22 August 2023

Eyeopener

Weak start of 2H in industry

Today construction output and retail sales, housing market data
Industrial output and labour market surprised to the downside, PPI turned negative
Weaker risk appetite hit the zloty
Yields in Poland and in core markets went further up

Today the focus will be on July data on construction output and real retail sales. Although yesterday's industrial production data surprised negatively, the improvement in the sectors supplying materials to the construction industry hints towards an upside risks to our construction output forecast. Declines in retail sales should slow further on an annual basis. We will also see July readings from the housing market. In addition to data from Poland, there will also be a release of information on US home sales in July.

MPC member Henryk Wnorowski stated that he expects CPI inflation in November to reach around 8% y/y. In our view, CPI may be even 1 percentage point lower. We expect the MPC to reduce the reference rate to 6.00% from 6.75%, with the first cut in October. However, recent weaker data from the economy increases the likelihood of a cut in September.

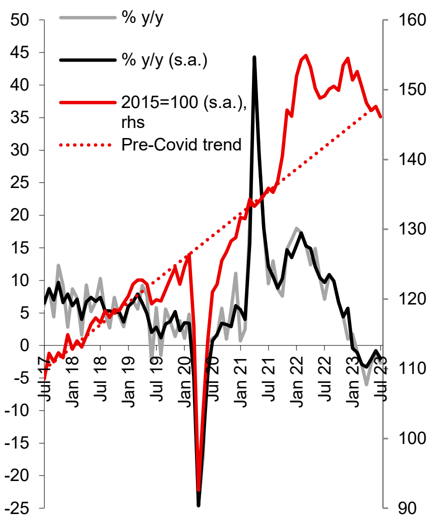
Weak data from the industrial sector and labour market, PPI inflation turned negative. In July, industrial production fell by 2.7% y/y, below market expectations. On a seasonally adjusted basis, industrial production fell by 2.0% y/y (-1.0% m/m). The slump in demand is apparently leading to an unwelcome build-up of finished goods inventories at manufacturers, which may mean that current production prints will struggle to return to positive y/y growth in the months ahead. **Employment growth** slowed to 0.1% y/y in July from 0.2% y/y in June after a monthly increase of 0.9k FTEs, in line with market consensus and slightly above our forecast (0.0% y/y). **Wage growth slowed** to 10.4% y/y in July from 11.9% y/y in June, more than expected, which is not a good sign for the 3Q consumption outlook. Overall, employment trends do not look very optimistic, and slower economic growth is taking its toll on the labour market. **The PPI inflation** fell to -1.7% y/y in July from +0.3% y/y in June. More than expected. PPI dynamics should remain markedly negative in our view, probably until 2Q24, which should favour further CPI disinflation. Read more in our Economic Comment.

The Minister for Family and Social Policy, Marlena Maląg, said **the cost of the 14th pension (PLN 2200 net per person)**, may reach PLN9bn above the amount included in the Convergence Programme Update of PLN11.6bn in gross terms (part of the money will return to the public finance sector through the health contribution and PIT), i.e. more than PLN20bn in total.

Weaker risk appetite negative for regional currencies. Despite fairly good sentiment in most developed equity markets, most emerging market currencies weakened in yesterday's session. The zloty stood out negatively, losing around 0.5% to the euro (EURPLN 4.479). The forint lost eveon slightly more, around 0.8% to 383 per euro, and the Czech koruna was exceptionally stable. The zloty may have been negatively affected by weaker-than-expected data from the domestic economy for July. The gradual weakening of the zloty and the region's currencies is in line with our assumptions for this week and medium-term forecasts.

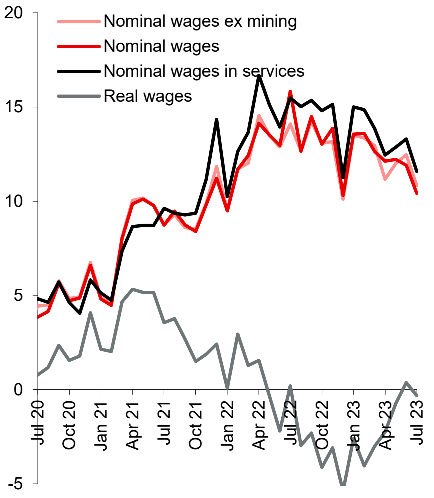
A continuation of the rise in yields in the interest rate markets. In the domestic interest rate market, FRA rates rose by 3-7bp, IRS rates by 2-6bp and bond yields by 8-11bp, mainly for longer terms, which contributed to a further steepening of the rate curves. This movement went hand in hand with the core markets. Euro rates rose by 5-7bp and US Treasuries yields by 4-9bp, continuing the movement of recent weeks. Weaker-than-forecast data from the domestic economy helped the debt market only temporarily, and the repricing continued later in the day. It is possible that similar behaviour could also take place today in reaction to the expected weak retail sales data, if trends in the core markets continue in anticipation of J. Powell's statements at the Jackson Hole conference and in anticipation of the local debt auction. The Ministry of Finance said it will offer bonds worth PLN4-8bn at Wednesday's auction.

Industrial output in Poland



Source: GUS, Santander

Wages in corporate sector, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4690	CZKPLN	0.1858
USDPLN	4.0940	HUFPLN*	1.1670
EURUSD	1.0916	RUBPLN	0.0437
CHFPLN	4.6641	NOKPLN	0.3869
GBPPLN	5.2348	DKKPLN	0.5997
USDCNY	7.2832	SEKPLN	0.3744

*for 100HUF

Last session in the FX market **21/08/2023**

	min	max	open	close	fixing
EURPLN	4.4537	4.4821	4.4574	4.4787	4.4768
USDPLN	4.0928	4.1186	4.0969	4.1142	4.1124
EURUSD	1.0871	1.0913	1.0879	1.0886	-

Interest rate market **21/08/2023**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.43	0
WS0428 (5Y)	5.57	8
DS1033 (10Y)	5.81	11

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	5.99	2	5.65	3	3.98	3
2L	5.38	3	5.18	6	3.79	4
3L	5.07	4	4.85	8	3.58	5
4L	4.96	6	4.65	10	3.45	6
5L	4.93	6	4.54	8	3.38	6
8L	5.00	5	4.37	8	3.29	6
10L	5.09	5	4.35	9	3.29	7

WIRON rate

Term	%	Change (bps)
WIRON	6.20	24

WIBOR rates

Term	%	Change (bps)
O/N	7.02	27
T/N	6.88	6
SW	6.85	1
1M	6.82	1
3M	6.68	-1
6M	6.54	0
1Y	6.50	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.45	-1
3x6	6.03	2
6x9	5.52	1
9x12	5.11	0
3x9	5.87	-2
6x12	5.41	4

CDS rates and 10Y yield spread vs. German Bund

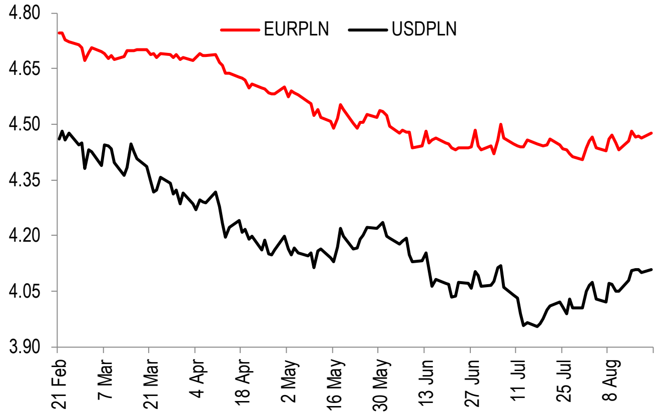
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	64	-4	310	2
France	12	0	54	-1
Hungary	150	-8	498	-5
Spain	51	0	105	-1
Italy	36	0	170	-1
Portugal	36	0	74	0
Ireland	17	0	40	0
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

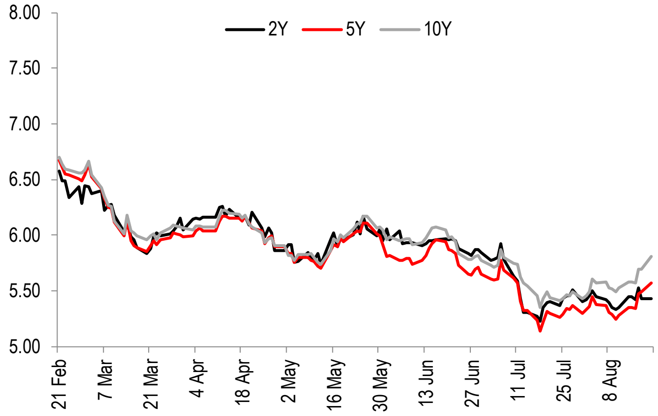
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

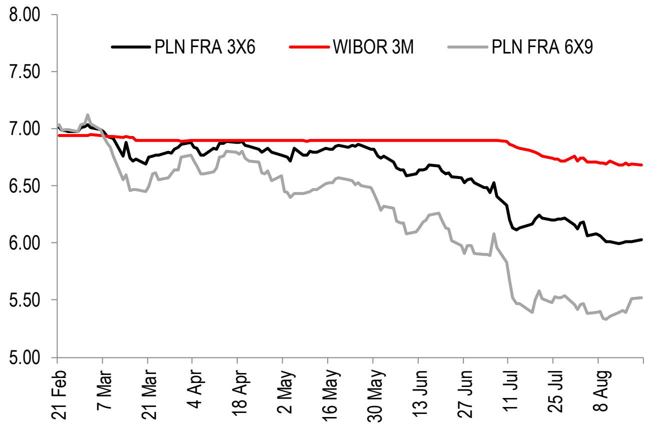
Zloty exchange rate



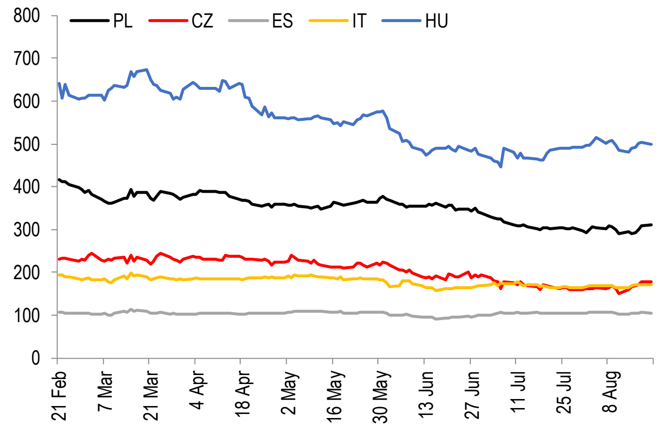
T-bonds yields



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 (18 August)					
11:00	EZ	HICP	Jul	% y/y	5.3		5.3	5.5
			MONDAY (21 August)					
10:00	**PL**	**Employment in corporate sector**	**Jul**	**% y/y**	**0.1**	**0.0**	**0.1**	**0.2**
10:00	**PL**	**Sold Industrial Output**	**Jul**	**% y/y**	**-0.8**	**-1.4**	**-2.7**	**-1.4**
10:00	**PL**	**PPI**	**Jul**	**% y/y**	**-1.1**	**-1.0**	**-1.7**	**0.3**
10:00	**PL**	**Average Gross Wages**	**Jul**	**% y/y**	**11.1**	**11.0**	**10.4**	**11.9**
			TUESDAY (22 August)					
10:00	**PL**	**Construction Output**	**Jul**	**% y/y**	**2.6**	**1.4**	**-**	**1.5**
10:00	**PL**	**Retail Sales Real**	**Jul**	**% y/y**	**-3.7**	**-3.9**	**-**	**-4.7**
16:00	US	Existing Home Sales	Jul	% m/m	-0.24	-	-	-3.26
			WEDNESDAY (23 August)					
09:30	DE	Germany Manufacturing PMI	Aug	pts	38.5	-	-	38.8
09:30	DE	Markit Germany Services PMI	Aug	pts	51.5	-	-	52.3
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	42.5	-	-	42.7
10:00	EZ	Eurozone Services PMI	Aug	pts	50.5	-	-	50.9
14:00	**PL**	**Money Supply M3**	**Jul**	**% y/y**	**7.75**	**7.7**	**-**	**7.9**
16:00	US	New Home Sales	Jul	% m/m	1.43	-	-	-2.5
			THURSDAY (24 August)					
10:00	**PL**	**Unemployment Rate**	**Jul**	**%**	**5.0**	**5.0**	**-**	**5.0**
14:30	US	Durable Goods Orders	Jul	% m/m	-4.0	-	-	4.6
14:30	US	Initial Jobless Claims	Aug.23	k	240	-	-	239
			FRIDAY (25 August)					
08:00	DE	GDP WDA	2Q	% y/y	-0.15	-	-	-0.2
10:00	DE	Ifo Business Climate	Aug	pts	86.8	-	-	87.3
16:00	US	Michigan index	Aug	pts	71.2	-	-	71.2

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