6 September 2023

Eyeopener

MPC decision

Today, the MPC decision, we do not expect a change in rates, consensus assumes a 25bp cut
European services PMIs below flash estimates
Weakening of CEE FX amid stronger dollar
Second day of decline in market rates ahead of MPC decision

Today, we will know the outcome of the MPC's September decision-making meeting. We believe that the Council will keep rates unchanged and cut them only in October. Nevertheless, it cannot be ruled out that the decision on the first 25bp cut will be made today, if we take into account that the latest macroeconomic data were weaker than expected, and inflation is likely to go down to single-digit levels this month. Regardless of which month the easing starts, we expect no more than two further cuts by the end of the year, which would bring the benchmark rate to 6.00%. In addition to the Council's decision, it is worth paying attention to the hard data published in Europe today. From the Czech Republic there will be new data on industrial production in July and from the euro area on retail sales. German, July industrial orders dynamics have already been published, which amounted to -11.7% m/m against +7% in June and the expected -4%.

The decision to freeze energy prices in 2024 will be taken after the elections, at the end of October, Climate and Environment Minister Anna Moskwa reported in an interview with Radio Zet. Making the decision only after the elections is intended to allow for a full picture and the implementation of an appropriate option for the law. An extension of the energy price freeze in 2024 would trigger a reduction in our projected inflation path by around 2 percentage points.

Finance Minister Magdalena Rzeczkowska admitted in an interview with Business Insider Polska that **Poland could be subject to an excessive deficit** procedure due to a high general government deficit in 2024, which, according to the draft budget, is expected to reach 4.5% of GDP. However, the minister stressed that the expected reduction of the structural deficit by more than 0.5 percentage points against 2023 would mean that EU financial rules would not be broken.

Further PIS election proposals. After announcing the allocation of PLN5bn per year for the modernisation of large-panel blocks of flats, PIS also announced the introduction of a program to improve the quality of hospital meals and to force shops to get no less than two-thirds of the stock of grocery merchandise from local suppliers. While it is difficult to estimate the budget cost of the last two proposals, the so-called 'local shelf' may have an impact in the direction of slightly higher prices due to imports being replaced with local supplies.

The final Eurozone services PMI surprised negatively, slipping to 47.9 points in August, below the preliminary estimate (48.3 points). Readings below the 50-point limit were recorded in the four largest euro area economies - Germany, France, Italy and Spain. This indicates the first weakening of economic activity in the European services sector since December 2022, and extends the period of deterioration seen in European activity indicators since June, which may raise concerns about the sector's outlook.

Saudi Arabia and Russia have extended the oil production cut until the end of the year. This has translated into an increase in the price of this commodity, with Brent crude oil quotations exceeding $90 per barrel. Rising prices on global markets will slow the decline of inflation in Poland.

Weakening of the CEE currencies. Yet, the CEE currencies stood out negatively against a basket of emerging economies' currencies, which mostly strengthened against the euro. This time, the usual negative correlation of CEE currencies with the dollar was maintained. The euro was losing against the dollar after a series of weaker-than-preliminary readings of the service sector PMI indices for the euro area countries. The Hungarian forint lost the most - 1.2% and EURHUF climbed 387, EURPLN rose by 0.6% to almost 4.50, while the Czech koruna lost 0.3% and the Romanian leu 0.2%. We think that the zloty may lose today with a further drop in EURUSD after the German data and in anticipation of the MPC decision. However, it will recover somewhat after the Council's decision if our scenario of no rate changes at today's MPC meeting is realised. Given that we assume rate cuts in the following months with one more rate hike from the ECB in the following weeks, we assume a slight weakening of the zloty in the next months. We also assume that there is room for further weakening of CEE currencies.

Small changes on the interest market. On the eve of the MPC decision, there was little change in the interest rate market with a slight downward movement of 1-4bp for FRA rates and 2-3bp for the bond yield curve. Changes on the IRS curve were marginal. This was despite a rise in yields on the core markets, by around 2-3bp on the German curve and 6-7bp on the US curve. In the absence of a rate cut by the MPC, we assume a stronger upward reaction of rates than a possible downward movement after a cut.

PMI in services, pts

Source: S&P Global, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

Santander

FX market

Today's opening

EURPLN	4.4923	CZKPLN	0.1857
USDPLN	4.1862	HUFPLN*	1.1491
EURUSD	1.0730	RUBPLN	0.0428
CHFPLN	4.7182	NOKPLN	0.3913
GBPPLN	5.2722	DKKPLN	0.6031
USDCNY	7.3072	SEKPLN	0.3778

*for 100HUF

Last session in the FX market **05.09.2023**

	min	max	open	close	fixing
EURPLN	4.4672	4.4979	4.4719	4.4940	4.4764
USDPLN	4.1411	4.2013	4.1439	4.1890	4.1643
EURUSD	1.0705	1.0793	1.0791	1.0725	-

Interest rate market **05.09.2023**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.35	0
WS0428 (5Y)	5.35	-3
DS1033 (10Y)	5.57	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.67	0	5.70	3	3.89	0
2L	4.99	0	5.12	6	3.66	0
3L	4.68	0	4.76	8	3.44	0
4L	4.56	-1	4.55	8	3.31	0
5L	4.54	1	4.43	7	3.23	1
8L	4.63	0	4.26	6	3.16	2
10L	4.74	3	4.24	8	3.17	3

WIRON rate

Term	%	Change (bps)
WIRON	6.27	-7

WIBOR rates

Term	%	Change (bps)
O/N	6.27	-45
T/N	6.83	1
SW	6.78	-1
1M	6.74	-4
3M	6.62	-2
6M	6.43	-2
1Y	6.40	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.27	-12
3x6	5.82	4
6x9	5.11	-2
9x12	4.63	-2
3x9	5.62	-1
6x12	4.91	-7

CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	62	0	303	-4
France	12	0	53	0
Hungary	146	0	457	0
Spain	48	0	104	1
Italy	35	0	172	3
Portugal	35	0	73	0
Ireland	15	0	39	0
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	-	51.8	54.1
09:55	DE	Markit Germany Services PMI	Aug	pts	-	-	47.3	52.3
10:00	EZ	Eurozone Services PMI	Aug	pts	-	-	47.9	50.9
16:00	US	Durable Goods Orders	Jul	% m/m	-	-	-5.2	4.6
16:00	US	Factory Orders	Jul	% m/m	-2.5	-	2.1	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
15:00	**PL**	**NBP Governor's conference**						
			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*

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.
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.