

23 April 2024

Eyeopener

Can retail sales turn out strong despite weak output?

Today retail sales and money supply in March, PMI in Germany and euro zone, MNB decision
Strong declines in industrial and construction output, wage growth still robust
MF estimates the general government deficit at PLN189bn in 2024, we see upward risk
FX market stable, further declines in yields

Today, we will see retail sales and money supply data for March. Despite the unforeseen slump in yesterday's output data, we do not expect retail sales to decline as well. On the contrary, we estimate that its annual growth rate should accelerate from 6.1% y/y in February to 9.5% y/y in March, above the consensus of 6.5% y/y, thus indicating further recovery in private consumption. In addition to domestic data, we will also receive preliminary April PMI readings from Germany and the euro area, which according to consensus should point to a slight improvement in their economic situation, as well as information from the US on home sales in March. We will also learn Hungarian National Bank's decision on the level of interest rates. Like the market, we expect them to be cut by 50bp, which would bring the main rate to 7.75%.

After positive surprises in the January economic numbers, the end of 1Q24 brought quite a disappointment in the activity data. Industrial output slowed to -6.0% y/y from 3.3% y/y, and construction output slowed to -13.3% y/y from -4.9% y/y (after declines of 4-5% m/m on a seasonally adjusted basis). Despite the weak performance of construction output, a recovery in the housing market is quite evident, and reflected in the improvement in statistics on the number of new constructions and building permits. We think that the effect of working days may have had a more negative impact on production statistics than we had assumed. Therefore, it is necessary to wait for next months' data to assess to what extent the weakness in production is sustainable. In 1Q2024 as a whole, industrial production increased by 0.1% y/y, following a 0.6% y/y decline in 4Q2023. In contrast, construction output declined by 8.1% y/y in 1Q2024, while it showed an increase of 9.2% y/y in 4Q2023. This means that it may be difficult to see a clear acceleration in GDP growth in 1Q24 this year compared to the end of last year (we expect around 2% y/y). Data from the labour market were more or less in line with expectations, with wages in the corporate sector slowing to 12.0% y/y from 12.9% y/y in February and real growth remaining at 9.8% y/y (the highest since the 1990s). At the same time, with a slight reduction in FTEs on a monthly basis, annual employment growth remained at -0.2% y/y. The labour market remains tight, and declines in employment may be a result of companies' efforts to increase productivity - employment restructuring and automation. Rapid wage growth will support consumption and keep core inflation elevated. The decline in producer prices has slowed to -9.6% y/y from -10% y/y in February and we expect this measure to continue to rise in the coming months with the prospect of returning above zero by the turn of the year. Read more in our [Economic Comment](#).

MPC's Henryk Wnorowski assessed in an interview with Radio Maryja that he can think of reasons which could lead to an interest rate cut or at least to a serious discussion of cuts later this year. However, Wnorowski added that the scale of any reductions in 2024 would be neither big nor significant to borrowers.

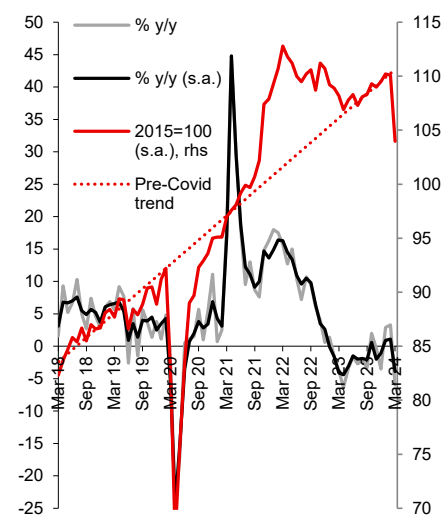
The cost of increasing the funeral benefit from PLN4k to PLN7k is estimated at over PLN2bn per year, informed the Ministry of Family, Labour and Social Policy.

According to the fiscal notification sent by the Ministry of Finance to the EU, the general government deficit is expected to reach PLN189bn in 2024 (5.3% of GDP against our forecast of 5.5% and 5.1% in 2023). Like the Ministry, we expect that the fiscal outcome of the social security and local government sectors will be nearly balanced, but we see a risk of a larger central sector deficit. However, we do not expect an amendment of the budget act. Even if spending increases, the government will likely move it out of the budget.

Foreign exchange market stable. Marginal movements in the EURUSD were accompanied by a slight weakening of the CEE currencies against the euro. The euro was not significantly affected by comments from ECB Council member Villeroy, who said that rising oil prices would not prevent the ECB from cutting rates. Positive sentiment prevailed in equity markets with declines in metals and oil prices in anticipation of the plentiful releases of financial statements by US companies. Markets await US GDP and PCE inflation data later in the week. The MNB decision will be important for the forint today.

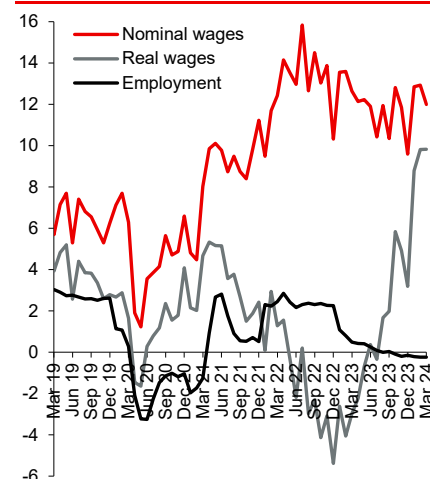
Further declines in the interest rate market. FRA rates fell by 2-11bp, IRS by 8-10bp and bond yields by 6-8bp, with minimal falls in German yields and short-term US yields. The declines in rates were supported by domestic manufacturing data, but today a possible rebound in PMI indices and a jump in Polish sales could halt the declines in the domestic market. At today's auction (PLN6-10bn offer), demand could be strong with around PLN25bn of bonds maturing.

Industrial production versus pre-Covid trend



Source: GUS, Santander

Employment and wages in the corporate sector, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3181	CZKPLN	0.1706
USDPLN	4.0571	HUFPLN*	1.0838
EURUSD	1.0638	RUBPLN	0.0435
CHFPLN	4.4463	NOKPLN	0.3688
GBPPLN	5.0062	DKKPLN	0.5787
USDCNY	7.2453	SEKPLN	0.3723

*for 100HUF

Last session in the FX market

22/04/2024

	min	max	open	close	fixing
EURPLN	4.3028	4.3294	4.3046	4.3171	4.3203
USDPLN	4.0327	4.0666	4.0356	4.0548	4.054
EURUSD	1.0622	1.0669	1.0664		

Interest rate market

22/04/2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS0725 (2Y)	5.27	-8
WS0428 (5Y)	5.57	-9
DS1033 (10Y)	5.76	-11

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.82	-3	5.48	-1	3.57	-3
2L	5.49	-9	5.15	-2	3.29	-3
3L	5.31	-10	4.92	-2	3.09	-3
4L	5.24	-10	4.74	-5	2.96	-3
5L	5.23	-10	4.67	-2	2.88	-2
8L	5.29	-9	4.54	-2	2.80	-1
10L	5.36	-9	4.50	-1	2.80	-1

WIRON rate

Term	%	Change (bps)
WIRON	5.41	-9

WIBOR rates

Term	%	Change (bps)
O/N	5.54	-7
T/N	5.79	0
SW	5.84	0
1M	5.85	2
3M	5.86	0
6M	5.87	0
1Y	5.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.85	0
3x6	5.81	-2
6x9	5.66	-3
9x12	5.43	-4
3x9	5.78	-3
6x12	5.64	-4

CDS rates and 10Y yield spread vs. German Bund

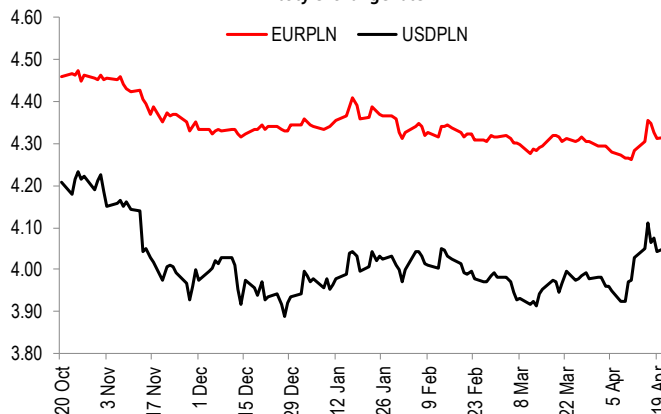
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	72	0	327	-9
France	12	0	50	-1
Hungary	125	-2	470	2
Spain	38	-1	78	-3
Italy	27	-1	133	-7
Portugal	25	0	64	-2
Ireland	15	0	39	-3
Germany	7	0	-	-

* 10Y treasury bonds over 10Y Bunds

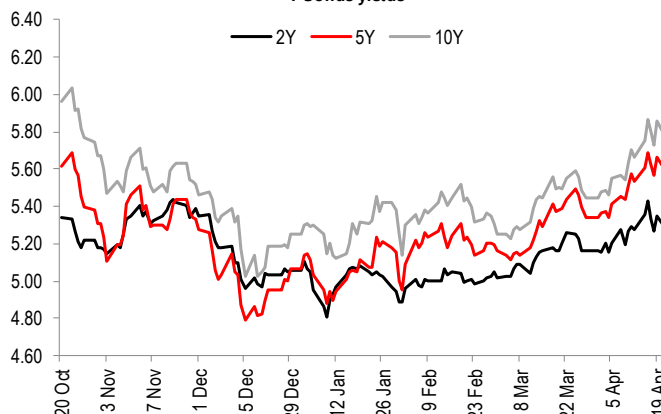
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

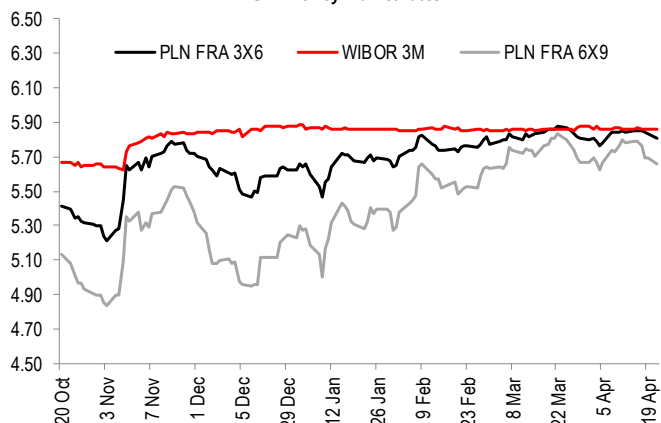
Zloty exchange rate



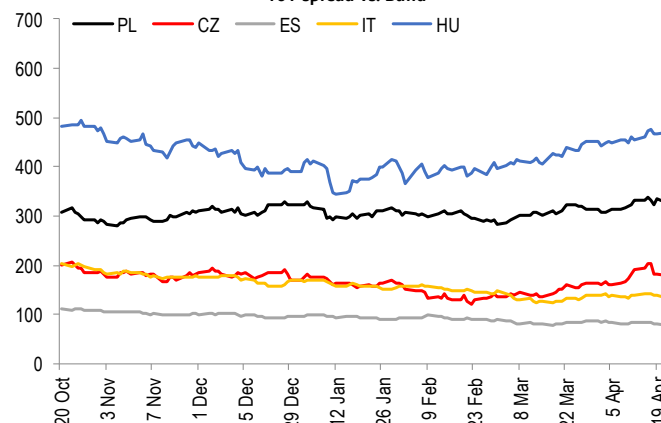
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	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	-10.0
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

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