19 December 2023

Eyeopener

2024 deficit – how much up?

Today the government is to present its budget proposal for 2024, euro zone inflation
Core inflation down to 7.3% y/y in November
German Ifo index below forecasts
EURUSD quite stable, zloty trimmed its morning losses
Yields in Poland and abroad slightly up

Today, the updated draft budget is to be approved by the government, with the first reading of the budget bill in the Sejm already scheduled for Thursday. According to the new Finance Minister Andrzej Domański, the budget deficit "will be different" from the draft of the previous government. This is not surprising, as the list of budget costs resulting firstly from the predecessors' decisions taken in recent weeks, and secondly from the new coalition's planned spending (including the wage increases for the public sector announced in the Prime Minister's exposé) is quite long and, according to our estimates, adds up to a total of almost PLN40bn. However, we assume that the deficit for 2024 will increase on a smaller scale compared to the previous draft, due to savings from the announced spending review (including recent decisions by predecessors). We project that the general government deficit in the new draft budget will be slightly above 5% instead of 4.5% of GDP.

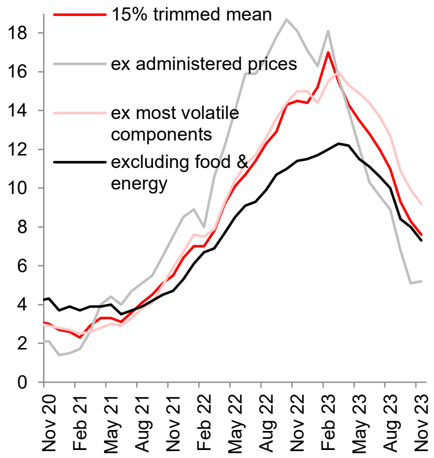
In November, the main measure of core inflation, CPI ex food and energy, dropped further in Poland, to 7.3% y/y from 8.0%. That is in line with market expectations and a notch higher than we had thought. This price index did not move m/m, which means that this time it did not deviate from its usual seasonal pattern (in October the upside deviation was still 0.3pp). Out of the other three measures of inflation trend published by the NBP two moved down again (CPI ex most volatile components – to 9.2% y/y from 9.9%, and 15% trimmed mean – to 7.6% y/y from 8.3%) and one stabilised after eight months of decline (CPI ex administered prices, 5.2% y/y in November, 5.1% in October). We expect the main core inflation measure to descend further relatively quickly and enter the 4-5% y/y range by spring 2024. But with consumption-led rebound in 2024 it may struggle to drop below 4% before the end of next year, possibly in mid-2025.

The December reading of the Ifo index of German economic sentiment disappointed. After two good months, assessments of both the current situation and of the expectations deteriorated. Sectoral analysis shows that in December only in services the sentiment did not deteriorate, but even so, this sectoral indicator still remains below zero (i.e. the neutral level). It is difficult to build a scenario of a rebound in Germany from the beginning of 2024 on the basis of this new reading.

Monday brought a **decline in the volatility of the EURUSD, which eventually spilled over to the zloty** - despite some weakening during the day, EURPLN closed below the opening. News on the new budget may affect the domestic currency.

Relative stability in the debt markets. Markets have entered a state of pre-Christmas lethargy. Liquidity is lowered, but on days like today, when very important news for the domestic debt market emerge, this could lead to nervous shifts. Already yesterday, the sentiment in the core markets was less favourable for the strengthening of Polish bonds. In Germany and the US, bonds were losing value, which raised their yields by a few bps in the face of not-so-dovish statements made by central bankers after the policy meetings of the Fed and the ECB, which may limit expectations for quick and sharp rate cuts. This proved more important than the weak Ifo from Germany. Evidently, the upward momentum has eased in the debt markets, and an upward adjustment of rates may take place, although it is also possible that yield adjustments will not be significant due to the end of the rate hike cycles of major central banks.

Core CPI inflation in Poland, % y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.3198	CZKPLN	0.1761
USDPLN	3.9528	HUFPLN*	1.1166
EURUSD	1.0928	RUBPLN	0.0439
CHFPLN	4.5618	NOKPLN	0.3804
GBPPLN	5.0065	DKKPLN	0.5794
USDCNY	7.1462	SEKPLN	0.3874

*for 100HUF

Last session in the FX market 18/12/2023

	min	max	open	close
EURPLN	4.3233	4.3520	4.3236	4.3302
USDPLN	3.9569	3.9900	3.9660	3.9649
EURUSD	1.0905	1.0930	1.0915	1.0917

Interest rate market 18/12/2023

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS0725 (2Y)	5.02	5
WS0428 (5Y)	4.86	7
DS1033 (10Y)	5.14	11

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.31	1	5.20	0	3.49	6
2L	4.70	2	4.55	4	2.96	0
3L	4.36	3	4.22	2	2.71	6
4L	4.21	3	3.98	3	2.59	6
5L	4.15	2	3.94	4	2.54	5
8L	4.20	2	3.83	4	2.52	6
10L	4.27	3	3.83	4	2.55	6

WIRON rate

Term	%	Change (bps)
WIRON	5.14	8

WIBOR rates

Term	%	Change (bps)
O/N	5.57	-11
T/N	5.76	-4
SW	5.83	-1
1M	5.82	-2
3M	5.86	4
6M	5.81	0
1Y	5.78	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.79	2
3x6	5.47	-1
6x9	4.95	-1
9x12	4.54	7
3x9	5.40	-2
6x12	5.01	12

CDS rates and 10Y yield spread vs. German Bund

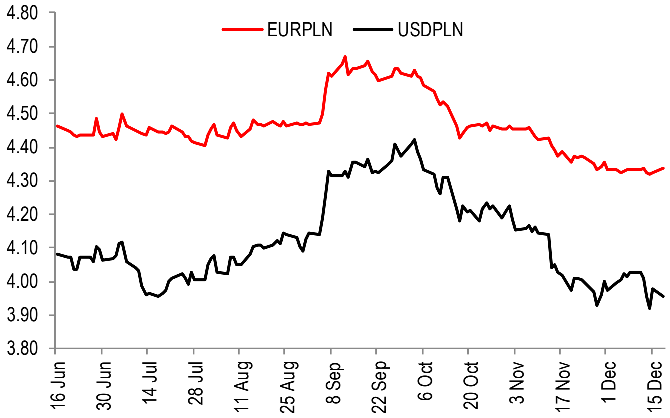
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	63	0	306	5
France	13	0	53	0
Hungary	140	0	395	-3
Spain	45	0	98	0
Italy	33	0	169	-2
Portugal	35	0	75	0
Ireland	19	0	33	0
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

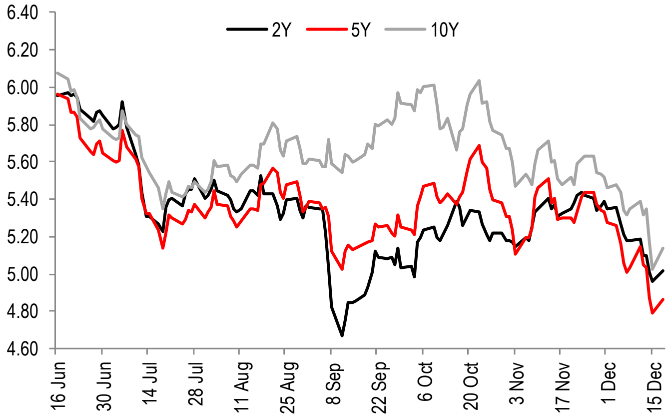
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

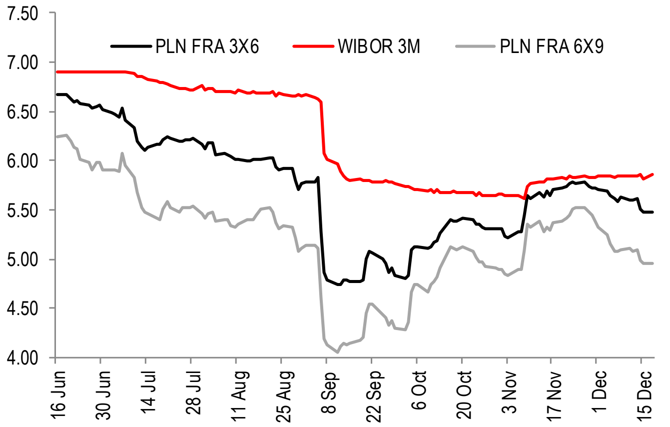
Zloty exchange rate



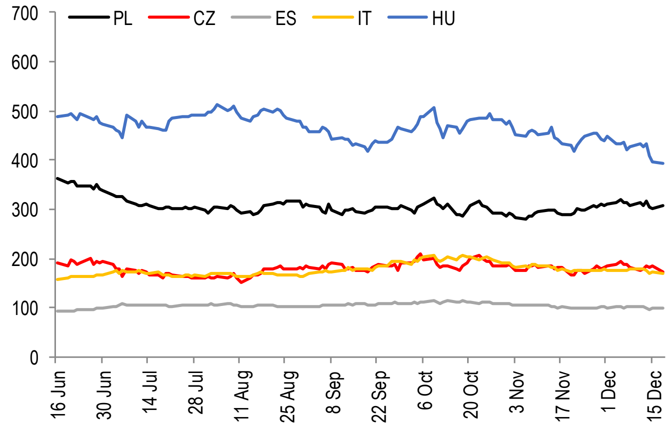
T-bonds yields



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 (15 December)					
09:30	DE	Germany Manufacturing PMI	Dec	pts	43.2	-	43.1	42.6
09:30	DE	Markit Germany Services PMI	Dec	pts	49.8	-	48.4	49.6
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	44.6	-	44.2	44.2
10:00	EZ	Eurozone Services PMI	Dec	pts	49.0	-	48.1	48.7
10:00	**PL**	**CPI**	**Nov**	**% y/y**	**6.5**	**6.5**	**6.6**	**6.6**
15:15	US	Industrial Production	Nov	% m/m	0.3	-	-	-0.63
			MONDAY (18 December)					
10:00	DE	IFO Business Climate	Dec	pts	87.7	-	86.4	87.2
14:00	**PL**	**CPI Core**	**Nov**	**% y/y**	**7.2**	**7.2**	**7.3**	**8.0**
			TUESDAY (19 December)					
11:00	EZ	HICP	Nov	% y/y	-	-	-	2.4
14:00	HU	Central Bank Rate Decision	Dec	%	-	-	-	11.50
14:30	US	Housing Starts	Nov	% m/m	-0.9	-	-	1.9
			WEDNESDAY (20 December)					
10:00	**PL**	**Employment in corporate sector**	**Nov**	**% y/y**	**-0.2**	**-0.2**	**-**	**-0.1**
10:00	**PL**	**Sold Industrial Output**	**Nov**	**% y/y**	**1.4**	**1.4**	**-**	**1.6**
10:00	**PL**	**PPI**	**Nov**	**% y/y**	**-3.8**	**-3.7**	**-**	**-4.1**
10:00	**PL**	**Average Gross Wages**	**Nov**	**% y/y**	**11.4**	**11.6**	**-**	**12.8**
16:00	US	Consumer Conference Board	Dec	pts	103.3	-	-	102.0
16:00	US	Existing Home Sales	Nov	% m/m	-0.3	-	-	-4.1
			THURSDAY (21 December)					
10:00	**PL**	**Construction Output**	**Nov**	**% y/y**	**6.9**	**7.3**	**-**	**9.8**
10:00	**PL**	**Retail Sales Real**	**Nov**	**% y/y**	**1.8**	**0.7**	**-**	**2.8**
14:30	US	GDP Annualized	3Q	% Q/Q	5.2	-	-	5.2
14:30	US	Initial Jobless Claims		k	220	-	-	202
14:30	CZ	Central Bank Rate Decision	Dec	%	6.75	-	-	7.00
			FRIDAY (22 December)					
10:00	**PL**	**Unemployment Rate**	**Nov**	**%**	**5.0**	**5.0**	**-**	**5.0**
14:00	**PL**	**Money Supply M3**	**Nov**	**% y/y**	**8.1**	**8.0**	**-**	**8.2**
14:30	US	Durable Goods Orders	Nov	% m/m	2.4	-	-	-5.4
14:30	US	Personal Spending	Nov	% m/m	0.2	-	-	0.2
14:30	US	Personal Income	Nov	% m/m	0.4	-	-	0.2
14:30	US	PCE Deflator SA	Nov	% m/m	0.1	-	-	0.0
16:00	US	Michigan index	Dec	pts	69.4	-	-	69.4
16:00	US	New Home Sales	Nov	% m/m	0.9	-	-	-5.6

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.