22 October 2024

Eyeopener

Today retail sales and MNB decision

- Today September retail sales and M3 supply, central bank decision meeting in Hungary
- Industrial production and wage data for September surprised negatively
- NBP monitoring shows slightly worse outlook for recovery, weak exports, improving investments
- Zloty weakens and dollar gains, market rates increase again following the core markets

Today, we will see data on retail sales and M3 money supply in September, as well as on business sentiment in the corporate sector in October. We expect that the data on sales will show a slight decrease in their growth rate compared to August, from 2.6% y/y to 2.5% y/y. In the market's opinion, the size of the decline may be larger, and the retail sales dynamics may have slid to 2.2% y/y. In the case of money supply, we expect its growth rate to have decreased from 7.8% y/y to 6.5% y/y, which does not differ significantly from the market consensus. Apart from the Polish data, there is also the policy decision of the National Bank of Hungary on the agenda and in our view the MNB will leave the level of interest rates unchanged.

Most of yesterday's data from the Polish economy for September surprised negatively. Industrial output growth reached -0.3% y/y (-0.2% m/m sa), surprising to the downside for the third consecutive month, with weakness particularly evident in intermediate goods and export-oriented production. Improving soft leading indicators suggest some recovery, but this may be hampered by prolonged weakness in European manufacturing. Construction output decline eased to -9% y/y (+0.9% m/m sa) from -9.6%, slightly above consensus. We think that over the next few months, positive momentum from the use of EU funds should start to show up in the construction production data, which should favour investments, although we also see a deceleration in the number of building permits and housing starts. Employment growth remained at -0.5% y/y. Wage growth, on the other hand, unexpectedly slowed to 10.3% y/y from 11.1% y/y in August, with deceleration in services and manufacturing, but with strong wage growth in mining driven by bonuses. Real wage growth slowed to 5.2% y/y from 6.6% y/y. Although wage dynamics could reach single-digit levels in the coming months, this would be still strong wage growth supportive for private consumption. A deeper decline in September's PPI (to -6.3% y/y) with continued price declines in manufacturing suggests potentially lower pressure on core goods in the CPI. Today's retail sales data will give a better picture of 3Q activity, but at this point we maintain our forecast for GDP growth this year at 3% (above 3% y/y in 3Q) with the MPC's first rate cut in July 2025. Weakening in the labour market, lower inflation pressures, and a delayed recovery in the euro area as well as strong zloty could potentially increase risks to the baseline scenario towards a slightly faster rate cut. Read more in our Economic Comment.

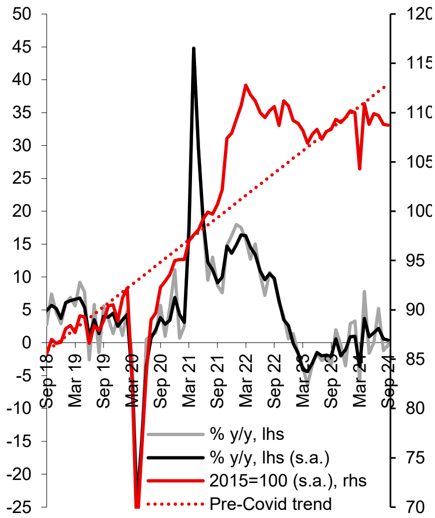
According to the NBP's Quick Monitoring the economic situation of enterprises was still weakened in 3Q24. Enterprises continued to assess their current situation as slightly positive, but also a bit worse than in 2Q, with an improvement in the assessed level of demand and a slightly decrease in the expected scale of economic recovery. It was also noted, that investment optimism of enterprises improved, and plans for quarterly and annual changes in the amount of investment outlays were increased. According to the report, the profitability of exports deteriorated due to the strengthening of the zloty against the dollar. The NBP also pointed to decline in the percentage of companies, which are planning to increase wages.

The President signed a bill providing additional PLN10bn for local governments this year. Over PLN8.2 bn make up additional revenues that local government units will receive from their share in PIT revenues. The rest, i.e. almost PLN1.8bn, will come from the increase in this year's general subsidy. According to the bill, the revenues of local governments will now be based on the share in the income of taxpayers living in their area. In 2025, local government units are to receive almost PLN25bn more than the current system would provide, and within 10 years local government units are to receive PLN345bn.

The CEE currencies weaker, the dollar strengthened. Stock indices fell on Monday in both Europe and the USA. Investors are afraid that a possible victory of D. Trump in the US presidential election could mean greater tensions in global trade, which would be unfavourable for the European economy. Another investor worry is that with a slightly more accommodative fiscal policy in the USA, the risk of slower rate cuts from the Fed would increase. The stronger dollar had a negative impact on the currencies of the CEE region, and the zloty lost to nearly 4.32 against the euro. Today, the forint may be positively affected by an expected pause in the MNB rate cut cycle.

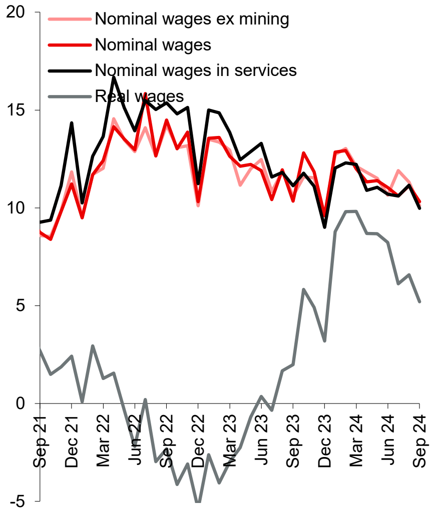
Rates rise again. On the interest rate market, FRA, IRS and bond yields rose by several basis points in the wake of changes in core markets in anticipation of a mild slowdown in US growth. This trend was not disturbed by slightly weaker data from the domestic economy. The Ministry of Finance has announced that it will offer bonds with a total value of PLN 7-11 billion in OK0127, PS0130, WZ0330, DS0432, DS1034, IZ0836 and WS0437 series due for sale on October 23. Finance Minister A. Domański said yesterday that the borrowing needs of the budget for this year are already fully financed, the Ministry of Finance is now focusing on pre-financing for 2025. The Minister of Finance confirmed that this year the ministry no longer plans to enter foreign markets with issuances, which would be in line with our assumptions and annual issuance plan.

Industrial production in Poland



Source: GUS, Santander

Wage growth, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.3121	CZKPLN	0.1704
USDPLN	3.9829	HUFPLN*	1.0642
EURUSD	1.0825	RUBPLN	0.0413
CHFPLN	4.6033	NOKPLN	0.3643
GBPPLN	5.1802	DKKPLN	0.5780
USDCNY	7.1199	SEKPLN	0.3778

*for 100HUF

Last session in the FX market 21/10/2024

	min	max	open	close	fixing
EURPLN	4.3047	4.3202	4.3053	4.3178	4.3178
USDPLN	3.9603	3.9915	3.9650	3.9909	3.9775
EURUSD	1.0819	1.0863	1.0859	1.0820	

Interest rate market 21/10/2024

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5.04	4
WS0429 (5Y)	5.41	8
DS1033 (10Y)	5.69	7

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.64	2	4.45	8	2.56	6
2L	5.22	6	4.12	9	2.34	5
3L	4.98	6	4.00	10	2.29	7
4L	4.93	9	3.97	11	2.29	7
5L	4.93	10	3.95	11	2.31	8
8L	4.99	11	3.96	12	2.38	8
10L	5.06	11	4.01	12	2.43	8

WIBOR rates

Term	%	Change (bps)
O/N	5.62	4
T/N	5.77	1
SW	5.83	0
1M	5.81	1
3M	5.85	0
6M	5.85	0
1Y	5.73	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.85	0
3x6	5.79	1
6x9	5.45	3
9x12	5.02	5
3x9	5.76	1
6x12	5.40	3

CDS rates and 10Y yield spread vs. German Bund

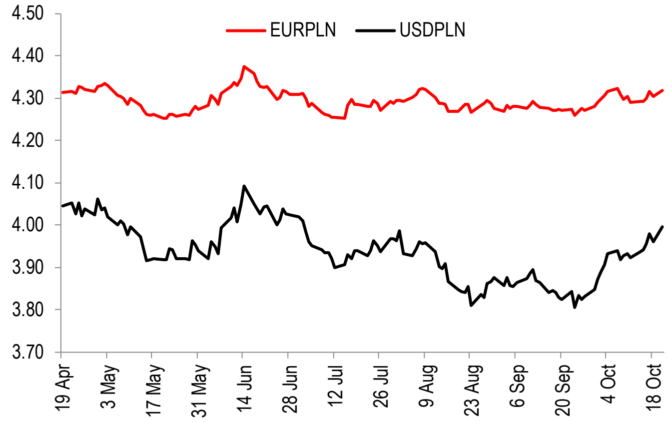
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	69	0	341	-2
France	15	0	73	2
Hungary	128	0	452	5
Spain	30	-1	72	4
Italy	24	1	123	6
Portugal	18	-1	46	2
Ireland	12	0	36	1
Germany	5	0	-	-

* 10Y treasury bonds over 10Y Bunds

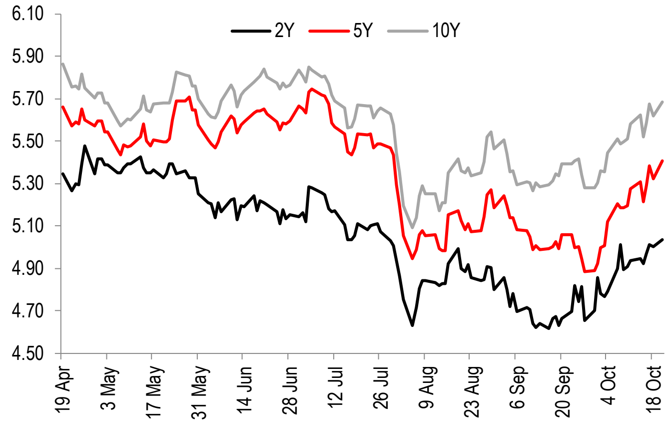
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

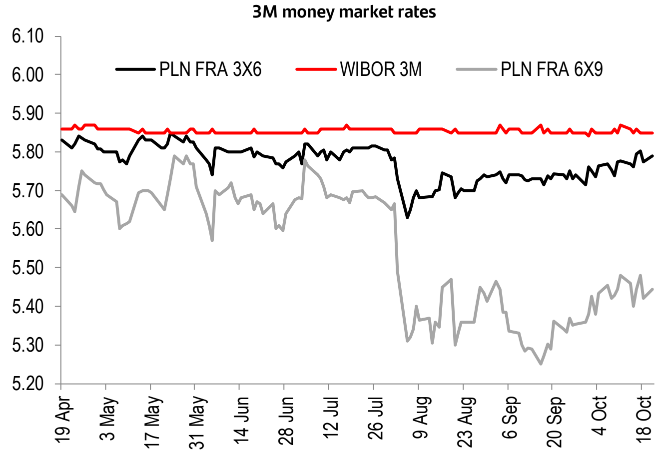
Zloty exchange rate



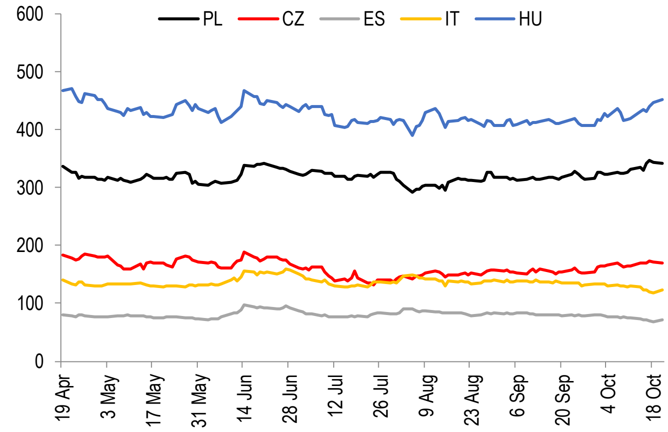
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (18 October)					
14:30	US	Housing Starts	Sep	% m/m	-0.4	-	-0.5	7.8
			MONDAY (21 October)					
10:00	**PL**	**Employment in corporate sector**	**Sep**	**% y/y**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
10:00	**PL**	**Average Gross Wages**	**Sep**	**% y/y**	**11.1**	**11.2**	**10.3**	**11.1**
10:00	**PL**	**Sold Industrial Output**	**Sep**	**% y/y**	**0.6**	**1.1**	**-0.3**	**-1.2**
10:00	**PL**	**Construction Output**	**Sep**	**% y/y**	**-9.8**	**-8.7**	**-9.0**	**-9.6**
10:00	**PL**	**PPI**	**Sep**	**% y/y**	**-5.7**	**-5.7**	**-6.3**	**-5.5**
			TUESDAY (22 October)					
10:00	**PL**	**Retail Sales Real**	**Sep**	**% y/y**	**2.2**	**2.5**	**-**	**2.6**
14:00	HU	Central Bank Rate Decision	Oct	%	6.50	-	-	6.50
14:00	**PL**	**Money Supply M3**	**Sep**	**% y/y**	**6.6**	**6.5**	**-**	**7.8**
			WEDNESDAY (23 October)					
10:00	**PL**	**Unemployment Rate**	**Sep**	**%**	**5.0**	**5.0**	**-**	**5.0**
16:00	US	Existing Home Sales	Sep	% m/m	1.0	-	-	-2.5
			THURSDAY (24 October)					
09:30	DE	Germany Manufacturing PMI	Oct	pts	40.8	-	-	40.6
09:30	DE	Markit Germany Services PMI	Oct	pts	50.9	-	-	50.6
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	45.3	-	-	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	51.7	-	-	51.4
14:30	US	Initial Jobless Claims	weekly	k	259	-	-	241
16:00	US	New Home Sales	Sep	% m/m	-0.42	-	-	-4.7
			FRIDAY (25 October)					
10:00	DE	IFO Business Climate	Oct	pts	85.8	-	-	85.4
14:30	US	Durable Goods Orders	Sep	% m/m	-0.9	-	-	0.0
16:00	US	Michigan index	Oct	pts	69.5	-	-	68.9

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*

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