14 June 2023

Eyeopener

Waiting for the Fed

Today, industrial production in the euro zone, FOMC decision
Current account in surplus in April, but well below forecast
Government approved assumptions for 2024 budget
Zloty and bonds weaker

Today, euro zone industrial production data for April and the FOMC interest rate decision. It is broadly expected that the FOMC will take a pause in rate hikes, which will not necessarily mean an end to the tightening cycle. In our view, the Fed may maintain a hawkish tone, but new macroeconomic forecasts and the expected future level of interest rates (the so-called dot plot) will also be important.

German ZEW index showed an improvement in June business expectations, but with a marked deterioration in the assessment of the current situation. The expectations index for the euro area as a whole also looked weaker. **US CPI inflation** in May eased to 4.0% y/y from 4.9% y/y and was slightly below forecasts. Core inflation also declined, to 5.3% y/y from 5.5% y/y, but was higher than expected. The data were therefore mixed and pointed to still quite strong price pressures.

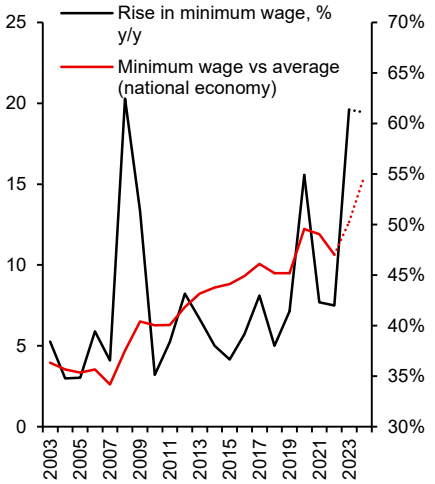
The government presented **macroeconomic assumptions for next year's budget**. GDP growth in 2024 was assumed at 3%, CPI inflation at 6.6%, wage growth at 9.7% and employment at 1.1%. These assumptions are roughly in line with our forecasts, although we expect slightly higher GDP growth and inflation. The government also wants to propose a 6.6% increase in wages in the public sector in 2024. It also plans to **raise the minimum wage** to PLN4242 in January 2024 and to PLN4300 in July 2024 (currently, the minimum wage is PLN3490, in July it will increase to PLN3600). The average annual minimum salary will therefore increase by 20.5%. In our view, in such a situation, it the average wage growth is unlikely to slow to single-digit levels. However, if the government's wage growth forecast (9.7%) is accurate, the minimum wage will reach almost 55% of the average wage in the national economy. For the smallest companies, which are not included in the GUS wage data, this relation will be significantly higher. Rising labour costs will therefore be a challenge for firms, especially the smallest ones, in 2024, while at the same time being an important pro-inflationary factor.

Current account printed a surplus of €0.4bn in April, way below expectations (we: €1.5bn, market: €1.6bn). Downward surprise stemmed mainly from rather weak exports (+2.4% y/y), while imports were slightly higher than we expected (-8.8% y/y). Export was undermined by weak results of Polish industry and slower growth in Poland's main trading partners. According to the NBP, exports of cars and batteries were outperforming, while other categories, especially durable consumer goods and intermediate goods were lagging behind. Imports were dragged lower by declining prices of imported energy commodities and lower purchases of agriculture goods from Ukraine. Other current account categories were roughly in line with our expectations, with services balance at €3.1bn, primary incomes at -€2.7bn and secondary incomes at -€0.3bn. 12M current account improved to -0.7% of GDP from -1.3% in March. In our view, this measure will improve further in the months to come, mainly thanks to low statistical base effect, but we think it is likely that the monthly current account balances will turn negative in 2H23, as the domestic demand will be recovering, supporting imports. Export, on the other hand, can remain under pressure due to weaker economic prospects of Poland's main trading partners, especially Germany.

Yesterday saw the correction of the zloty against the euro, which we had expected for this week, but the **EURPLN** exchange rate, after rising by around 0.9%, only reached the levels quoted last Thursday, so the scale of the correction given the earlier strengthening does not seem exceptional. The zloty was not supported by weaker current account data and the anticipation of Thursday's CJEU ruling, and we believe that further deterioration in the current account could negatively impact the zloty in the coming months. USDPLN rose less, to 4.14, against a further rise in EURUSD, which in turn was supported by expectations of lower inflation reading in the USA and the subsequent materialisation of these expectations. The EURHUF and EURCZK rates also rose slightly on further declines in local market rates.

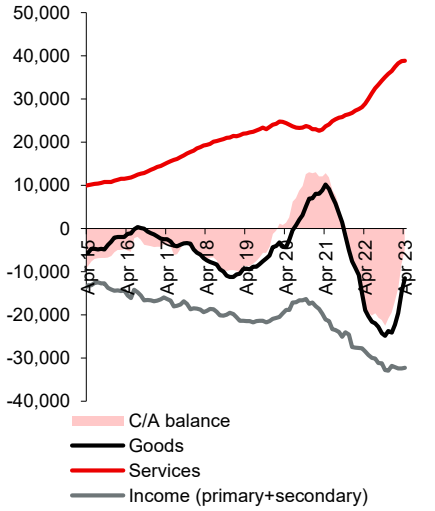
In the domestic interest rate market, there were small increases in FRA rates, IRS rates and bond yields (2-5 bps), supported by announcements of a significant increase in the minimum wage and the earlier approved budget amendment, increases in yields on core markets and anticipation of Friday's bond auction. Later in the week, the upward movement may continue with support from the Fed's 'hawkish pause' and a potentially hawkish message from ECB's Christine Lagarde.

Minimum wage vs average wage



Source: GUS, Santander

C/A balance of Poland, €bn, 12m sums



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.4845	CZKPLN	0.1878
USDPLN	4.1575	HUFPLN*	1.1979
EURUSD	1.0786	RUBPLN	0.0492
CHFPLN	4.5935	NOKPLN	0.3896
GBPPLN	5.2424	DKKPLN	0.6016
USDCNY	7.1644	SEKPLN	0.3886

*for 100HUF

Last session in the FX market 13/06/2023

	min	max	open	close	fixing
EURPLN	4.4423	4.4883	4.4426	4.4779	4.4783
USDPLN	4.1179	4.1621	4.1207	4.1500	4.1439
EURUSD	1.0776	1.0823	1.0780	1.0791	-

Interest rate market 13/06/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.92	1
WS0428 (5Y)	5.82	5
DS1033 (10Y)	5.98	5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.50	3	5.48	5	3.82	6
2L	5.93	2	4.85	8	3.69	12
3L	5.48	2	4.44	9	3.46	12
4L	5.26	4	4.20	12	3.29	11
5L	5.16	3	4.06	12	3.14	6
8L	5.15	4	3.85	8	3.02	4
10L	5.20	3	3.82	8	3.02	4

WIBOR rates

Term	%	Change (bps)
O/N	6.61	-7
T/N	6.80	1
SW	6.84	1
2W	6.84	0
1M	6.89	3
3M	6.90	0
6M	6.95	0
1Y	7.01	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.84	2
3x6	6.64	3
6x9	6.13	4
9x12	5.73	6
3x9	6.66	3
6x12	6.11	4

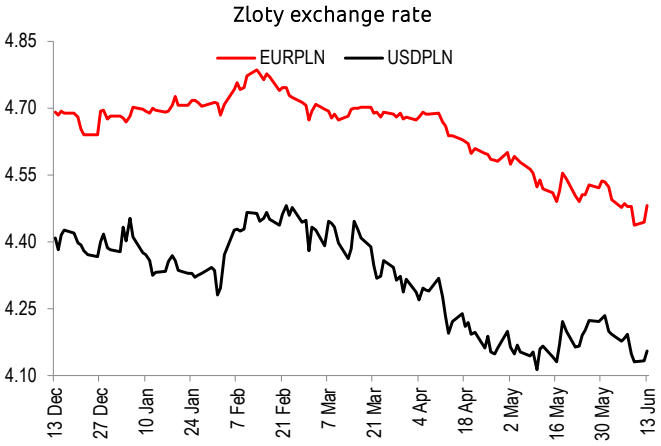
Measures of fiscal risk

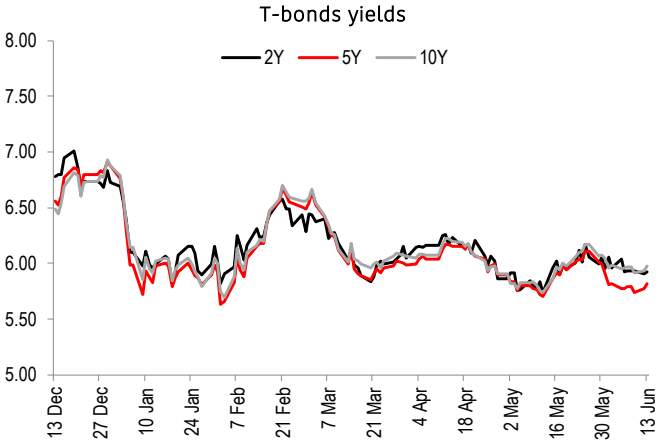
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	78	0	355	0
France	13	-1	53	0
Hungary	172	0	474	-10
Spain	49	-2	95	0
Italy	39	0	164	-4
Portugal	37	-1	68	-1
Ireland	17	-1	36	-1
Germany	10	0	-	-

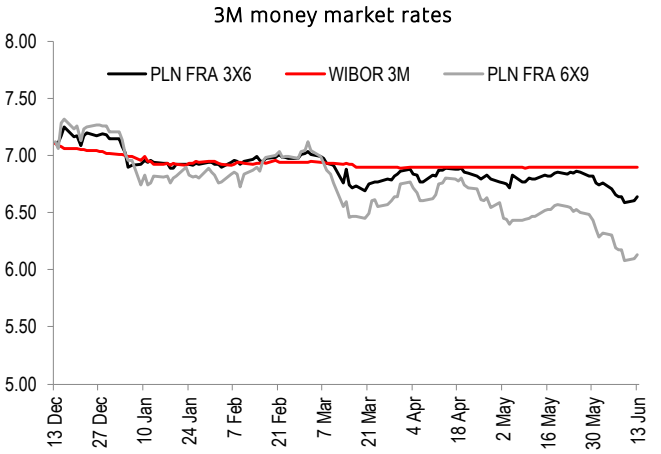
* 10Y treasury bonds over 10Y Bunds

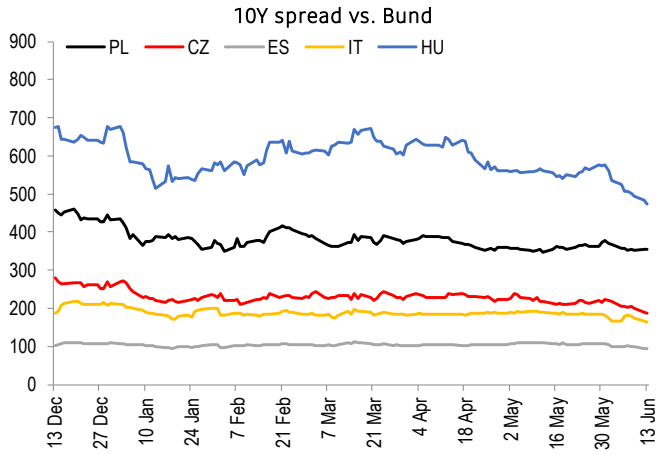
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream









Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (9 June)					
		No key data releases						
			MONDAY (12 June)					
09:00	CZ	CPI	May	% y/y	10.8	-	11.1	12.7
			TUESDAY (13 June)					
08:00	DE	HICP	May	% m/m	-0.1	-	-0.1	0.6
11:00	DE	ZEW Survey Current Situation	Jun	pts	-40.0	-	-56.5	-34.8
14:00	**PL**	**Current Account Balance**	**Apr**	**€mn**	**1600**	**1545**	**359**	**1643**
14:00	**PL**	**Trade Balance**	**Apr**	**€mn**	**1434**	**1487**	**209**	**608**
14:00	**PL**	**Exports**	**Apr**	**€mn**	**27788**	**27475**	**26337**	**30012**
14:00	**PL**	**Imports**	**Apr**	**€mn**	**26020**	**25988**	**26128**	**29404**
14:30	US	CPI	May	% m/m	0.2	-	0.1	0.4
			WEDNESDAY (14 June)					
11:00	EZ	Industrial Production SA	Apr	% m/m	0.8	-		-4.1
20:00	US	FOMC decision	Jun.23		5.25	-		5.25
			THURSDAY (15 June)					
9:30	**PL**	**CJEU ruling**	**May**	**mn PLN**				
10:00	**PL**	**CPI**	**May**	**% y/y**	**13.0**	**13.0**		**14.7**
14:15	EZ	ECB Main Refinancing Rate	Jun.23	%	4.00	4.00		3.75
14:30	US	Initial Jobless Claims	Jun.23	k	250	-		261
14:30	US	Retail Sales Advance	May	% m/m	0.0	-		0.4
15:15	US	Industrial Production	May	% m/m	0.1	-		0.5
			FRIDAY (16 June)					
11:00	EZ	HICP	May	% y/y	6.1	-		7.0
14:00	**PL**	**CPI Core**	**May**	**% y/y**	**11.5**	**11.4**		**12.2**
16:00	US	Michigan index	Jun	pts	60.0	-		59.2

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*

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