

26 May 2023

# Eyeopener

## US data in focus

Today PCE inflation and data on consumers in the USA

Improved estimates of US GDP in 1Q23

EURPLN still stable despite declining EURUSD

Domestic yields remain in upward trend

**Today**, an important set of data from the US covering both inflation (PCE price index for April) and consumption (May consumer sentiment and their April income and spending).

**Polish industrial new orders** were down 10.6% y/y in April, export orders down 3.7% y/y. Both indicators were noticeably weaker than in March. Data on **the registered unemployment rate** showed that it stood at 5.2% in April rather than the 5.3% estimated by the Ministry of Labour, and was therefore 0.4 pp lower than a year earlier, just like in March. We were also positively surprised by the second measure of unemployment, from the **LFS survey** - it also showed no rebound in the unemployment rate in 1Q relative to 4Q last year (2.9%).

**MPC's Ireneusz Dąbrowski** assessed that there may be room for an interest rate cut in November or December this year (but rather not before), if the inflation decline proves to be fast enough. In his view, CPI will reach 5-7% y/y by the end of the year; we are afraid that inflation may be stuck near 10% y/y.

**US Q1 GDP** was revised upwards (+1.3% q/q instead of 1.1%). The higher estimate came on the back of private consumption rebounding by 3.8% q/q and a smaller than initially calculated decline in investment (-0.2% q/q). Weekly data on **new jobless claims** surprised with a lower number and the previous weeks' readings were revised downwards. Consequently, the previous alarming reading, which was perceived as an early signal of deterioration in the US labour market, now raises no worries at all.

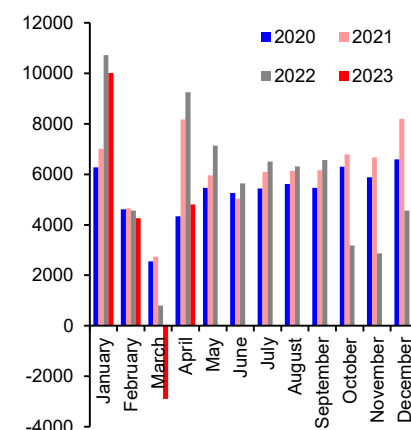
After April, the central budget showed a deficit of **PLN10bn**, i.e. in April alone saw the surplus of PLN2bn - slightly less than the average for the month. Revenues rose by 2.1% y/y in April, with VAT up by around 20% y/y, PIT down by 48% y/y and CIT down by 14% y/y. Revenue from excise duties (0.9% y/y) and non-tax revenue (32.8% y/y) increased. The weak performance of personal income tax is a result of increased tax returns this year. Budgetary expenditures increased by 22% y/y, including domestic debt servicing by 56.5% y/y, the subsidy to social security fund (FUS) by 51.4% y/y. The full-year deficit was assumed at PLN65bn in the budget act and we believe that meeting this target is not at risk. In contrast, the deficit of the entire public sector may exceed 5% of GDP, in our opinion.

**EURUSD** continued its decline touching temporarily 1.07, helped by recessionary Germany 1Q GDP data and strong data from the US, dampening expectations for US rate cuts this year in line with our scenario.

**CEE currencies:** the zloty lost ground slightly, but remains strong around 4.50 to the euro. The Czech koruna, on the other hand, gained, continuing the correction of the previous weeks' weakening, the scale of which may have been a bit too rapid from the Czech central bank's point of view.

**Interest rate market:** Domestic interest rates continued the upward trend valid since the past several days. FRA rates rose by 2-5bp, IRS by 3-6bp and bond yields by 6-8bp. Partly contributing to this movement was the behaviour of the core markets with US Treasuries yields rising slightly more than Bunds in response to solid US data and Fitch placing the US AAA rating on a negative watch list. **The bond auction was quite** successful. The Ministry of Finance sold bonds worth PLN7bn, the upper end of the announced range of PLN4-7bn, with demand of PLN8.2bn and the highest bid-to-cover for 10-year bonds at 1.35. The proceeds from the issue covered the MF's May interest payments. After the auction, bond prices continued to fall. The Ministry of Finance reported that it had financed 85% of this year's borrowing needs. We think that the upward trend in rates may be losing momentum ahead of the publication of next week's inflation data for May, which may show further decline in annual rate. However, in the baseline scenario we assume that there will be no interest rate cuts this year, so there is still room for medium-term FRAs (~5x8) to rise. Meanwhile, the approaching CJEU ruling on the CHF issue (15 June) and further developments in the election campaign could lead to a widening of long-term asset swap spreads.

Budget PIT revenues by month, PLN mn



Source: MF, Santander

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**FX market**

**Today's opening**

EURPLN	4.5029	CZKPLN	0.1904
USDPLN	4.1959	HUFPLN*	1.2074
EURUSD	1.0733	RUBPLN	0.0525
CHFPLN	4.6362	NOKPLN	0.3800
GBPPLN	5.1798	DKKPLN	0.6043
USDCNY	7.0525	SEKPLN	0.3884

\*for 100HUF

**Last session in the FX market 25/05/2023**

	min	max	open	close	fixing
EURPLN	4.4973	4.5133	4.5073	4.5035	4.503
USDPLN	4.1904	4.2138	4.1996	4.1996	4.1994
EURUSD	1.0706	1.0743	1.0734	1.0723	-

**Interest rate market 25/05/2023**

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.17	17
WS0428 (5Y)	6.11	8
DS1033 (10Y)	6.17	6

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.81	1	5.39	13	3.85	5
2L	6.35	3	4.71	14	3.69	6
3L	5.89	4	4.31	13	3.48	7
4L	5.65	4	4.10	13	3.34	6
5L	5.55	6	3.98	11	3.26	6
8L	5.47	4	3.85	10	3.17	5
10L	5.52	5	3.83	10	3.17	5

**WIBOR rates**

Term	%	Change (bps)
O/N	6.57	-18
T/N	6.82	0
SW	6.84	0
2W	6.85	1
1M	6.85	1
3M	6.90	0
6M	6.95	0
1Y	7.06	0

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

Term	%	Change (bps)
1x4	6.89	0
3x6	6.86	2
6x9	6.53	2
9x12	6.26	4
3x9	6.91	4
6x12	6.53	2

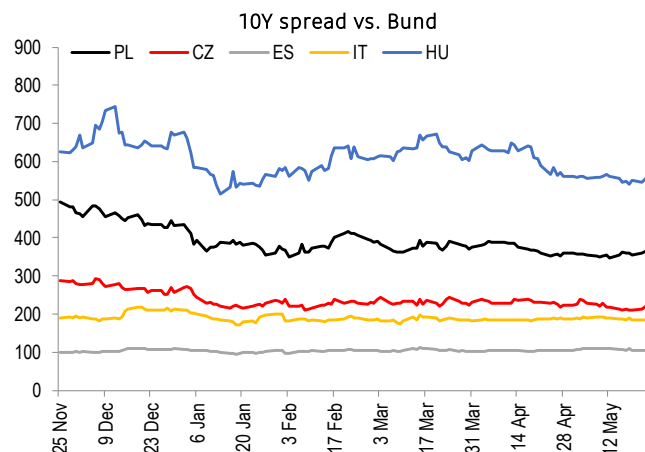
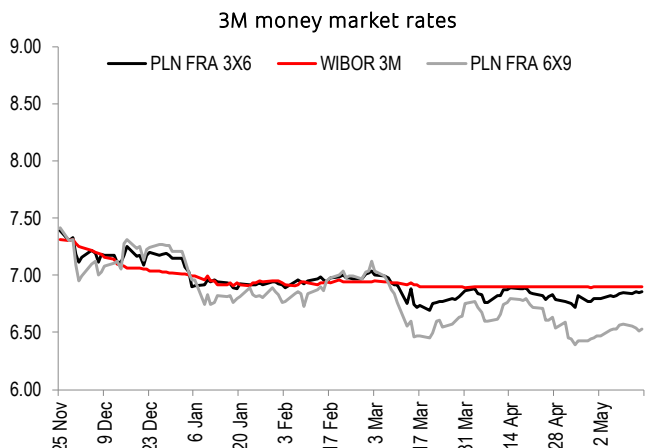
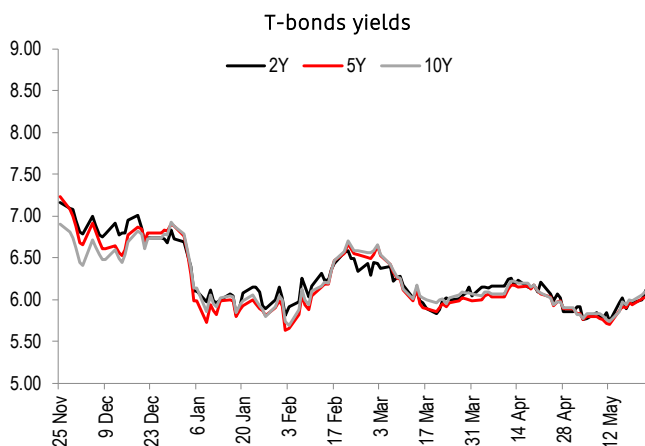
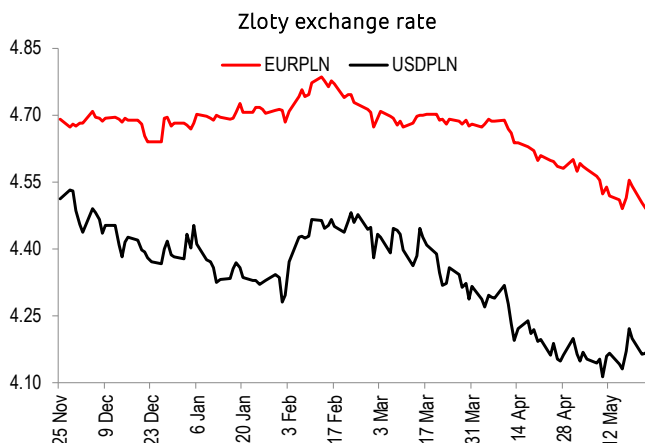
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	81	-4	368	3
France	13	0	59	0
Hungary	177	0	568	9
Spain	53	0	107	0
Italy	46	-1	186	-1
Portugal	40	0	76	-2
Ireland	18	0	45	2
Germany	10	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 (19 May)</b>								
No key data release or events								
<b>MONDAY (22 May)</b>								
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
<b>TUESDAY (23 May)</b>								
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
<b>WEDNESDAY (24 May)</b>								
10:00	DE	IFO Business Climate	May	pts	93.0	-	91.7	93.6
14:00	PL	Money Supply M3	Apr	% y/y	6.7	6.7	6.7	6.5
20:00	US	FOMC Meeting Minutes	May					
<b>THURSDAY (25 May)</b>								
08:00	DE	GDP WDA	1Q	% y/y	-0.1	-	-0.3	-0.5
10:00	PL	Unemployment Rate	Apr	%	5.3	5.3	5.2	5.4
14:30	US	GDP Annualized	1Q	% Q/Q	1.1	-	1.3	2.6
14:30	US	Initial Jobless Claims		k	251	-	229	225
16:00	US	Pending Home Sales	Apr	% m/m	1.0	-	0.0	-5.2
<b>FRIDAY (26 May)</b>								
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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