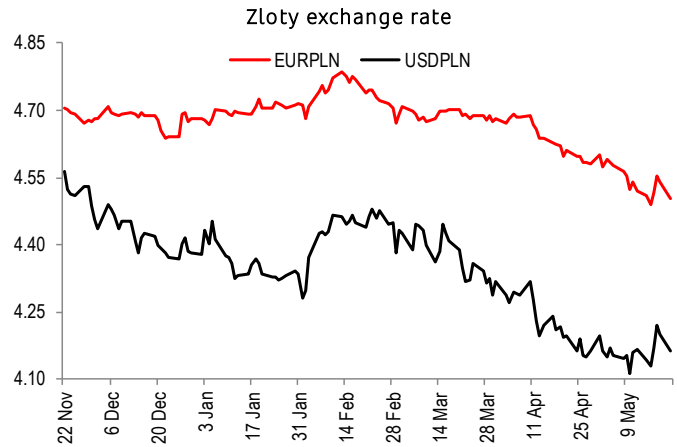
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	86	0	361	5
France	14	0	58	-1
Hungary	172	0	545	-7
Spain	53	2	105	0
Italy	47	0	185	2
Portugal	40	0	79	-1
Ireland	19	0	42	-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		
FRIDAY (19 May)							
No key data release or events							
MONDAY (22 May)							
10:00	PL	Employment in corporate sector	Apr	% y/y	0.2	0.1	0.5
10:00	PL	Sold Industrial Output	Apr	% y/y	-4.3	-4.3	-2.9
10:00	PL	PPI	Apr	% y/y	7.7	7.7	10.1
10:00	PL	Average Gross Wages	Apr	% y/y	12.1	12.2	12.6
TUESDAY (23 May)							
09:30	DE	Germany Manufacturing PMI	May	pts	45.0	-	44.5
09:30	DE	Markit Germany Services PMI	May	pts	55.0	-	56.0
10:00	EZ	Eurozone Manufacturing PMI	May	pts	46.0	-	45.8
10:00	EZ	Eurozone Services PMI	May	pts	55.5	-	56.2
10:00	PL	Construction Output	Apr	% y/y	1.9	1.8	-1.5
10:00	PL	Retail Sales Real	Apr	% y/y	-8.2	-10.0	-7.3
14:00	HU	Central Bank Rate Decision	May.23	%	13.00	-	13.00
16:00	US	New Home Sales	Apr	% m/m	-3.4	-	9.6
WEDNESDAY (24 May)							
10:00	DE	IFO Business Climate	May	pts	93.0	-	93.6
14:00	PL	Money Supply M3	Apr	% y/y	6.7	6.7	6.5
20:00	US	FOMC Meeting Minutes	May				
THURSDAY (25 May)							
08:00	DE	GDP WDA	1Q	% y/y	-0.1	-	0.9
10:00	PL	Unemployment Rate	Apr	%	5.3	5.3	5.4
14:30	US	GDP Annualized	1Q	% Q/Q	1.1	-	2.6
14:30	US	Initial Jobless Claims		k	251	-	242
16:00	US	Pending Home Sales	Apr	% m/m	-	-	-5.2
FRIDAY (26 May)							
14:30	US	Durable Goods Orders	Apr	% m/m	-1.0	-	3.2
14:30	US	Personal Spending	Apr	% m/m	0.4	-	0.0
14:30	US	Personal Income	Apr	% m/m	0.4	-	0.3
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-	0.1
16:00	US	Michigan index	May	pts	58.0	-	63.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>.