22 April 2024

Eyeopener

A lot of data today with strong statistical effects

Today data on output and its prices, labour market
Calendar effect likely to undermine the output growth in March
Finance Ministry is negotiating lenient recommendations for the EDP
Zloty trimming losses, yields higher

Today the stats office will release a set of March data from the domestic economy, which will include information on production in the industrial and construction sectors, employment and wages in the corporate sector, as well as PPI inflation. We expect that the construction output data will point to deceleration of its annual growth rate to -6.8% y/y, close to the market consensus (-6.7% y/y). We expect that industrial output growth also weakened in March (to -1.1% y/y), though not as strongly as the consensus suggests (-2.4% y/y). In both cases, the forecasted declines result in no small part from the lower number of working days in March than in the previous year. From the labour market data we expect further double-digit wage growth, at 11.9% y/y, with employment growth remaining at February's level of -0.2% y/y. For PPI inflation, we estimate a slight rebound in its annual growth rate, from -10.1% y/y to -9.5% y/y, in line with the median of market forecasts. In addition, we will learn the results of the April economic sentiment survey conducted by GUS.

This morning, **China's central bank reported that 1- and 5-year lending rates were kept unchanged by the Chinese banking sector**. Despite the need to stimulate the Chinese economy, the central bank has not lowered its own lending rate recently, probably for fear of destabilising the exchange rate amid recovering dollar.

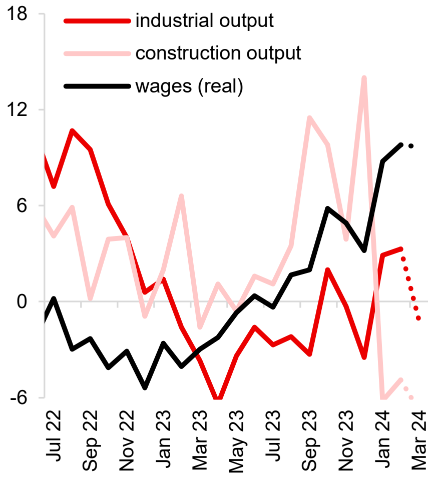
The Ministry of Finance has prepared a draft law implementing the EU directive on mandatory reporting of ESG information. According to the bill's impact assessment, the costs for companies subject to mandatory reporting will amount to PLN8.7bn over 10 years, including PLN152mn this year and PLN1bn next year.

Poland is conducting negotiations with the European Commission on the excessive deficit procedure (EDP). Minister of Finance A. Domański said that the procedure will most likely be launched against Poland, as well as against several other EU countries. The Minister added that Poland is negotiating to make the recommendations resulting from the activation of the excessive deficit procedure very mild in view of high defence spending and the energy crisis. The Minister of Finance signalled that the government is ready to make a fiscal consolidation effort but will not cut defence spending.

Strengthening of the CEE currencies. Friday was marked by marginal movements in the EURUSD, declines in major equity indices and strengthening of the CEE currencies. The zloty gained the most in the CEE region, with the EURPLN falling by c. 0.6% to 4.306. This positive trend may continue, but rather slowly. Although the Ministry of Finance may pay out part of the EU recovery funds to beneficiaries directly in euro and, in our opinion, a larger part of the funds than in recent years will be exchanged at the NBP, we still assume that with the record inflow of hard currencies to the ministry's accounts, some part of the flow will be still exchanged on the market (although it is unclear when). The Ministry's very high level of foreign currency deposits should support the zloty. In the coming weeks, large bank dividend payments will take place, but in this case, it is also unclear whether and to what extent these proceeds have been already hedged in advance by foreign investors. The behaviour of the zloty may continue to be significantly influenced by the dollar movements. The EURUSD has fallen significantly in recent weeks, and with the PCE index still high or a positive surprise in GDP, the dollar could remain at strong levels, which would slow the zloty's recovery. Uncertainty about the situation in the Middle East still persists. On the other hand, the market has quite clearly reduced expectations of rate cuts in the US this year to less than two moves, which creates asymmetric risks towards falling yields and a weaker dollar.

Market rates increased. FRA rates rose by 3-6 bps for longer tenors, IRS by 1-6 bps, and bond yields at a slightly larger scale. This was accompanied by small increases in bond yields on the German curve with a decline on the US curve. In the case of bonds, perhaps some investors were beginning to position themselves ahead of the auction scheduled for this week. We assume that the rise in market rates may continue. In case of FRAs and swaps, this may be supported by our assumed strong reading of February retail sales. Our PPI forecast is above the market, and the surprise in PPI for Germany favours our scenario, as do the increases in metal prices in recent weeks. There may be limited demand from market participants until the auction (supply of PLN6-10 bn), which may favour the widening of asset swap credit spreads, but about PLN24.5bn will inflow to market participants from bond redemptions and interest payments, so the second half of the week should be favourable for bonds. In the core markets, further recovery of PMI, and Ifo indices, or GDP and PCE inflation data from the US may act towards higher yields. In view of this, we may see a narrowing of spreads to core markets. **Finance Minister informed the state budget's borrowing needs for 2024 were financed in 63%.**

Poland's production and wages, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3055	CZKPLN	0.1702
USDPLN	4.0369	HUFPLN*	1.0830
EURUSD	1.0665	RUBPLN	0.0433
CHFPLN	4.4255	NOKPLN	0.3664
GBPPLN	4.9979	DKKPLN	0.5770
USDCNY	7.2431	SEKPLN	0.3694

*for 100HUF

Last session in the FX market 19/04/2024

	min	max	open	close	fixing
EURPLN	4.3079	4.3524	4.3505	4.3135	4.3316
USDPLN	4.0345	4.0944	4.0917	4.0477	4.0688
EURUSD	1.0625	1.0677	1.0633	1.0653	

Interest rate market 19/04/2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS0725 (2Y)	5.35	8
WS0428 (5Y)	5.66	9
DS1033 (10Y)	5.86	13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.85	1	5.49	0	3.60	0
2L	5.58	3	5.17	0	3.33	2
3L	5.41	4	4.95	0	3.11	2
4L	5.35	4	4.79	3	2.98	1
5L	5.33	4	4.69	0	2.90	1
8L	5.39	4	4.55	-1	2.81	0
10L	5.45	4	4.51	-1	2.80	0

WIRON rate

Term	%	Change (bps)
WIRON	5.50	0

WIBOR rates

Term	%	Change (bps)
O/N	5.61	-17
T/N	5.79	-1
SW	5.84	0
1M	5.83	-1
3M	5.86	0
6M	5.87	0
1Y	5.86	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.85	-2
3x6	5.83	-1
6x9	5.69	0
9x12	5.48	0
3x9	5.81	-1
6x12	5.68	1

CDS rates and 10Y yield spread vs. German Bund

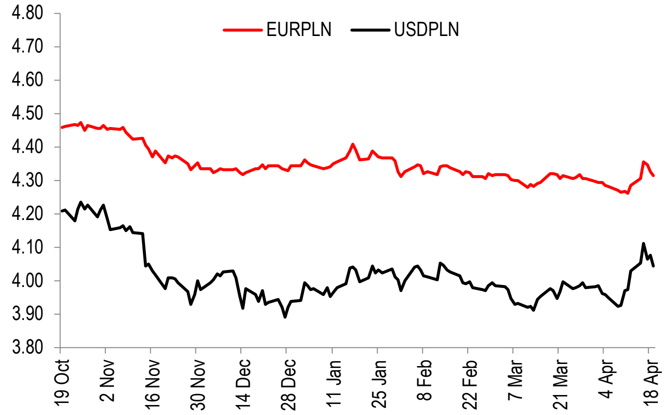
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	72	0	336	12
France	12	0	51	0
Hungary	127	-1	468	2
Spain	38	0	81	-1
Italy	28	1	140	1
Portugal	25	0	67	-1
Ireland	15	0	42	-2
Germany	7	0	-	-

* 10Y treasury bonds over 10Y Bunds

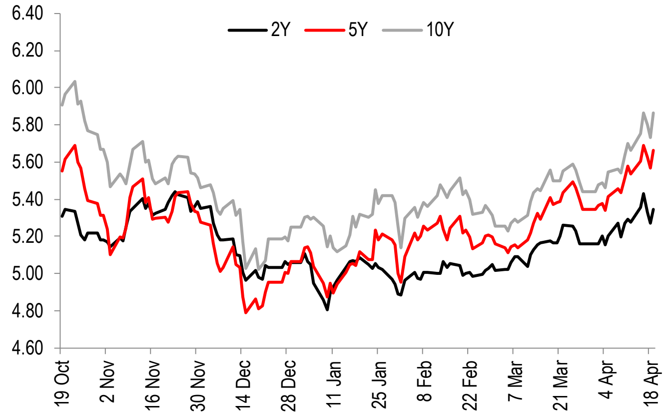
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

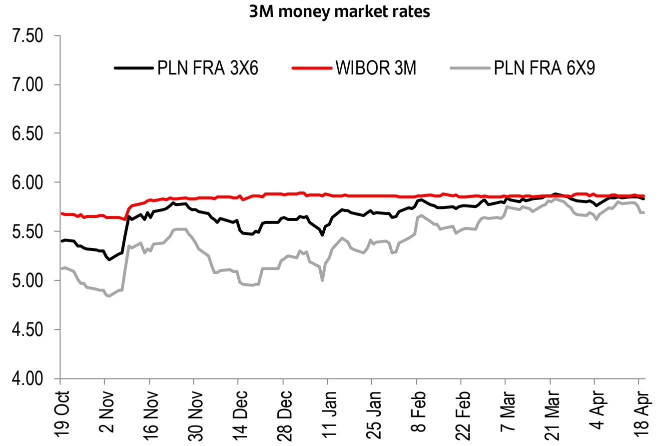
Zloty exchange rate



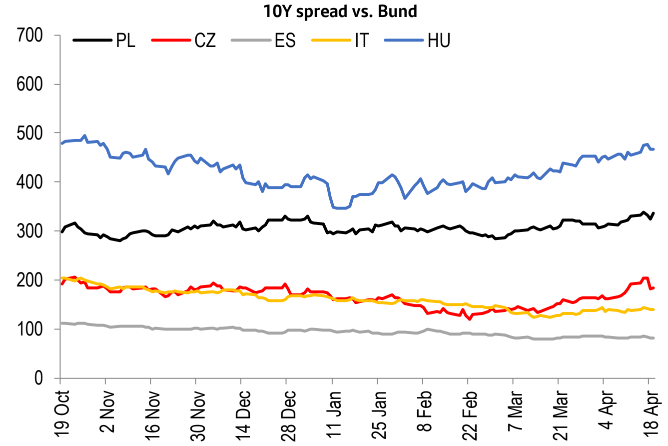
T-bonds yields



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*
			MONDAY (22 April)					
10:00	**PL**	**Employment in corporate sector**	**Mar**	**% y/y**	**-0.2**	**-0.2**		**-0.2**
10:00	**PL**	**Sold Industrial Output**	**Mar**	**% y/y**	**-2.4**	**-1.1**		**3.3**
10:00	**PL**	**Construction Output**	**Mar**	**% y/y**	**-6.7**	**-6.8**		**-4.9**
10:00	**PL**	**PPI**	**Mar**	**% y/y**	**-9.5**	**-9.5**		**-10.1**
10:00	**PL**	**Average Gross Wages**	**Mar**	**% y/y**	**12.0**	**11.9**		**12.9**
			TUESDAY (23 April)					
09:30	DE	Germany Manufacturing PMI	Apr	pts	42.7	-		41.9
09:30	DE	Markit Germany Services PMI	Apr	pts	50.5	-		50.1
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	46.5	-		46.1
10:00	EZ	Eurozone Services PMI	Apr	pts	51.8	-		51.5
10:00	**PL**	**Retail Sales Real**	**Mar**	**% y/y**	**6.9**	**9.5**		**6.1**
14:00	HU	Central Bank Rate Decision	Apr	%	7.75	7.75		8.25
14:00	**PL**	**Money Supply M3**	**Mar**	**% y/y**	**7.8**	**7.7**		**7.4**
16:00	US	New Home Sales	Mar	% m/m	1.2	-		-0.3
			WEDNESDAY (24 April)					
10:00	DE	IFO Business Climate	Apr	pts	88.8	-		87.8
10:00	**PL**	**Unemployment Rate**	**Mar**	**%**	**5.3**	**5.3**		**5.4**
14:30	US	Durable Goods Orders	Mar	% m/m	2.8	-		1.3
			THURSDAY (25 April)					
14:30	US	GDP Annualized	1Q	% Q/Q	2.3	-		3.4
14:30	US	Initial Jobless Claims		k	215	-		212
16:00	US	Pending Home Sales	Mar	% m/m	1.0	-		1.6
			FRIDAY (26 April)					
14:30	US	Personal Spending	Mar	% m/m	0.6	-		0.8
14:30	US	Personal Income	Mar	% m/m	0.5	-		0.3
14:30	US	PCE Deflator SA	Mar	% m/m	0.3	-		0.3
16:00	US	Michigan index	Apr	pts	77.9	-		79.4

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