

4 January 2024

Eyeopener

Fed to wait with rate cuts

Today service PMIs in Germany and euro area, German flash HICP, US ADP report
FOMC minutes stressed the end of rate hikes, no haste with rate cuts
Zloty stronger, IRS rates down

Today, we will see the final December service PMI readings for Germany and the euro area. The already published reading for China surprised positively, achieving the highest m/m increase since March and the highest level since July. Besides, December flash HICP inflation rate will be released in Germany (inflation data from the first Land showed a rebound to 3.5% y/y from 3.0%). Consensus indicates that the data should point to a 0.3% m/m rise in prices, which would imply a rebound in the y/y measure by more than a percentage point. Finally, labour market data will flow in from the US, bringing the December ADP report and the number of new jobless claims in the last week. The market expects a 112.5k increase in employment and a drop in new jobless claims to 210k.

The minutes from the December FOMC meeting underline that a satisfactory level of monetary tightening has been achieved and it is now appropriate to follow the data and move to easing once it is certain that inflation is clearly and sustainably moving towards the target. Most participants assume that interest rate cuts should take place before the end of this year, but the minutes emphasise that the decisions to do so will not be made hastily.

By the end of December, PLN324.6 billion of Poland's allocation under the 2014-2020 EU Financial Framework had been cleared, or 92.6% of the total allocation, the Ministry of Funds and Regional Policy reported. All funds allocated to Poland have already been contracted. The amount of EU funds in the signed co-financing agreements equals PLN355.1bn, or 101.3% of the total allocation. This means that the funds from the 2014-2020 Framework have already been used up, which will translate into a temporary weakening of domestic investment until the utilisation of funds from the new Framework and the RRF begins for good.

In November, €573.8mn of EU funds flowed into Poland, the Ministry of Finance reported. Most of these funds, EUR330.7mn, came from the previous financial framework, including €180.3mn from the Social Fund and €150.5mn from the Regional Development Fund. The remaining funds were paid under the Common Agricultural Policy and instruments outside the new financial framework. Poland's payments to the EU budget were EUR599.3mn. Net flow was thus -€25.4mn and supports our forecast of a relatively low surplus on the C/A balance in November (at c.€0.5bn).

Deputy head of the Civic Coalition parliamentary club, Konrad Fryszak said they work on a bill introducing a zero-interest mortgage loan given the exhaustion of the budget for 2% Loan. KO also wants to enact rental subsidies and funds for local governments for the renovation of vacant buildings.

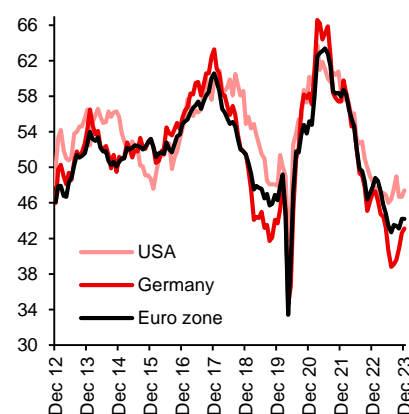
The ISM index for US manufacturing rose to 47.4pts in December, thus was slightly better than expectations. The increase in the index was mainly due to improved assessment of production (50.3pts vs. 48.5pts in November) and employment (48.1pts vs. 45.pts), while the new orders index fell to 47.1 pts from 48.3 pts. The price index also fell, to 45.2pts from 47.0pts, suggesting a deeper reduction in raw material costs. Overall, the ISM data indicate a slight improvement in US manufacturing and lower risk of recession.

Richmond Fed's Thomas Barkin said that progress in the fight against inflation is evident and that the economy remains in shape. In his view, the probability of a so-called 'soft landing' is increasing, although it is not certain, with risk factors including the impact of rate rises on the economy and high levels of service price inflation. Barkin believes that further rate rises cannot be ruled out.

Little change in the FX market. After a weaker opening, when the EURPLN approached 4.37, the later part of the session was marked by the strengthening of the zloty to below 4.35. The Czech koruna remained relatively stable near 24.66 and the forint gained slightly to 380. The region's currencies were not hurt by the strengthening of the dollar to around 1.09 vs the euro, amid a rising disparity in bond yields in the US and Germany. Although corrections towards a weaker zloty are possible, we generally think that the zloty will be slightly stronger than at present in the coming months.

Declines in market rates. After sizable increases over the last several sessions, yesterday saw IRS rates and bond yields fall by a few basis points. This may have been partly due to a technical correction after the upward momentum had died down, but falls in German bond market rates may also have contributed. US Treasury yields rose slightly, which may have been helped by slightly better-than-expected US industrial sentiment data (ISM).

PMI/ISM indicators in manufacturing, pts



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.3516	CZKPLN	0.1762
USDPLN	3.9799	HUFPLN*	1.1323
EURUSD	1.0934	RUBPLN	0.0434
CHFPLN	4.6888	NOKPLN	0.3861
GBPPLN	5.0488	DKKPLN	0.5834
USDCNY	7.1524	SEKPLN	0.3878

*for 100HUF

Last session in the FX market

03.01.2024

	min	max	open	close
EURPLN	4.3478	4.3739	4.3656	4.3514
USDPLN	3.9772	4.0058	3.9870	3.9891
EURUSD	1.0896	1.0965	1.0951	1.0906

Interest rate market

03.01.2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS0725 (2Y)	5.07	-4
WS0428 (5Y)	5.14	0
DS1033 (10Y)	5.31	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	5.53	5.11	3.35
	-2	3	-2
2L	5.00	4.45	2.81
	-2	2	-2
3L	4.68	4.13	2.55
	-3	0	-4
4L	4.53	3.90	2.45
	-4	0	-4
5L	4.48	3.86	2.41
	-4	-1	-5
8L	4.52	3.78	2.43
	-5	-1	-5
10L	4.57	3.79	2.44
	-4	-1	-8

WIRON rate

Term	%	Change (bps)
WIRON	4.88	284

WIBOR rates

Term	%	Change (bps)
O/N	5.46	-8
T/N	5.78	0
SW	5.85	3
1M	5.86	1
3M	5.89	0
6M	5.84	2
1Y	5.79	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.83	1
3x6	5.65	-1
6x9	5.27	-3
9x12	4.82	-6
3x9	5.56	-1
6x12	5.20	-3

CDS rates and 10Y yield spread vs. German Bund

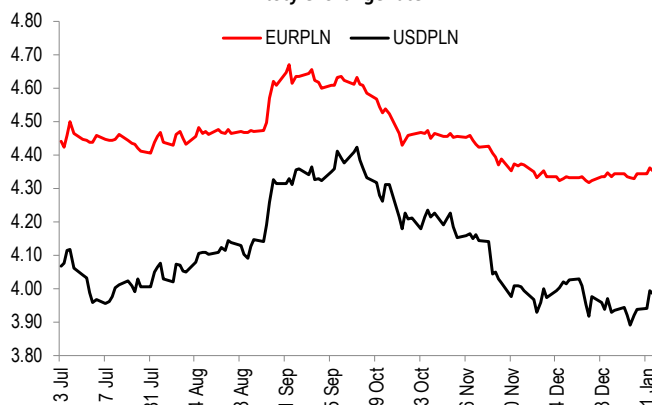
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	63	0	324	2
France	13	0	54	0
Hungary	135	7	408	18
Spain	46	1	96	-1
Italy	33	1	165	-3
Portugal	35	0	75	-1
Ireland	19	0	33	-1
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

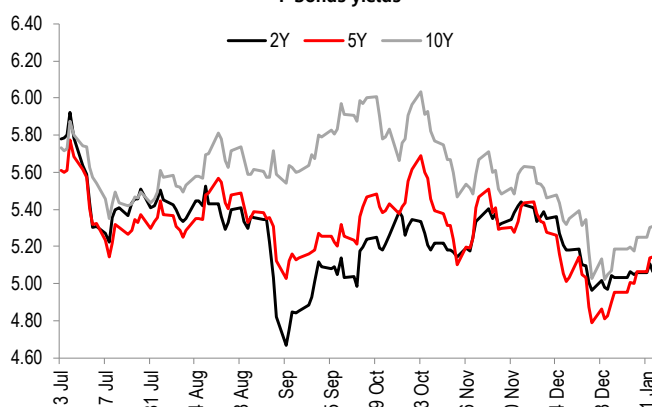
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

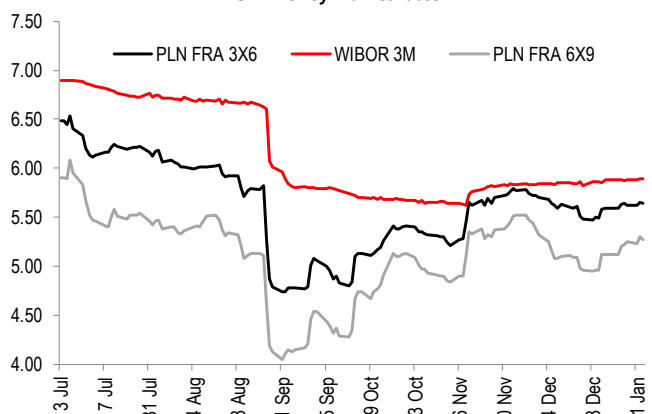
Zloty exchange rate



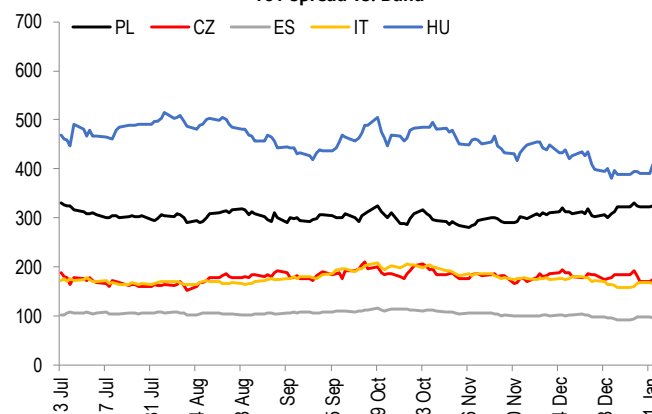
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
TUESDAY (2 January)								
09:00	PL	Poland Manufacturing PMI	Dec	pts	48.4	48.9	47.4	48.7
09:55	DE	Germany Manufacturing PMI	Dec	pts	43.1	-	43.3	42.6
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	44.2	-	44.4	44.2
WEDNESDAY (3 January)								
16:00	US	ISM manufacturing	Dec	pts	47.2	-	47.4	46.7
20:00	US	FOMC Meeting Minutes	Dec					
THURSDAY (4 January)								
02:45	CN	Caixin China PMI Services	Dec	pts	51.6	-	52.9	51.5
09:55	DE	Markit Germany Services PMI	Dec	pts	48.4	-	-	49.6
10:00	EZ	Eurozone Services PMI	Dec	pts	48.1	-	-	48.7
14:00	DE	HICP	Dec	% m/m	0.3	-	-	-0.7
14:15	US	ADP report	Dec	k	112.5	-	-	103.0
14:30	US	Initial Jobless Claims		k	210	-	-	218
FRIDAY (5 January)								
08:00	DE	Retail Sales	Nov	% m/m	-0.5	-	-	1.2
09:00	CZ	GDP SA	3Q	% y/y	-0.7	-	-	-0.7
10:00	PL	CPI	Dec	% y/y	6.4	6.5	-	6.6
11:00	EZ	Flash HICP	Dec	% y/y	3.0	-	-	2.4
14:30	US	Change in Nonfarm Payrolls	Dec	k	170	-	-	199
14:30	US	Unemployment Rate	Dec	%	3.8	-	-	3.7
16:00	US	Durable Goods Orders	Nov	% m/m	-	-	-	5.4
16:00	US	ISM services	Dec	pts	52.5	-	-	52.7
16:00	US	Factory Orders	Nov	% m/m	2.0	-	-	-3.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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