24 July 2023

Eyeopener

Still waiting for a substantial retail sales rebound

Today flash PMIs for Germany and Eurozone, M3 money supply in Poland
Polish retail sales and business sentiment without major changes
General government debt dropped to 48.1% of GDP
USDPLN back above 4.00, domestic bond yields down a bit

Today, July Flash PMI readings for manufacturing and services in Germany and the euro area will be released. For both economies, the market expects minimal increases in the manufacturing index and slight decreases in the services index. A positive surprise in European manufacturing would be an important signal, but we think it is still too early for it. The already published Flash PMIs for Japan showed a slight decline in manufacturing (to 49.4 pts from 49.8 pts), which is only its second reading below 50 pts, and stable sentiment in services (53.9 pts) clearly above the neutral level. In Australia, the manufacturing index rebounded markedly (to 49.6 pts from 48.2 pts), while sentiment in services weakened (48.0 pts, previously 50.3 pts). When it comes to the domestic economy, we will see M3 money supply data for June. We expect an acceleration to just above 8% y/y. In our view, the data will show further recovery in the credit market.

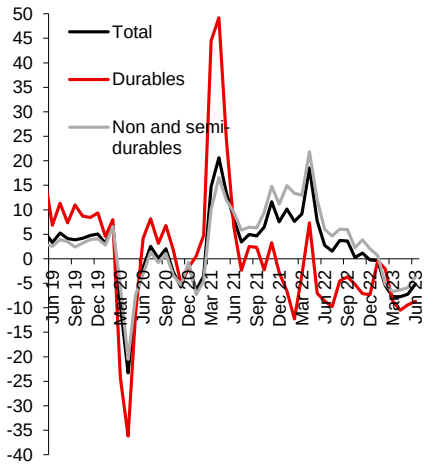
Retail sales is showing further stagnation. It dropped by 4.7% y/y in June vs. -6.8% y/y in May and in line with expectations (we: -4.8% y/y, market: -5.0% y/y). Data adjusted for seasonality showed a rise by 0.6% m/m after a decline by 1.1% m/m in May. Improvement in annual growth rates was visible in almost all categories, with strongest upward contributions to the headline growth delivered by sales in non-specialised stores and fuels. This was however mostly driven by a statistical base effect. Overall, monthly growth was quite weak in comparison to previous years and a single positive reading in seasonally adjusted terms, is not enough to call it a rebound. **Sectoral business sentiment indicators did not move much in July** and the direction of changes was mixed: down for industry, wholesale trade and transport, up for construction, financials and insurance. We see the business sentiment data as consistent with the scenario of Polish economy preparing for a rebound in 2H23. In June, **procurement prices of basic agricultural products fell m/m for the sixth month in a row** (-3.3% m/m which meant -8.3% y/y) and should translate to lower food price inflation in Poland. Read more in Economic Comment.

According to Eurostat, **Polish general government debt amounted to 48.1% of GDP in 1Q2023**. This represents a decrease of 1pp compared to 4Q2022 and by 3.8pp compared to 1Q2022. In our view, in the next quarters of the year, the public debt will stabilise at the 1Q2023 level. The GG deficit amounted to PLN11.8bn in 1Q23 compared to a surplus of PLN1.9bn a year earlier. Revenues improved by 13.1% y/y, with VAT up by 25.5% y/y (the effect of the reversal of VAT cuts on fuels and energy) and contributions up by 16.1% y/y. Expenditure, on the other hand, increased by 18.3% y/y, including social benefits by 13.3% y/y, wages and salaries by 13.6% y/y and product and production subsidies by as much as 242.9% y/y. On a 4Q basis, the deficit widened to 4.0% of GDP from 3.7% in 4Q2022. We expect the deficit to go up to 5.3% of GDP at the year-end.

During Friday's session, **EURUSD** fell 0.2% to 1.111, ending the week 1% below Monday's opening, in line with our forecast for a move below 1.10 for the next few months. As the dollar strengthened against the euro, the **zloty** depreciated sharply - the USDPLN exchange rate rose 0.5%, piercing the 4.00 level, and the EURPLN exchange rate rose more than 0.3% to end the week above 4.46. The Czech koruna continued its losses - reaching more than 1% against the euro during the week. The Hungarian forint fared better, recovering from Thursday's losses (it gained around 0.5% against the euro).

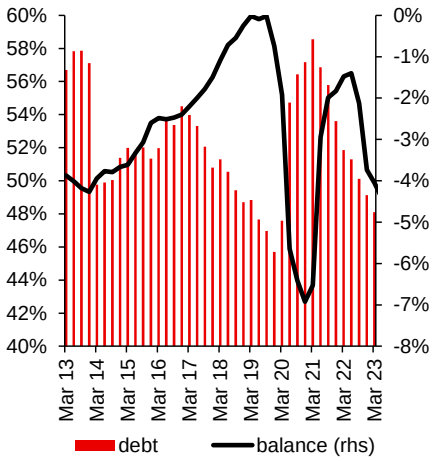
In the interest rate market, a correction of the recent increases. Changes in domestic bond yields declined by 1-4bp, with bigger move at the long end of the curve. Declines also took place in swap rates and FRAs, which fell by 3-5bp and 0-8bp respectively. The falls in rates took place despite the bond auction. At the auction, the Ministry of Finance sold bonds for PLN 8 billion with demand at PLN 12.6bn, with the largest sale of 5-year bonds around PLN 4bn and the largest unsatisfied demand in the case of floating-coupon bonds WZ1128. The situation in the core markets looked similar. German bond yields again fell more or less evenly across the curve, by 3 bps, while in the US, the reductions amounted to 2-3 bps. We expect the upward correction in rates to continue before return of falling trend in rates. A lot of data releases were scheduled for this week abroad, which may potentially impact rate markets (today's PMIs, Fed decision, ECB, BoJ, European inflation data).

Retail sales, % y/y



Source: GUS, Santander

General government debt and deficit, % of GDP



Source: GUS,Eurostat, Santander

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FX market

Today's opening

EURPLN	4.4579	CZKPLN	0.1849
USDPLN	4.0062	HUFPLN*	1.1639
EURUSD	1.1126	RUBPLN	0.0440
CHFPLN	4.6188	NOKPLN	0.3963
GBPPLN	5.1496	DKKPLN	0.5972
USDCNY	7.1977	SEKPLN	0.3840

*for 100HUF

Last session in the FX market 21.07.2023

	min	max	open	close	fixing
EURPLN	4.4412	4.4663	4.4492	4.4611	4.4501
USDPLN	3.9900	4.0204	3.9955	4.0109	3.999
EURUSD	1.1106	1.1144	1.1138	1.1120	-

Interest rate market 21.07.2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.41	1
WS0428 (5Y)	5.30	-1
DS1033 (10Y)	5.44	-6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.01	-5	5.58	0	3.96	4
2L	5.24	-4	5.02	0	3.81	-2
3L	4.82	-5	4.59	0	3.55	-2
4L	4.64	-4	4.32	0	3.37	-2
5L	4.56	-4	4.16	0	3.26	-2
8L	4.58	-4	3.91	-1	3.11	-1
10L	4.67	-3	3.85	-1	3.09	-1

WIBOR rates

Term	%	Change (bps)
O/N	6.69	3
T/N	6.88	0
SW	6.85	-1
2W	6.84	2
1M	6.85	0
3M	6.76	-2
6M	6.68	-1
1Y	6.64	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.65	-4
3x6	6.22	-2
6x9	5.52	-7
9x12	5.01	-5
3x9	6.10	-3
6x12	5.41	-7

Measures of fiscal risk

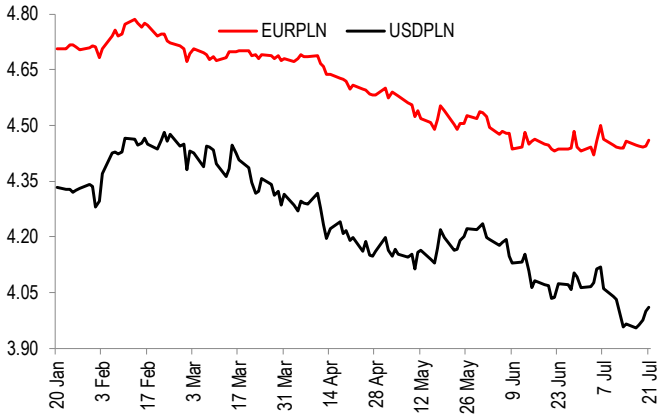
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	70	0	305	2
France	13	0	56	0
Hungary	156	0	478	17
Spain	48	0	103	-1
Italy	35	0	166	-2
Portugal	37	0	74	-1
Ireland	18	0	44	1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

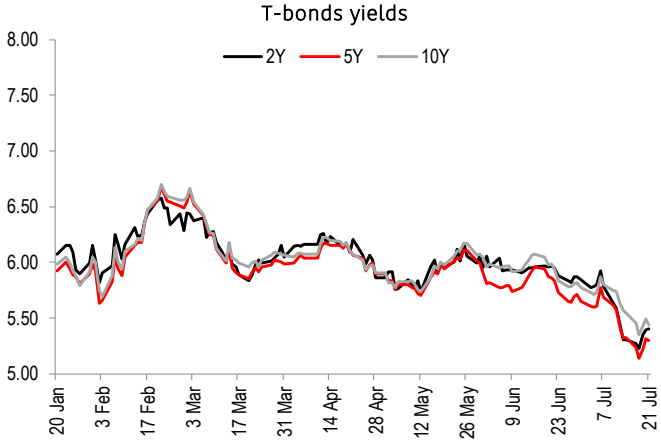
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

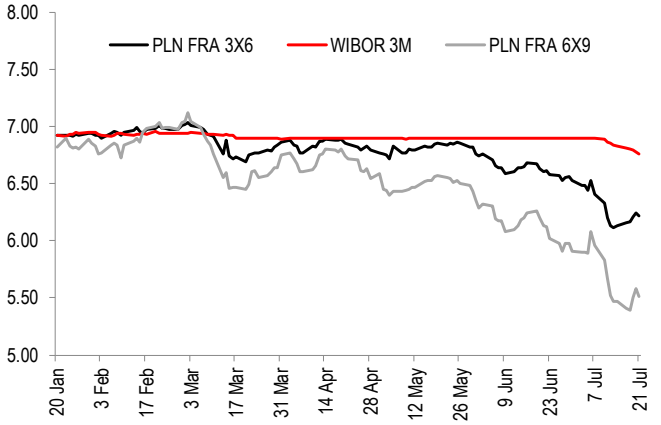
Zloty exchange rate



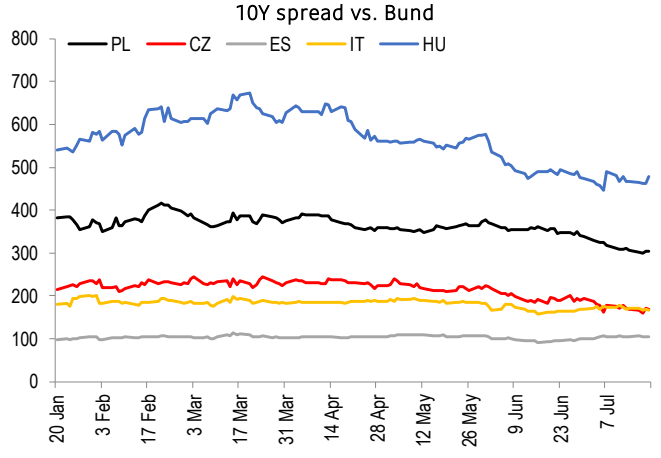
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (21 July)					
10:00	**PL**	**Retail Sales Real**	**Jun**	**% y/y**	**-5.0**	**-4.8**	**-4.7**	**-6.8**
			MONDAY (24 July)					
09:30	DE	Germany Manufacturing PMI	Jul	pts	41.0	-	-	40.6
09:30	DE	Markit Germany Services PMI	Jul	pts	53.0	-	-	54.1
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	43.5	-	-	43.4
10:00	EZ	Eurozone Services PMI	Jul	pts	51.6	-	-	52.0
14:00	**PL**	**Money Supply M3**	**Jun**	**% y/y**	**7.5**	**8.3**	**-**	**7.1**
			TUESDAY (25 July)					
10:00	DE	IFO Business Climate	Jul	pts	88.0	-	-	88.5
10:00	**PL**	**Unemployment Rate**	**Jun**	**%**	**5.0**	**5.0**	**-**	**5.1**
14:00	HU	Central Bank Rate Decision	Jul.23	%	13.00	-	-	13.00
16:00	US	Consumer Conference Board	Jul	pts	112.0	-	-	109.7
			WEDNESDAY (26 July)					
16:00	US	New Home Sales	Jun	% m/m	-5.2	-	-	12.2
20:00	US	FOMC decision	Jul.23	%	5.50	-	-	5.25
			THURSDAY (27 July)					
14:15	EZ	ECB Main Refinancing Rate	Jul.23	%	4.25	-	-	4.00
14:30	US	Durable Goods Orders	Jun	% m/m	0.9	-	-	1.8
14:30	US	GDP Annualized	2Q	% Q/Q	1.8	-	-	2.0
14:30	US	Initial Jobless Claims	Jul.23	k	236	-	-	228
16:00	US	Pending Home Sales	Jun	% m/m	-0.5	-	-	-2.67
			FRIDAY (28 July)					
11:00	EZ	ESI	Jul	pct.	95.0	-	-	95.3
14:00	DE	HICP	Jul	% m/m	0.5	-	-	0.4
14:30	US	Personal Spending	Jun	% m/m	0.4	-	-	0.1
14:30	US	Personal Income	Jun	% m/m	0.5	-	-	0.4
14:30	US	PCE Deflator SA	Jun	% m/m	0.2	-	-	0.1
16:00	US	Michigan index	Jul	pts	72.6	-	-	64.4

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

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.