

22 May 2025

Eyeopener

Major acceleration of wages and higher output

Today domestic data on construction output, business sentiment and flash PMI

May industrial output, wages and employment above expectations

MPC's Litwiniuk: given inflation risks another cut more likely in the autumn

Zloty neither advanced its strengthening nor gave away its gains

Today, we will see April data on construction output and housing construction. We expect construction output growth to remain below zero due to Easter falling late this year, but also to improve slightly, from -1.1% y/y to -0.2% y/y. We will also see the results of the survey on sentiment among Polish businesses in May, as well as preliminary May PMI readings from Germany and the euro area, which, in the market's view, should point to a slight improvement of situation in both economies. Information on the economic situation in Germany will also be provided by the May Ifo indices. In addition, in the US, there will be data on initial jobless claims last week and home sales in April.

In April, Polish industrial output rose 1.2% y/y, while we and the market expected to see a small annual decline. The slowdown from 2.4% y/y in March (revised down from 2.5%) was to be expected due to the later date of Easter this year compared to 2024. April's industrial data, if confirmed by another strong reading in May, could be seen as a long-awaited change in the sector. Moreover, today's figures pointed to an improvement in May's consumer confidence and labour market. **Corporate wage growth rebounded to 9.3% y/y** in April from 7.7% y/y in March, clearly above the market consensus at 8.1% y/y and our estimate at 8.4% y/y. **Employment growth increased to -0.8% y/y** from -0.9% y/y, where it had been for the previous three months. **PPI inflation printed -1.4% y/y** in April after -1.0% y/y in March (revised data), thus fell between our forecast of -1.3% y/y and the consensus of -1.5% y/y. In the coming months, the PPI may still decline slightly due to the statistical base effect, but by the end of the year it should head towards zero. The data published today surprised on the upside, which supports our forecast that GDP growth will remain solid in the coming quarters and may even accelerate compared to 1Q25 (3.2% y/y). At the same time, the strong numbers, especially those on wages, may reduce the willingness within the MPC to cut more strongly. Read more in our [Economic Comment](#).

Przemysław Litwiniuk of the MPC assessed in a statement for PAP Biznes that an interest rate cut in July is not out of the question, but the risks to inflation increase the likelihood that it will not take place until autumn. In his view, for rates to be cut as early as July, incoming data and the July inflation projection must provide strong evidence that risks to inflation have abated. Depending on the data, he added, the Council could opt for a cycle of two or three 25bp cuts or a single firm adjustment.

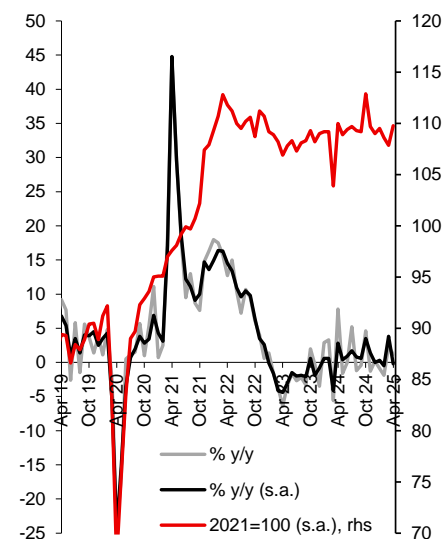
The EU's SAFE programme has been approved by the member states, European Commission President Ursula von der Leyen announced on X. Under the programme, EUR150bn in loan funds are to be made available to member states for investment in the defence industry.

At the end of 1Q25, local government budgets registered a surplus of PLN41.4bn, compared to PLN23.6bn a year earlier. The higher surplus in local governments is some counterbalance to the higher state budget deficit (PLN76.3bn in 1Q25 vs. PLN24.6bn in 1Q24) and is related to changes in the financing of local governments. Local government revenues increased by 23.6% y/y to c. PLN140.0bn and expenditures by 10.1% y/y to c. PLN98.7bn. Capital expenditures increased by 11.2% y/y, including expenditures financed by EU funds by 186% y/y (in this case, it was mainly a base effect, as nominally expenditures reached a level lower than in the corresponding period of 2023). These figures suggest that we may see an improvement in investment in 1Q25 GDP data, linked to an awakening of EU spending.

On Wednesday, the EURPLN exchange rate did not deepen the decline from the previous two days, but at the same time did not attempt to return above 4.25. The persistence of the zloty at a fairly strong level against the euro, if one takes into account additional political uncertainty in connection with the outcome of the first round of the presidential election, may be related to the publication of higher-than-expected data from the Polish economy. These data may make the MPC more cautious about further interest rate cuts. Movements in the exchange rates of the Hungarian forint and the Czech koruna against the euro were negligible. At the same time, there was a weakening of the dollar against the euro by around 0.4%, which took EURUSD from 1.128 to 1.132.

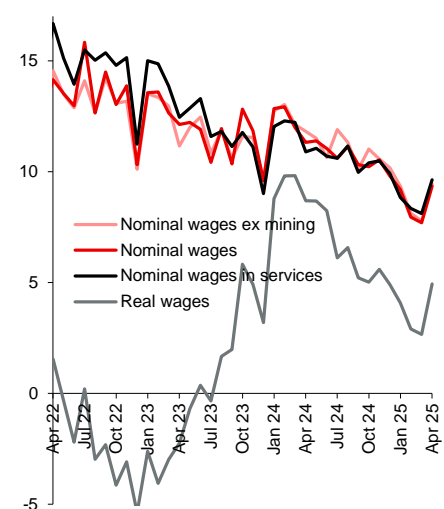
Polish IRS rates and FRA rates rose slightly on Wednesday, by c. 2-3 bps. Polish bond yields fell by around 3 bp at the short end of the curve and experienced minimal increases over the rest of the curve. There were limited increases in the core markets, including in Germany by 2-4 bp with the curve steepening by around 2 bp and in the US by 3-4 bp.

Industrial output



Source: GUS, Santander

Wage growth in the corporate sector, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2434	CZKPLN	0.1701
USDPLN	3.7437	HUFPLN*	1.0432
EURUSD	1.1334	RONPLN	0.8371
CHFPLN	4.5393	NOKPLN	0.3683
GBPPLN	5.0262	DKKPLN	0.5688
USDCNY	7.2033	SEKPLN	0.3914

*for 100HUF

Last session in the FX market

21/05/2025

	min	max	open	close	fixing
EURPLN	4.2349	4.2511	4.2410	4.2387	4.2403
USDPLN	3.7324	3.7520	3.7437	3.7371	3.7452
EURUSD	1.1311	1.1362	1.1327	1.1342	

Interest rate market

21/05/2025

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0527 (2L)	4.61	-2
PS0130 (5L)	5.08	-1
DS1034 (10L)	5.53	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.72	2	4.36	1	2.04	1
2L	4.29	3	4.04	2	2.03	3
3L	4.19	1	3.99	5	2.12	3
4L	4.21	0	4.01	7	2.20	4
5L	4.26	1	4.05	7	2.29	4
8L	4.45	1	4.20	7	2.51	5
10L	4.61	1	4.31	10	2.62	5

WIBOR rates

Term	%	Change (bps)
O/N	5.20	-4
T/N	5.32	0
SW	5.32	0
1M	5.44	8
3M	5.23	-2
6M	5.02	1
1Y	4.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.13	-2
3x6	4.81	4
6x9	4.40	4
9x12	4.07	3
3x9	4.67	4
6x12	4.31	4

CDS rates and 10Y yield spread vs. German Bund

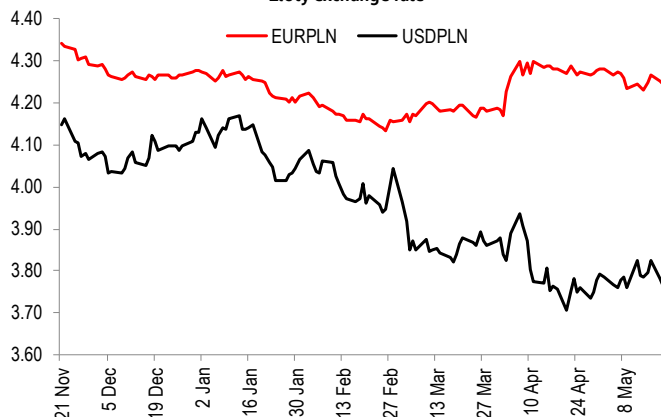
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	0	289	-3
France	19	0	66	1
Hungary	130	1	443	2
Spain	34	-1	61	0
Italy	24	0	101	-1
Portugal	17	0	50	0
Ireland	15	0	32	1
Germany	7	0	-	-

* 10Y treasury bonds over 10Y Bunds

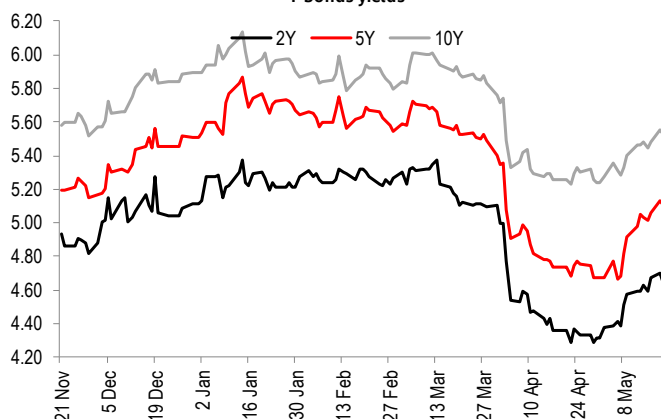
**Information shows bid levels on the interbank market at the end of the trading day

Source: LSEG, Datastream

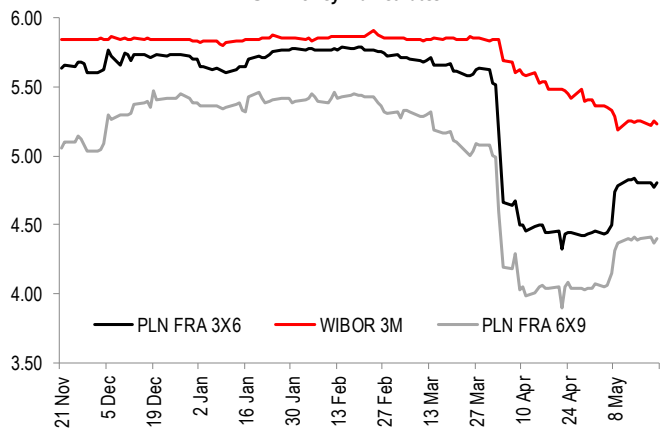
Zloty exchange rate



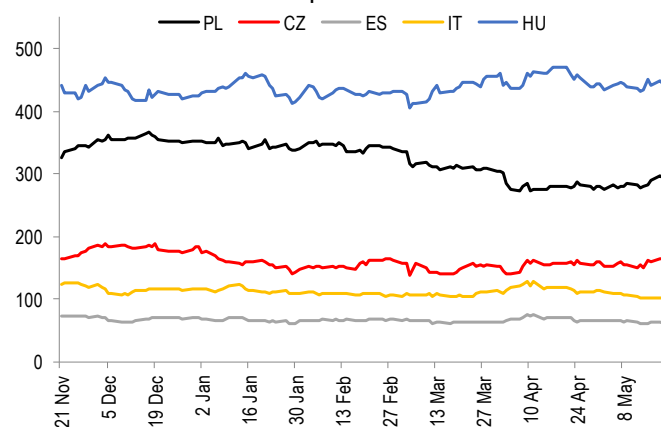
T-bonds yields



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 (16 May)								
14:00	PL	CPI Core	Apr	% y/y	3.5	3.5	3.4	3.6
14:30	US	Housing Starts	Apr	% m/m	3.0	-	1.6	-10.1
16:00	US	Michigan index	May	pts	53.5	-	50.8	52.2
MONDAY (19 May)								
11:00	EZ	HICP	Apr	% y/y	2.2	-	2.2	2.2
TUESDAY (20 May)								
No data releases								
WEDNESDAY (21 May)								
10:00	PL	Employment in corporate sector	Apr	% y/y	-0.9	-0.9	-0.8	-0.9
10:00	PL	Average Gross Wages	Apr	% y/y	8.1	8.4	9.3	7.7
10:00	PL	Sold Industrial Output	Apr	% y/y	-0.1	-0.2	1.2	2.4
10:00	PL	PPI	Apr	% y/y	-1.5	-1.3	-1.4	-1.1
THURSDAY (22 May)								
09:30	DE	Germany Manufacturing PMI	May	pts	48.8	-	-	48.4
09:30	DE	Markit Germany Services PMI	May	pts	49.7	-	-	49.0
10:00	DE	IFO Business Climate	May	pts	87.5	-	-	86.9
10:00	EZ	Eurozone Manufacturing PMI	May	pts	49.3	-	-	49.0
10:00	EZ	Eurozone Services PMI	May	pts	50.5	-	-	50.1
10:00	PL	Construction Output	Apr	% y/y	-0.6	-0.2	-	-1.1
14:30	US	Initial Jobless Claims	weekly	k	228	-	-	229
16:00	US	Existing Home Sales	Apr	% m/m	3.2	-	-	-5.9
FRIDAY (23 May)								
08:00	DE	GDP WDA	1Q	% y/y	-0.2	-	-	-0.2
14:00	PL	Money Supply M3	Apr	% y/y	9.9	10.1	-	10.3
16:00	US	New Home Sales	Apr	% m/m	-3.3	-	-	7.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

* in the case of a revision the data is updated

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