

23 May 2024

Eyeopener

Forecasts for industrial output beaten

Today retail sales and construction output in April
 April's industrial output rebounded strongly, but wage growth was weaker than expected
 US central bankers concerned about lacking progress in fighting inflation
 Zloty slightly weaker, debt market awaiting auction

Today, we will receive the second part of April data from the domestic economy, including information on construction output and retail sales. We expect the former rebounded solidly, from -13.3% y/y to -3.7% y/y (with strong support from the working day effect), while the latter slightly decelerated (due to the early Easter). We will also see the preliminary May readings of the German and euro area PMI indices. The market expects that these should indicate a slight improvement in both economies, both in the industrial and service sectors. Finally, from the US, there will be data on the number of initial jobless claims in the last week as well as on new home sales in April.

The first set of real economic activity data for April, on the one hand, alleviated the concerns triggered earlier by the dramatic fall in production in March (and now industry beat expectations with a 7.9% y/y result), but on the other hand, it intensified other concerns - about the resilience of the labour market (employment surprised with a 0.4% y/y fall, wages slowed to 11.3% y/y instead of accelerating to 12.5% y/y). May economic surveys generally suggest that businesses are still gradually gaining optimism, while consumers have doubts in the face of a new wave of inflation and layoffs in some sectors. The data support our scenario of an economic rebound, but suggest caution in assessing how strongly consumption may rebound in the near term. The MPC is likely to acknowledge the lower-than-expected wages, but in our view the April result does not undermine the prospects of double-digit annual wage growth throughout this year. Read more in our [Economic Comment](#).

MPC's Jolanta Duda assessed in an interview with Bloomberg that the topic of possible rate cuts will be raised by the Council only at the end of the year. She said it is too early to determine the scale of policy easing in 2025, but added that the MPC's moves will be very gradual. Duda highlighted wage dynamics as the main risk to the evolution of inflation.

The cost of the programme of eastern border defences announced by the government will reach at least PLN10bn, Defence Minister Władysław Kosiniak-Kamysz announced in the Sejm yesterday. The programme will be carried out in the years 2024-2028. The minister added that the government will seek to ensure that part of the programme's funding comes from EU funds, and that half of the expenditures on modernising the Polish army will go to the Polish defence industry.

The Ministry of Family, Labour and Social Policy is working on Poland's implementation of the EU directive on adequate minimum wages in the EU. The Ministry is inclined to set the indicative reference value, to which the minimum wage will be compared, as 60% of the average wage. However, as underlined by the ministry, this is to be a directional guideline, a level to be achieved in the long term, and setting it there does not mean that the minimum wage will be immediately aligned with it. The government's proposal for the amount of the minimum wage in 2025 is to be submitted for consultation within the Social Dialogue Council by 15 June.

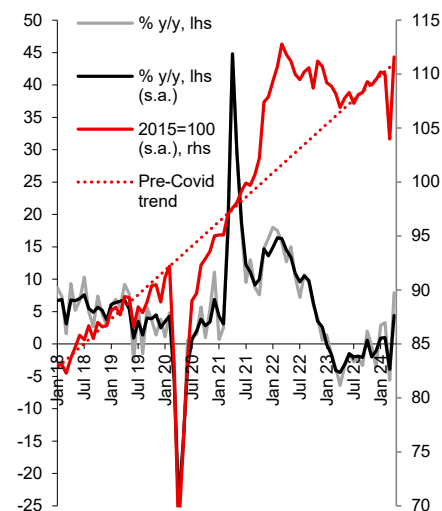
The cost of planned changes the pensions paid to widowed persons is initially expected to amount to PLN8-10bn per year, according to estimates by the Ministry of Family, Labour and Social Policy. The draft law assumes that a widowed person could keep own benefit and increase it by 50% of the survivor's pension after the deceased spouse or collect the whole survivor's pension plus 50% of own benefit. Under the current state of the law, the rule is that only one of the benefits is payable.

The minutes of the FOMC May meeting showed that committee members' concerns about progress in the fight against inflation have increased. Despite a significant drop in inflation over the previous quarters, data for recent months have indicated price increases, both in goods and services. Some FOMC members expressed the view that they were ready to tighten monetary policy further if the risk of accelerating inflation increased. The tone of the document was hawkish and contributed to a marked strengthening of the dollar.

Yesterday morning saw a weakening of CEE currencies, minimal in the case of the CZK (0.1% against the EUR) and pronounced in the case of the HUF (0.4% loss). EURPLN rose quickly by PLN0.02 before midday but by the end of the day had reversed most of this movement. We associate this fluctuations with the news on Russia's intention to arbitrarily move the Baltic border. Also working against the region's currencies was the decline in EURUSD, which was supported by the hawkish tone of the FOMC minutes.

The domestic debt market remained stable despite rising government bond yields in the core markets. Today's bond auction will take place against the backdrop of negative net debt supply in May.

Industrial production in Poland



Source: GUS, Santander

Economic Analysis Department:

a.l. 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 Łuziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4.2686	CZKPLN	0.1724
USDPLN	3.9425	HUFPLN*	1.0908
EURUSD	1.0824	RUBPLN	0.0437
CHFPLN	4.3090	NOKPLN	0.3682
GBPPLN	5.0170	DKKPLN	0.5719
USDCNY	7.2443	SEKPLN	0.3675

*for 100HUF

Last session in the FX market

22/05/2024

	min	max	open	close	fixing
EURPLN	4.2475	4.2701	4.2502	4.2593	4.2575
USDPLN	3.9121	3.9457	3.9166	3.9309	3.9243
EURUSD	1.0820	1.0863	1.0853	1.0834	

Interest rate market

22/05/2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5.40	5
WS0429 (5Y)	5.51	1
DS1033 (10Y)	5.68	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.82	2	5.44	2	3.56	-2
2L	5.43	2	5.05	4	3.34	4
3L	5.20	3	4.78	4	3.13	4
4L	5.10	3	4.61	6	3.00	4
5L	5.06	2	4.50	4	2.91	4
8L	5.09	1	4.37	3	2.80	3
10L	5.15	1	4.33	1	2.80	2

WIRON rate

Term	%	Change (bps)
WIRON	5.37	15

WIBOR rates

Term	%	Change (bps)
O/N	5.66	5
T/N	5.76	0
SW	5.83	0
1M	5.84	-3
3M	5.86	1
6M	5.86	0
1Y	5.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.85	0
3x6	5.82	1
6x9	5.69	4
9x12	5.38	1
3x9	5.82	1
6x12	5.67	3

CDS rates and 10Y yield spread vs. German Bund

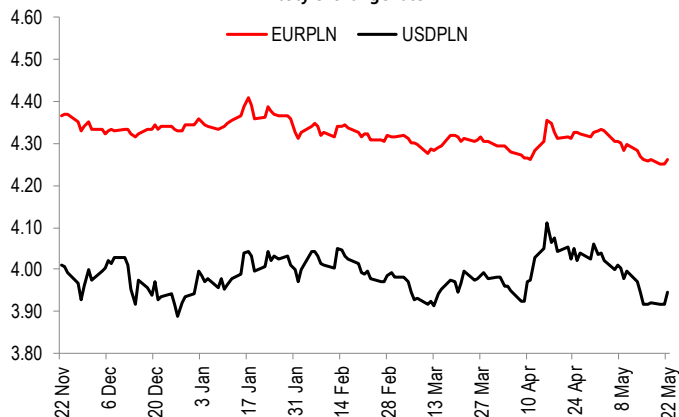
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	68	0	315	-2
France	11	0	49	0
Hungary	119	0	425	2
Spain	35	0	77	0
Italy	27	0	129	0
Portugal	22	0	64	0
Ireland	14	0	39	1
Germany	5	0	-	-

* 10Y treasury bonds over 10Y Bunds

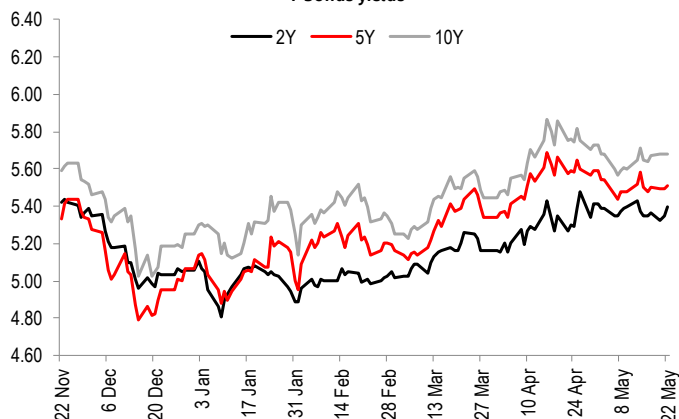
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

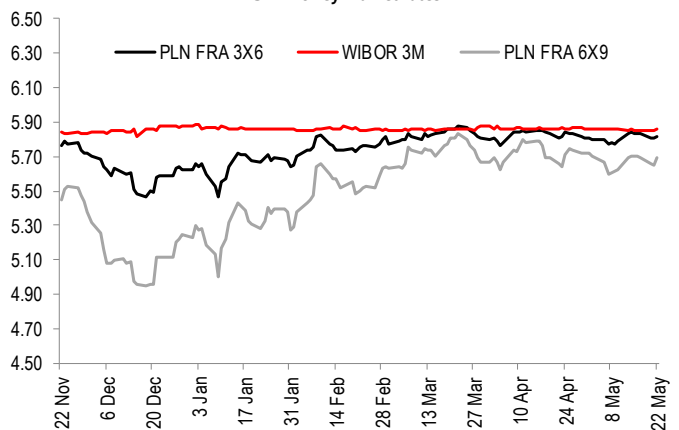
Zloty exchange rate



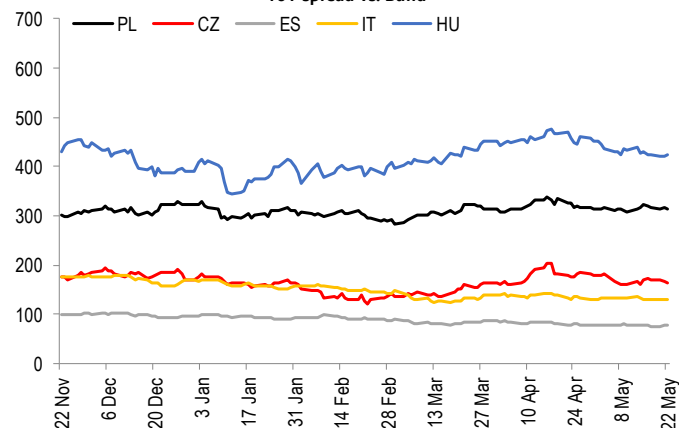
T-bonds yields



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*
FRIDAY (17 May)								
11:00	EZ	HICP	Apr	% y/y	2.4	-	2.4	2.4
MONDAY (20 May)								
03:15	CN	1Y Loan Prime Rate	May	%	3.45	-	3.45	3.45
TUESDAY (21 May)								
14:00	HU	Central Bank Rate Decision	May	%	7.25	7.25	7.25	7.75
WEDNESDAY (22 May)								
10:00	PL	Employment in corporate sector	Apr	% y/y	-0.3	-0.3	-0.4	-0.2
10:00	PL	Average Gross Wages	Apr	% y/y	12.5	12.5	11.3	12.0
10:00	PL	Sold Industrial Output	Apr	% y/y	6.3	6.8	7.9	-5.4
10:00	PL	PPI	Apr	% y/y	-8.2	-8.3	-8.6	-9.9
16:00	US	Existing Home Sales	Apr	% m/m	-0.1	-	-1.9	-3.7
20:00	US	FOMC Meeting Minutes	May					
THURSDAY (23 May)								
09:30	DE	Germany Manufacturing PMI	May	pts	43.5	-		42.5
09:30	DE	Markit Germany Services PMI	May	pts	53.5	-		53.2
10:00	EZ	Eurozone Manufacturing PMI	May	pts	46.1	-		45.7
10:00	EZ	Eurozone Services PMI	May	pts	53.6	-		53.3
10:00	PL	Construction Output	Apr	% y/y	-5.7	-3.7		-13.3
10:00	PL	Retail Sales Real	Apr	% y/y	5.3	4.6		6.1
14:30	US	Initial Jobless Claims		k	220	-		222
16:00	US	New Home Sales	Apr	% m/m	-2.6	-		8.8
FRIDAY (24 May)								
08:00	DE	GDP WDA	1Q	% y/y	-0.2	-		-0.2
14:00	PL	Money Supply M3	Apr	% y/y	6.7	6.7		6.6
14:30	US	Durable Goods Orders	Apr	% m/m	-0.8	-		0.9
16:00	US	Michigan index	May	pts	67.8	-		77.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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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>.