

Eyeopener

Retail sales – it should not get worse

Today consumer confidence, M3, Ifo, Fed minutes
Retail sales deep below zero, but can start rebounding, construction output in black
Flash euro zone PMIs: manufacturing still negative, services still positive
Hungary cut interest rates
EURPLN again lower, ignoring stronger dollar, core market yields higher

Today another batch of domestic data: consumer confidence in May, April money supply. We will also see if the Ifo index for Germany confirms the gloomy diagnosis for the local industry from the PMI report. In the evening the minutes of the last FOMC meeting will be released.

The flash PMI for German manufacturing showed an unexpected further decline in May. The stream of new domestic and foreign orders weakened markedly, with companies reducing purchases and consuming inventories. The assessment of future production also deteriorated (due to a six-point decline, the index slipped below the neutral level of 50 points). On the other hand, the German services sector was doing well in May - it benefited from an improvement in demand, was willing to increase employment and is optimistic about the possibility of doing business in the future. The consequence, however, is that it is not retreating in the price indexes, which, with the cost index still high, implies the persistence of inflation. The indicators for the euro zone as a whole also showed an industrial recession and a solid upturn in services. The PMI report for the US also showed industrial problems (albeit smaller) and solid demand in services.

Retail sales dropped in April by 7.3% y/y, the same as in March and less than expected. The seasonally adjusted data even showed an improvement by 1.1% m/m. We think that retail sales will soon begin to rebound, driven initially by more sanguine consumer confidence and then also by improving real wages. Polish **construction output** rose by 1.2% y/y in April, a bit less than we had expected, but the sector may keep showing positive output growth this year. Negative trends still dominate the housing market. Read more in [Economic Comment](#).

The NBP has shown its estimates of the impact of the main parties' election campaign proposals on the main economic indicators. According to the analysis, the ruling party's (PiS) proposals would add 0.1-0.3 percentage points to the CPI in the next two years, the main opposition party's (PO) proposals: 0.3-0.8 pp.

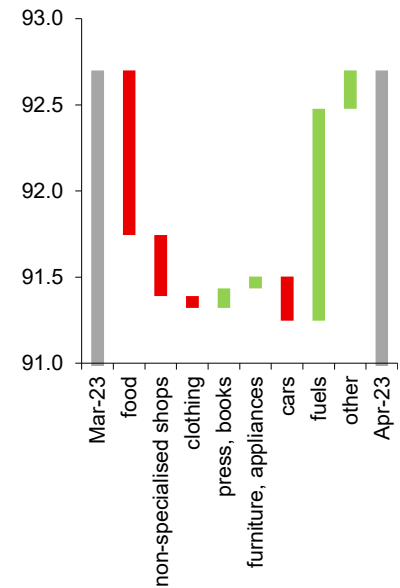
EURUSD fell to 1.075 yesterday, dragged by weak composite PMI reading for the euro area versus an increase for the US and a better Philly Fed for services, leading to a widening gap between US and German short-term yields. The stronger dollar against the euro is in line with our forecasts for the coming months.

As expected, **the Hungarian central bank** kept its benchmark rate at 13%, but **cut by 100 bps the 1-day deposit rate** to 17% from 18% and the upper band ON rate to 19.5%. Such a move had been signalled by the MNB for some time, and the official statement justified the decision by a decline in risk aversion, improvement in current account and fiscal indicators. According to the MNB, inflation will fall to 3-5% y/y, i.e. to the 3% target already in 2024, and the process of convergence of short-term rates to the reference rate will continue. On the other hand, according to the MNB, rates still need to remain high in order to mitigate fundamental inflationary risks (despite the decline, annual CPI growth is still 24% y/y). The market expects further rate cuts in the coming months

CEE currencies: the zloty remains one of the strongest emerging market currencies against the euro in May and the second strongest alongside the rand this week. It is difficult to unequivocally identify the main reason for the zloty's strength. The domestic currency may have been supported by a further increase in market rates, particularly basis swap rates. Although Finance Minister M. Rzeczkowska insisted that the Finance Ministry was not present in the market, some activity from BGK could not be ruled out. In the background, there is still a significant improvement in terms of trade, although the signals for exports are already weaker than in 1Q, and EURPLN volatility increased somewhat. A risk factor for the zloty will certainly be the CJEU ruling in mid-June, but it is possible that the market will focus attention on this event later. **The forint** weakened in the first part of the day in anticipation of the rate cut decision, but hawkish comments from governors Matolcsy and Virag helped limit HUF losses.

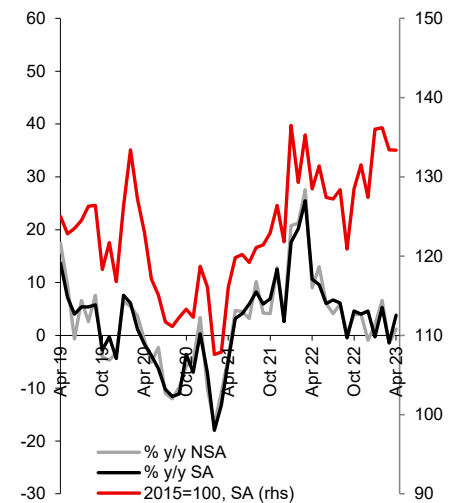
Interest rate market: Market rates rose slightly by around 2-4 bps on the longer FRA tenors, the IRS curve and in bond yields. This was partly the result of still rising market rates in the core markets, but also partly the result of slightly stronger sales data and anticipation of Thursday's upcoming auction. Dome drop in rates may be triggered by the publication of the preliminary CPI reading only at the end of the month (our estimates for May so far point to the vicinity of 13.4% y/y vs. 14.7% in April).

Retail sales, annual growth breakdown, corresponding period of the previous year = 100



Source: GUS, Santander

Construction output in Poland



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4866	CZKPLN	0.1891
USDPLN	4.1588	HUFPLN*	1.1844
EURUSD	1.0787	RUBPLN	0.0519
CHFPLN	4.6154	NOKPLN	0.3795
GBPPLN	5.1763	DKKPLN	0.6022
USDCNY	7.0497	SEKPLN	0.3917

*for 100HUF

Last session in the FX market 23/05/2023

	min	max	open	close	fixing
EURPLN	4.4780	4.5076	4.4968	4.4855	4.4981
USDPLN	4.1564	4.1851	4.1606	4.1645	4.1634
EURUSD	1.0761	1.0812	1.0810	1.0769	-

Interest rate market 23/05/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.12	12
WS0428 (5Y)	6.04	3
DS1033 (10Y)	6.10	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.81	0	5.18	1	3.78	1
2L	6.33	1	4.49	0	3.60	2
3L	5.87	1	4.10	-1	3.38	2
4L	5.63	1	3.90	-2	3.25	2
5L	5.51	1	3.78	-2	3.18	2
8L	5.45	1	3.67	-4	3.11	2
10L	5.48	1	3.67	-5	3.12	2

WIBOR rates

Term	%	Change (bps)
O/N	6.75	12
T/N	6.80	2
SW	6.84	0
2W	6.83	-1
1M	6.83	-3
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	6.86	2
6x9	6.54	-1
9x12	6.26	4
3x9	6.89	2
6x12	6.54	-3

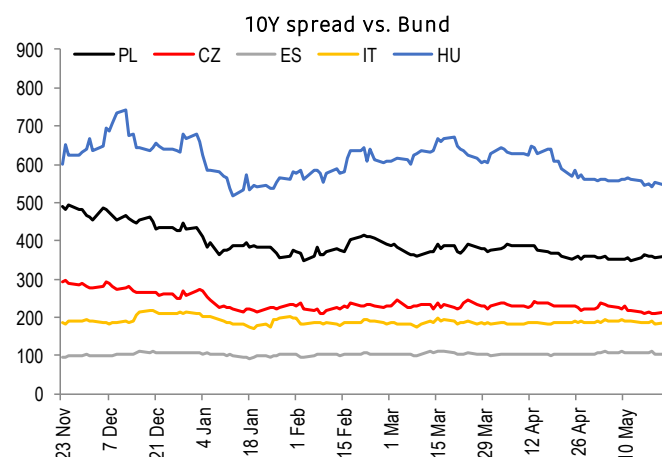
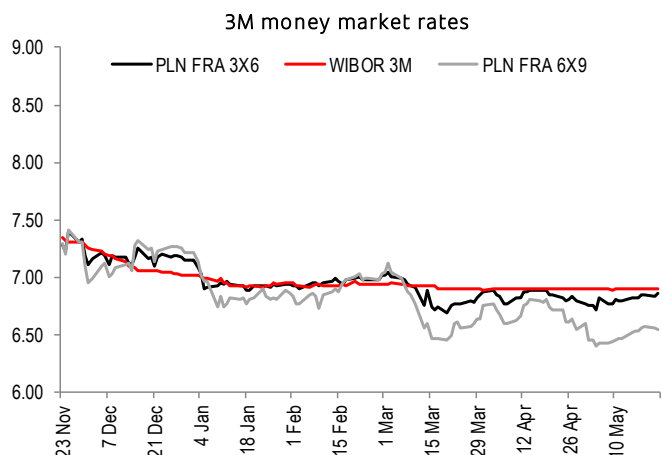
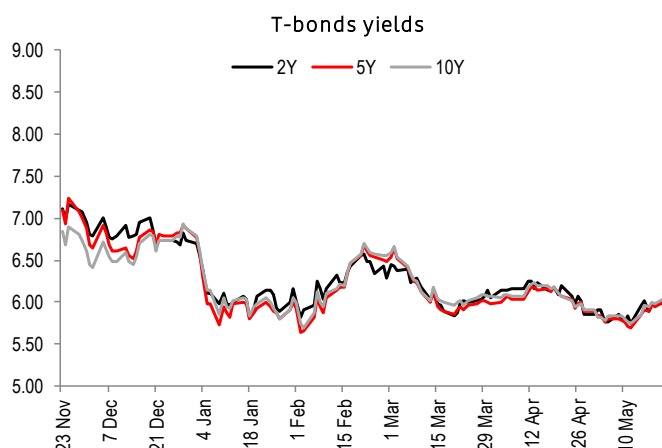
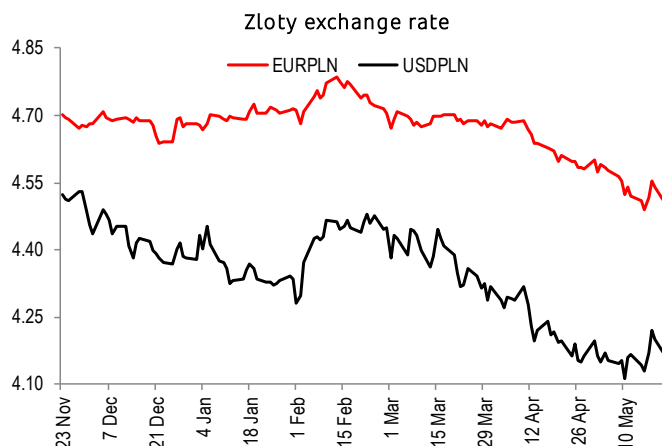
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	86	0	364	3
France	14	0	58	0
Hungary	172	0	556	11
Spain	53	0	105	0
Italy	47	0	186	1
Portugal	40	0	78	-1
Ireland	19	0	41	-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 (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	0.4	0.5
10:00	PL	Sold Industrial Output	Apr	% y/y	-4.3	-4.3	-6.4	-3.0
10:00	PL	PPI	Apr	% y/y	7.7	7.7	6.8	10.3
10:00	PL	Average Gross Wages	Apr	% y/y	12.1	12.2	12.1	12.6
TUESDAY (23 May)								
09:30	DE	Germany Manufacturing PMI	May	pts	45.0	-	42.9	44.5
09:30	DE	Markit Germany Services PMI	May	pts	55.0	-	57.8	56.0
10:00	EZ	Eurozone Manufacturing PMI	May	pts	46.0	-	44.6	45.8
10:00	EZ	Eurozone Services PMI	May	pts	55.5	-	55.9	56.2
10:00	PL	Construction Output	Apr	% y/y	1.9	1.8	1.2	-1.5
10:00	PL	Retail Sales Real	Apr	% y/y	-8.2	-10.0	-7.3	-7.3
14:00	HU	Central Bank Rate Decision	May.23	%	13.00	-	13.00	13.00
16:00	US	New Home Sales	Apr	% m/m	-3.4	-	4.1	4.0
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

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