

27 June 2024

Eyeopener

June ESI business climate indicators today

Today ESI, CNB decision, third US GDP estimate for 1Q24
 Agricultural drought has deepened
 NBP deputy governor expects June inflation very close to 2.5% y/y
 Zloty weaker, market rates higher

Today, we will see June releases of the Economic Sentiment Indicators (ESI) for EU countries, including Poland. The Polish stats office will release quarterly GDP data for 2019-2023, which may include revisions of previously published estimates. We will also get a sizable set of data from the US, which will include the third estimate of 1Q24 GDP (which, according to the previous estimate, rose 1.3% on an annualised basis), information on durable goods orders and pending home sales in May, as well as last week's number of initial jobless claims. Finally, the Czech National Bank will decide on the level of interest rates and will likely cut them by 25 bps, bringing the main interest rate down to 5.00%.

The so-called business cycle clock released by the Central Statistical Office (a quarterly indicator showing in which phase of the business cycle the economy is and towards which phase it is heading) has shown that in April Poland remained in the recovery phase. Since January, the business cycle clock has moved slightly towards the expansion phase, but also towards a slowdown, which may suggest that the expansion phase may be relatively short. The GUS clock determines the course of the business cycle based on the behaviour of sold industrial production, so the relatively unfavourable situation of this sector compared to the rest of the economy may affect its indications.

S&P Global Ratings has raised its forecast for Polish GDP growth in 2024 by 0.1 pp to 2.9% and in 2025 by 0.2 pp to 3.3% (our forecasts are 3.0% and 3.5% respectively). In its report, the agency stated that, in its view, average annual inflation will equal 4.7% in 2024 (we: 3.7%), 4.2% in 2025 (we: 5.0%) and 3.2% in the following two years. Moreover, S&P expects the NBP to keep its interest rates unchanged until the end of 2024, deliver 100 bps of rate cuts in 2025, and bring the reference rate down to 3.00% by the end of 2026.

Between 21 April and 20 June, the average value of the Climatic Water Balance was -118 mm, reported the Institute of Soil Science and Plant Cultivation. This corresponds to a 25 mm increase in the water deficit, thus worsening the agricultural drought. Agricultural drought occurred in all the provinces (the previous report mentioned 15) and covered 11 of the 14 monitored crop types (previously 5 of 8). According to the Institute, the drought caused at least 20% yield losses in the monitored crops in comparison to the yields obtained under average multi-year weather conditions.

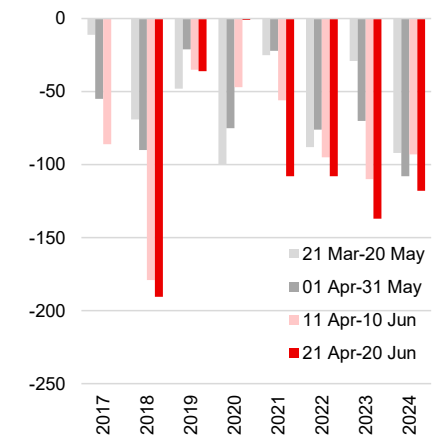
Prime Minister Donald Tusk announced that the government will proceed with the Central Transportation Port construction. The project will last until 2032, and its total cost is estimated at PLN131bn, with the airport investment at PLN42.7bn and the railroad part at around PLN80bn. The investment is to be financed by, among other things, a debt issue worth about PLN57bn and a private investor contribution of PLN8bn. As added, the project will include not only the construction of an airport in Baranów and a high-speed railroad that will connect Warsaw and Łódź, among others, but also the modernization of the A2 highway, including the addition of a third and fourth lane between Warsaw and Łódź.

NBP Vice President Marta Kightley estimated yesterday that in June, as in May, CPI inflation will be very close to 2.5% y/y. The vice president's assessment is in line with our estimates and is 0.1 pp below the median market expectation calculated by the Bloomberg service.

The return of a weaker zloty. In yesterday's session, with mixed sentiment in the European session, equity markets saw a strengthening of the dollar, which did not favor the region's currencies. The EURUSD exchange rate slipped below 1.07 following, among other things, comments by O. Rehn that 2 more rate cuts are possible in the eurozone and larger increase in US yields. EURPLN rose above 4.31 losing on a similar scale as the Czech koruna (before today's rate cut) and slightly less than the forint. We assume EURPLN will remain in the 4.25-4.35 range in the coming weeks, and we think the zloty may stay closer to the weaker end of this range in case of prolonged dollar strength and uncertainty around the French elections.

Marginal rise in yields. Yesterday, upward move prevailed in the interest rate market, with FRA rates rising by c.1-4 bp, IRS by 2-4 bp, similarly to bond yields. The German curve moved up by 1-4 bp and the US curve by 4-7 bp ahead of the release of Friday's US PCE inflation data and partly in reaction to higher inflation readings in Canada and Australia. In the domestic market, the focus was on the debt auction, where bonds for around PLN5bn were sold with demand nearly a half higher. Of note was the high sale of inflation-indexed bonds (around PLN1bn). After the auction, the Ministry of Finance has informed that it financed 75% of its borrowing needs for this year. Although the domestic market may be under pressure from the core markets, the potential lower-than-consensus reading of domestic CPI inflation on Friday should favour stabilisation if not a temporary fall in yields.

Country Water Balance, in following six-week reporting periods, mm



Source: IUNG-PIB, Santander

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FX market

Today's opening

EURPLN	4.3101	CZKPLN	0.1727
USDPLN	4.0292	HUFPLN*	1.0773
EURUSD	1.0692	RUBPLN	0.0467
CHFPLN	4.4935	NOKPLN	0.3780
GBPPLN	5.0937	DKKPLN	0.5778
USDCNY	7.2686	SEKPLN	0.3817

*for 100HUF

Last session in the FX market 26/06/2024

	min	max	open	close	fixing
EURPLN	4.2952	4.3188	4.2962	4.3133	4.3087
USDPLN	4.0092	4.0477	4.0116	4.0381	4.0291
EURUSD	1.0664	1.0711	1.0708	1.0680	

Interest rate market 26/06/2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5.18	7
WS0429 (5Y)	5.58	3
DS1033 (10Y)	5.78	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.75	1	5.34	3	3.47	1
2L	5.35	2	4.89	5	3.20	2
3L	5.11	3	4.62	6	3.01	2
4L	5.01	3	4.45	8	2.91	3
5L	4.98	3	4.35	8	2.85	3
8L	5.03	4	4.22	9	2.79	4
10L	5.11	4	4.20	9	2.79	3

WIRON rate

Term	%	Change (bps)
WIRON	4.86	-18

WIBOR rates

Term	%	Change (bps)
O/N	5.76	3
T/N	5.79	3
SW	5.83	0
1M	5.83	-1
3M	5.85	0
6M	5.86	0
1Y	5.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.84	0
3x6	5.77	0
6x9	5.61	1
9x12	5.29	1
3x9	5.76	0
6x12	5.58	1

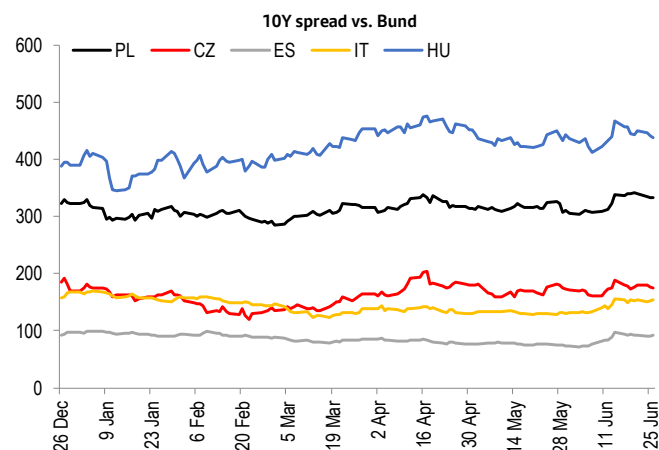
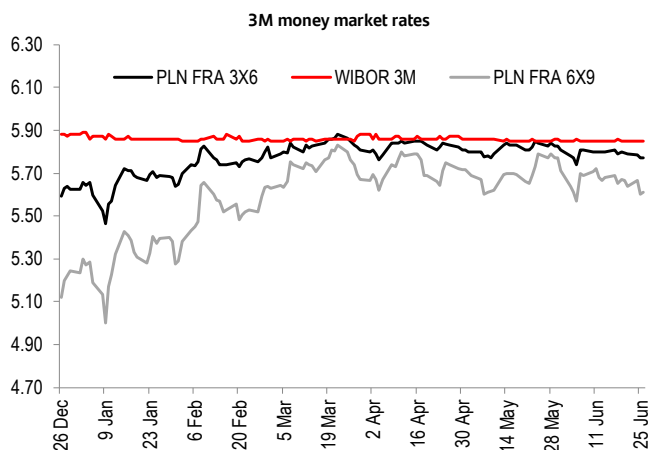
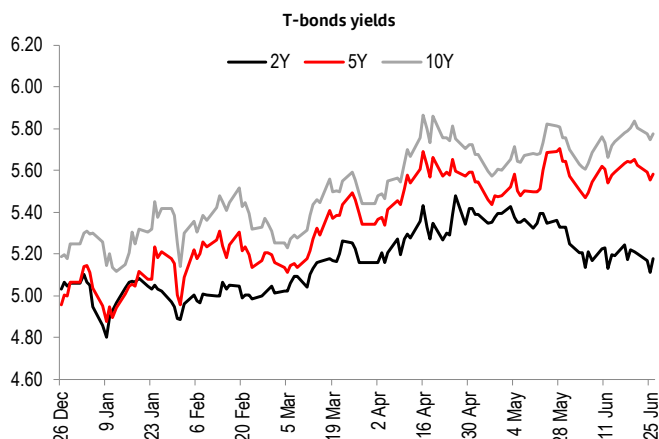
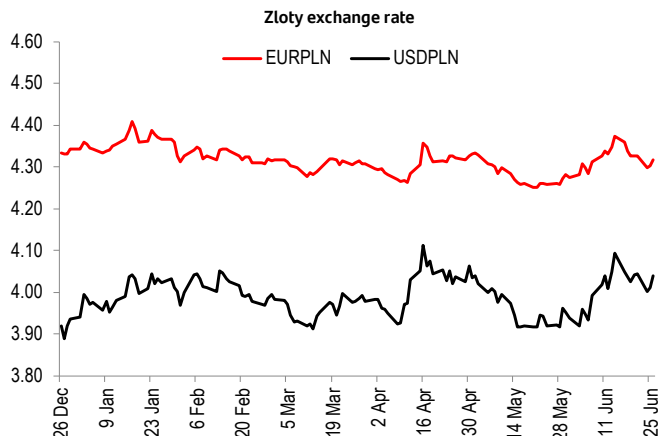
CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	68	0	333	-1
France	18	0	73	2
Hungary	120	0	437	-4
Spain	38	0	93	2
Italy	32	0	154	2
Portugal	27	0	74	2
Ireland	12	0	48	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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (21 June)								
09:30	DE	Germany Manufacturing PMI	Jun	pts	46.4	-	43.4	45.4
09:30	DE	Markit Germany Services PMI	Jun	pts	54.3	-	53.5	54.2
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	47.9	-	45.6	47.3
10:00	EZ	Eurozone Services PMI	Jun	pts	53.4	-	52.6	53.2
16:00	US	Existing Home Sales	May	% m/m	-1.0	-	-0.7	-1.9
MONDAY (24 June)								
10:00	DE	Ifo Business Climate	Jun	pts	89.6	-	88.6	89.3
10:00	PL	Construction Output	May	% y/y	-4.8	-5.0	-6.5	-2.0
10:00	PL	Retail Sales Real	May	% y/y	5.4	4.4	5.0	4.1
14:00	PL	Money Supply M3	May	% y/y	7.4	7.4	8.0	7.4
TUESDAY (25 June)								
10:00	PL	Unemployment Rate	May	%	5.0	5.0	5.0	5.1
16:00	US	Consumer Conference Board	Jun	pts	100.0	-	100.4	101.3
WEDNESDAY (26 June)								
16:00	US	New Home Sales	May	% m/m	0.6	-	-11.3	2.0
THURSDAY (27 June)								
11:00	EZ	ESI	Jun	pct.	96.1	-	-	96.0
14:30	US	Durable Goods Orders	May	% m/m	-0.3	-	-	0.6
14:30	US	GDP Annualized	1Q	% Q/Q	1.4	-	-	1.3
14:30	US	Initial Jobless Claims		k	235	-	-	238
14:30	CZ	Central Bank Rate Decision	Jun	%	5.00	5.00	-	5.25
16:00	US	Pending Home Sales	May	% m/m	0.5	-	-	-7.7
FRIDAY (28 June)								
09:00	CZ	GDP SA	1Q	% y/y	0.2	-	-	0.2
10:00	PL	CPI	Jun	% y/y	2.6	2.5	-	2.5
14:30	US	Personal Spending	May	% m/m	0.3	-	-	0.2
14:30	US	Personal Income	May	% m/m	0.4	-	-	0.3
14:30	US	PCE Deflator SA	May	% m/m	0.0	-	-	0.3
16:00	US	Michigan index	Jun	pts	66.0	-	-	65.6

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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