4 September 2023

Eyeopener

Further drop in manufacturing PMI

No important data releases today
Polish manufacturing PMI fell to 43.1 pts in August
Zloty relatively stable with slight appreciation tendency
Yields stopped falling, rates may rebound if MPC does not cut rates

Today, the only significant release was Germany's export growth in July, which declined by 0.9% m/m, compared to a 0.1% m/m increase in June and above the expected decline of -1.5% m/m. Apart from this, today's economic calendar does not include any other publications important for the domestic economy. The central event of the week will be the MPC meeting, which, in our view, will bring no change to the interest rates. Abroad, the focus will be on services PMI data, and industrial production in the region.

Polish manufacturing PMI fell to 43.1 pts in August from 43.5 pts in July. Sharing the market's view, we expected an increase in the index, which would have been in line with the behaviour of the ESI and GUS indicators. The August decline in the PMI was a result of all its component indices remaining below the 50-point threshold. The 12-month outlook indicator fell to its weakest level so far this year. The latest PMI readings may raise concerns about the state of the Polish manufacturing sector, which however goes against some signs of recovery and returning optimism in alternative gauges of business sentiment in Polish manufacturing. Hard output data has also not weakened as dramatically as the PMI suggests, and the decline in employment in the sector is relatively small. In our view, a significant deterioration in manufacturing is unlikely, but manufacturing growth will probably not return to positive figures until next year.

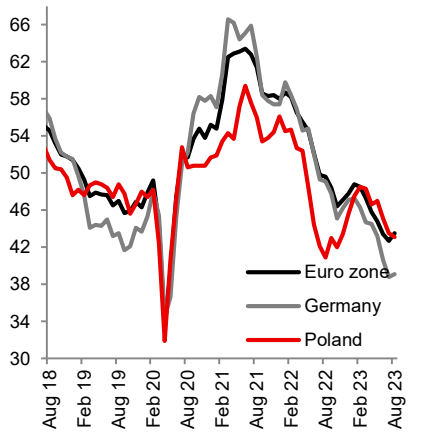
Poland has applied for an additional €23bn in loans for the implementation of the National Recovery Plan. Together with the amount of loans from the original application submitted to the European Commission (€11.5bn), Poland is seeking a total of €34.5bn in loans, which actually exceeds the maximum funding level set by the European Commission (6.8% of 2019 Gross National Income). However, this limit can be increased if the Commission considers that exceptional circumstances have occurred. In addition to the loans, Poland has also requested €23bn in grants. The request for an increase in loans is likely related to the record borrowing needs foreseen in the 2024 budget proposal. However, there is currently no prospect of the Recovery Funds being unlocked.

US non-farm employment rose by 187k jobs, above expectations, but estimates of job growth in July and June were revised down by a total of 110k jobs. The unemployment rate in August rose to 3.8% from 3.5% in July. Wage growth slowed m/m to 0.2% from 0.4% in July, against expectations of a fall to 0.3% m/m. Although at first glance the latest data may appear weak, after accounting for the bankruptcy of transport corporation Yellow Corp. and strikes in the film industry, which triggered increased job losses in their respective sectors of the economy (by 37k and 17k respectively, compared to declines by 9k in both sectors in July), the August readings tend to point to stabilisation in the labour market.

Calm FX market. In Friday's session, the zloty exchange rate again fluctuated around 4.47 against euro with a slight tendency to strengthen. The CEE region's currencies lost slightly to the euro. The EURUSD remained remarkably stable during Friday's session near 1.084, but gained to below 1.08 in the evening US session. We assume that the EURPLN exchange rate could remain stable if the MPC holds off on cuts and continue to rise slightly in the event of a rate cut.

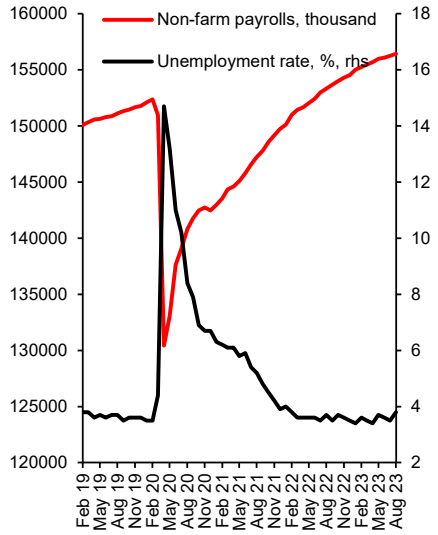
Yields stopped falling. The domestic interest rate market saw a slight fall in yields in reaction to the PMI data and to the movement in the US rate market following non-farm payrolls data. However, later yields rebounded, while swap rates remained relatively stable amid a slight rise in euro rates and this may signal a slowing of the downward trend of recent days. We start this week with a slight increase in rates on the core markets. Until Wednesday, we assume relative stability in the domestic financial market amid anticipation of the outcome of the MPC meeting and a fairly loose calendar abroad. Possible slight downward pressure on yields in case of negative surprises from foreign data. The second half of the week will probably depend strongly on the MPC decision and its communication. The financial market has been anticipating the scale of monetary easing quite aggressively in recent days: a cut of even slightly more than 25bp is already priced in for September, with a total of approx. -200bp. As a result, the first market reaction to the Council's decision is likely to be asymmetric: a greater scale of upward adjustment of FRA/IRS/yield rates in the absence of a cut by the MPC than of a possible strengthening (if any) in response to a cut. The NBP Governor's conference on Thursday will also be important, as usual, and will set the direction for the following days.

PMI indices, pts



Source: S&P Global, Santander

US labour market statistics



Source: Refinitiv Eikon, Santander

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FX market

Today's opening

EURPLN	4.4645	CZKPLN	0.1852
USDPLN	4.1388	HUFPLN*	1.1637
EURUSD	1.0790	RUBPLN	0.0429
CHFPLN	4.6787	NOKPLN	0.3884
GBPPLN	5.2179	DKKPLN	0.5990
USDCNY	7.2677	SEKPLN	0.3753

*for 100HUF

Last session in the FX market **01.09.2023**

	min	max	open	close	fixing
EURPLN	4.4627	4.4768	4.4707	4.4664	4.4762
USDPLN	4.1028	4.1422	4.1221	4.1409	4.1263
EURUSD	1.0785	1.0881	1.0845	1.0786	-

Interest rate market **01.09.2023**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.36	-1
WS0428 (5Y)	5.39	3
DS1033 (10Y)	5.62	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.68	4	5.65	0	3.81	-7
2L	5.01	4	5.07	2	3.64	2
3L	4.71	4	4.69	3	3.41	2
4L	4.58	4	4.47	4	3.27	4
5L	4.55	4	4.36	4	3.19	6
8L	4.65	5	4.19	6	3.12	8
10L	4.75	3	4.16	6	3.12	8

WIRON rate

Term	%	Change (bps)
WIRON	5.20	-89

WIBOR rates

Term	%	Change (bps)
O/N	6.72	-11
T/N	6.84	1
SW	6.81	-1
1M	6.79	1
3M	6.67	2
6M	6.47	-1
1Y	6.43	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.40	4
3x6	5.79	2
6x9	5.13	2
9x12	4.65	4
3x9	5.64	3
6x12	4.98	1

CDS rates and 10Y yield spread vs. German Bund

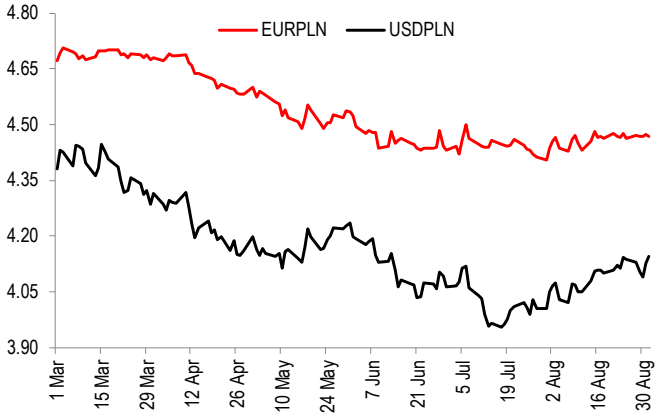
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	64	0	307	-5
France	12	0	53	0
Hungary	146	0	458	-9
Spain	48	0	102	1
Italy	35	0	169	3
Portugal	35	0	73	-1
Ireland	15	0	39	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

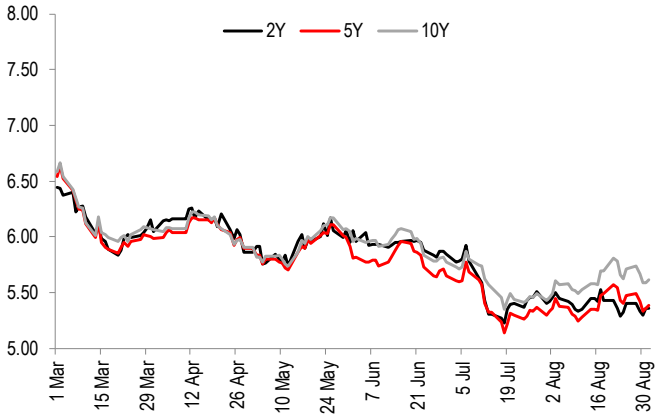
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

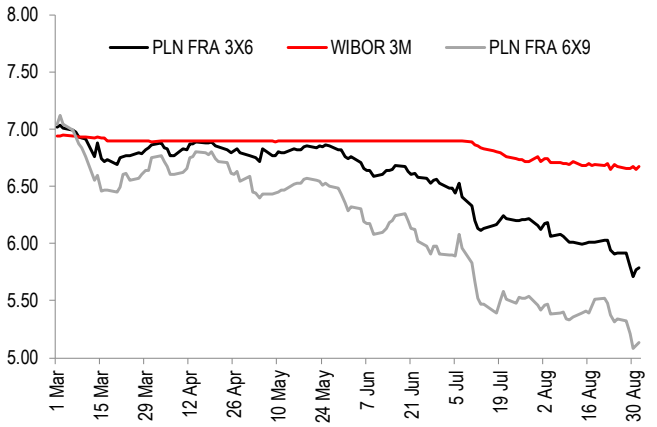
Zloty exchange rate



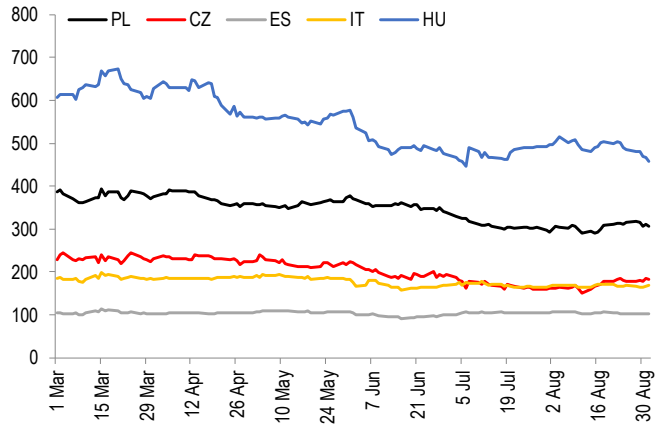
T-bonds yields



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 (1 September)					
08:30	HU	GDP	2Q	% y/y	-2.4	-	-2,4	-0.9
09:00	**PL**	**Poland Manufacturing PMI**	**Aug**	**pts**	**43.9**	**44.1**	**43,1**	**43.5**
09:55	DE	Germany Manufacturing PMI	Aug	pts	39.1	-	39,1	38.8
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	43.7	-	43,5	42.7
14:30	US	Change in Nonfarm Payrolls	Aug	k	170	-	187	157
14:30	US	Unemployment Rate	Aug	%	3.5	-	3,8	3.5
16:00	US	ISM manufacturing	Aug	pts	47.0	-	47.6	46.4
			MONDAY (4 September)					
08:00	DE	Exports SA	Jul	% m/m	-1.5	-	-0.9	0.4
			TUESDAY (5 September)					
03:45	CN	Caixin China PMI Services	Aug	pts	53.9	-	-	54.1
09:55	DE	Markit Germany Services PMI	Aug	pts	-	-	-	47.3
10:00	EZ	Eurozone Services PMI	Aug	pts	-	-	-	48.3
16:00	US	Durable Goods Orders	Jul	% m/m	-	-	-	-5.2
16:00	US	Factory Orders	Jul	% m/m	-2.5	-	-	2.3
			WEDNESDAY (6 September)					
	PL	**MPC decision**		**%**	**6.50**	**6.75**	**-**	**6.75**
08:00	DE	Factory Orders	Jul	% m/m	-	-	-	7.0
09:00	CZ	Industrial Production	Jul	% y/y	-	-	-	0.9
11:00	EZ	Retail Sales	Jul	% m/m	-	-	-	-0.3
16:00	US	ISM services	Aug	pts	52.3	-	-	52.7
			THURSDAY (7 September)					
08:00	DE	Industrial Production SA	Jul	% m/m	-	-	-	-1.5
08:30	HU	Industrial Production SA	Jul	% y/y	-	-	-	-6.1
11:00	EZ	GDP SA	2Q	% y/y	-	-	-	0.6
14:30	US	Initial Jobless Claims	Sep.23	k	235	-	-	228
			FRIDAY (8 September)					
08:00	DE	HICP	Aug	% m/m	0.3	-	-	0.4
08:30	HU	CPI	Aug	% y/y	-	-	-	17.6

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

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