

20 March 2025

Eyeopener

US rates unchanged, plenty of Polish data coming

Today data on Polish labour market, industrial and construction output, PPI
FOMC left rates unchanged, dot plot still points to rate cuts by 50bp in both 2025 and 2026
MPC's Małowska: higher chance of rate cuts only at the turn of 2025 and 2026
EC released details of ReArm Program
Temporary złoty weakness, domestic yield curve steeper

Today, we will see February data on the state of the domestic labour market, industrial and construction output, as well as PPI inflation. In line with the market consensus, we expect the labour market data to show employment remaining 0.9% lower y/y and wage growth continuing to slow down, in our view to 8.6% y/y (0.1 pp below the consensus). For industrial output, we expect a slight improvement in the annual growth rate, from -1.0% y/y to -0.5% y/y, contrary to market expectations for a deterioration to -1.8% y/y. In construction output, we expect a stronger weakening than assumed by the market, by 1.0 pp, from 4.3% y/y to 1.0% y/y. The results will be negatively affected by differences in working days y/y. PPI inflation should fall from -0.9% y/y to -1.2% y/y in our assessment. In the US, there will be last week's initial jobless claims and February home sales data. China's central bank left interest rates unchanged today, with decisions still to come in Switzerland (25 bp cut expected), Sweden, and the UK.

The FOMC kept interest rates unchanged. The dot plot describing each policymaker's preference for the future level of rates showed, as in the December release, 50 bp cuts each this year and next year, and the target rate at 3.00%. The new Fed projection showed lower GDP growth in 2025 (1.7%, down 0.4 pp) and 2026 (1.8%, down 0.2 pp), and higher PCE inflation in 2025 (2.7%, +0.2pp change) and in 2026 (2.2%, +0.1pp). As in the December round, the Fed assumes that inflation will already reach the 2% target in 2027. Thus, it appears that the Fed is assuming that the tariffs will have only a temporary effect, although the release emphasized more strongly uncertainty about changes in US trade policy and around the economic outlook in general. The FOMC reduced substantially the pace of reduction in the government bond portfolio.

In March, the aggregate index of current situation assessment by Polish consumers weakened to -15.2 pts from -14.8 pts which keeps it around 1 pt above the long-term average. The aggregate consumer expectations index rose by 1 pt to -9.8 pts, more than 8 pts above the historical average. The survey captured an increase in anxiety related to the war in Ukraine in additional questions but it did not seem to affect consumer behaviour. The major purchases index improved significantly for the second time in a row and is now the highest in 3.5 years. Households signalled also that their ability to save in the next 12 months improved markedly in March (this component keeps setting all-time highs). The survey results seem in line with our view that private consumption will offer solid support to GDP growth this year, like it did last year.

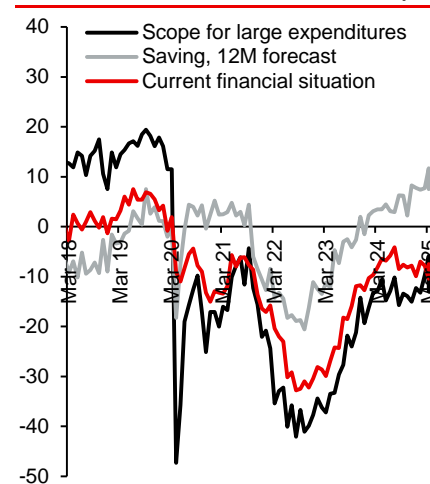
MPC member Gabriela Małowska said in a statement for Bloomberg that she sees a better chance for an interest rate cut in late 2025 or early 2026, although she would support such a move earlier if it were possible without the threat of an inflation rebound. Małowska also assessed that, due to numerous pro-inflationary factors, a rate cut in the first half of 2025 is unrealistic. In our assessment, the first interest rate cut is possible in July this year.

The European Commission presented details of the ReArm Europe plan. As stated, the loosening of fiscal rules will be limited to a rise in defence spending in the definition currently used by Eurostat's COFOG statistics, up to a maximum of 1.5% of GDP for each year compared to 2021 and for a period of four years. It also proposes the creation of a SAFE facility containing EUR150bn in loans to be disbursed until 2030. At least 65% of the SAFE expenditure is to be allocated to components from Europe. Deputy Finance Minister Paweł Karbownik said that around PLN100bn from SAFE could come to Poland and would be invested over the next several months in the defence industry.

On Wednesday, the złoty saw a temporary depreciation against the euro, which took the EURPLN exchange rate above 4.20. Nevertheless, the move was fully offset later on and EURPLN ended the session at 4.18, not far from the opening. The EURHUF exchange rate behaved similarly, although in its case the correction of the initial rise was not complete, so that it ended the session up by around 0.2%. The Czech koruna outperformed the CEE peers, gaining around 0.1% to the euro. The dollar strengthened by around 0.5% against the euro. Presidents Trump and Zelenskyy agreed a ceasefire on attacks on energy infrastructure. Further truce talks are planned for early next week. If the process progresses this could trigger a strengthening of the złoty.

The Polish yield curve steepened by around 4 bps on Wednesday, with yields on two-year bonds falling by around 2 bps and yields on five- and ten-year bonds rising by around 2 bps. In Germany, two- and five-year bond yields registered increases of 2 bp and 1 bp, respectively, and in the US, increases of 2-4 bp, stronger at the short end of the curve. Besides, domestic IRS rates rose by around 3 bp across the curve and FRA rates by 1-3 bp, stronger at the long end of the curve. The Ministry of Finance reported that the coverage of this year's borrowing needs is 54%, in line with our estimate.

Selected consumer confidence indicators, pts



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.1843	CZKPLN	0.1671
USDPLN	3.8415	HUFPLN*	1.0391
EURUSD	1.0891	RONPLN	0.8409
CHFPLN	4.3815	NOKPLN	0.3631
GBPPLN	4.9872	DKKPLN	0.5608
USDCNY	7.2346	SEKPLN	0.3798

*for 100HUF

Last session in the FX market

19.03.2025

	min	max	open	close	fixing
EURPLN	4.1770	4.2054	4.1862	4.1899	4.1945
USDPLN	3.8269	3.8618	3.8302	3.8495	3.8473
EURUSD	1.0872	1.0932	1.0931		1.0885

Interest rate market

19.03.2025

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0127 (2L)	5.16	-2
PS0130 (5L)	5.58	2
DS1034 (10L)	5.93	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.50	2	4.32	-4	2.25	0
2L	5.02	2	4.08	-7	2.31	1
3L	4.83	2	4.01	-7	2.34	-2
4L	4.79	2	4.01	-5	2.43	1
5L	4.80	3	4.01	-5	2.48	0
8L	4.92	2	4.07	-4	2.61	-1
10L	5.02	1	4.11	-3	2.64	-5

WIBOR rates

Term	%	Change (bps)
O/N	5.70	0
T/N	5.79	-1
SW	5.83	0
1M	5.85	1
3M	5.86	0
6M	5.79	-1
1Y	5.58	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.82	1
3x6	5.68	1
6x9	5.18	1
9x12	4.78	0
3x9	5.60	2
6x12	5.11	2

CDS rates and 10Y yield spread vs. German Bund

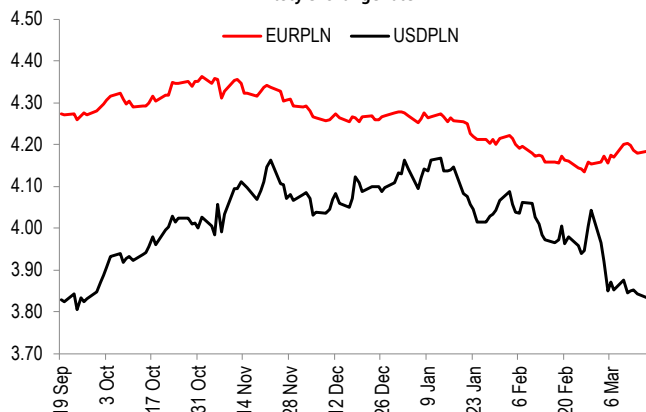
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	65	0	313	4
France	16	0	68	-1
Hungary	119	0	437	5
Spain	30	0	63	0
Italy	23	0	105	0
Portugal	14	0	51	-1
Ireland	9	0	30	2
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

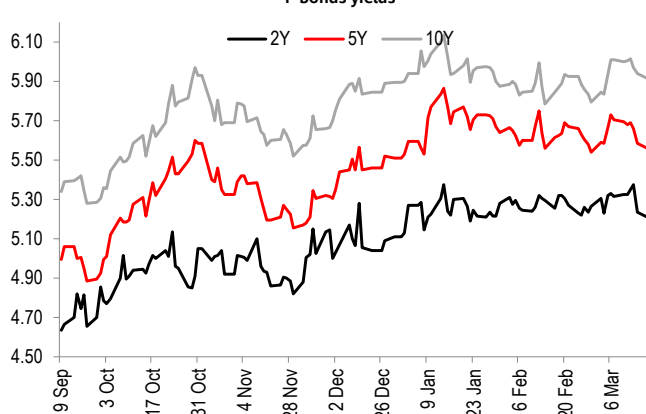
**Information shows bid levels on the interbank market at the end of the trading day

Source: LSEG, Datastream

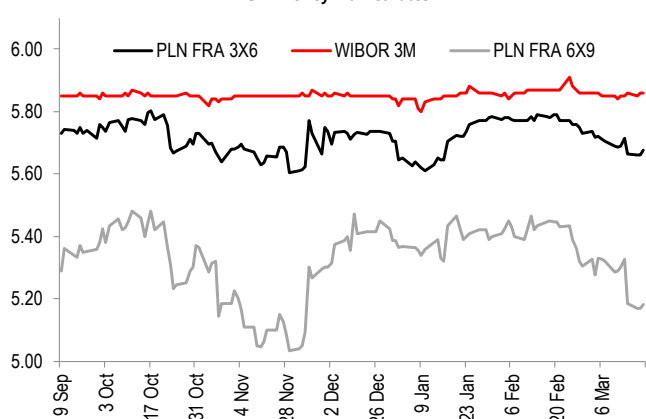
Zloty exchange rate



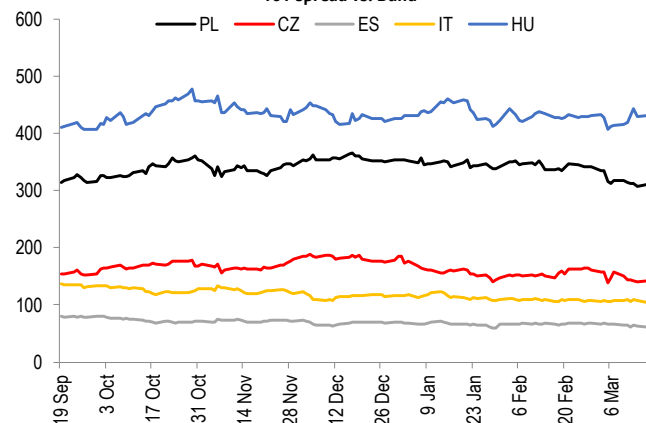
T-bonds yields



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 (14 March)								
08:00	DE	HICP	Feb	% m/m	0.6	-	0.5	0.6
10:00	PL	CPI	Feb	% y/y	5.3	-	4.9	5.3
15:00	US	Michigan index	Mar	pts	63.0	-	-	64.7
MONDAY (17 March)								
13:30	US	Retail Sales Advance	Feb	% m/m	0.6	-	0.2	-1.2
14:00	PL	CPI Core	Jan	% y/y	-	3.9	3.7	4.0
14:00	PL	CPI Core	Feb	% y/y	-	3.6	3.6	-
14:00	PL	Current Account Balance	Jan	€mn	230	912	-168	-803
14:00	PL	Trade Balance	Jan	€mn	-754	-74	-1 506	-2 236
14:00	PL	Exports	Jan	€mn	27 120	26 902	27 236	24 703
14:00	PL	Imports	Jan	€mn	27 628	26 976	28 742	26 939
TUESDAY (18 March)								
11:00	DE	ZEW Survey Current Situation	Mar	pts	-80.5	-	-87.6	-88.5
13:30	US	Housing Starts	Feb	% m/m	1.4	-	11.2	-11.5
14:15	US	Industrial Production	Feb	% m/m	0.2	-	0.7	0.3
WEDNESDAY (19 March)								
11:00	EZ	HICP	Feb	% y/y	2.4	-	2.3	2.5
19:00	US	FOMC decision	Mar	%	4.50	-	4.50	4.50
THURSDAY (20 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	-0.9	-0.9	-	-0.9
10:00	PL	Average Gross Wages	Feb	% y/y	8.7	8.6	-	9.2
10:00	PL	Sold Industrial Output	Feb	% y/y	-1.8	-0.5	-	-1.0
10:00	PL	Construction Output	Feb	% y/y	2.0	1.0	-	4.3
10:00	PL	PPI	Feb	% y/y	-1.2	-1.2	-	-0.9
13:30	US	Initial Jobless Claims	Weekly	k	225	-	-	220
15:00	US	Existing Home Sales	Feb	% m/m	-3.7	-	-	-4.9
FRIDAY (21 March)								
No data releases								

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

* in the case of a revision the data is updated

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