

19 December 2024

Eyeopener

Fed surprised markets with a hawkish rate cut

Today, important local data, including production and labour market FOMC cut rates by 25bp, presenting a surprisingly hawkish message
Slight improvement of consumer confidence in December
Zloty slightly stronger, bond yields lower

Today, we will get to see a large portion of data showing the state of the Polish economy in November, including information from the labour market, industrial and construction output. We expect that the labour market data will indicate a slowdown in employment growth from -0.5% y/y to -0.6% y/y, as well as the first this year and the third since 2022 slowdown in wage growth to a single-digit level, from 10.2% y/y to 9.3% y/y. The data on industrial production will not look impressive at first glance, because in our opinion it will indicate a decrease in its growth rate from 4.7% y/y to -1.3% y/y. However, this will be due to the fact that the number of working days in November was two days lower than the last year. For this reason, the construction growth rate is also likely to have slowed down, in our view from -9.6% y/y to -10.2% y/y. In addition to the domestic data, we will also see a new estimate of 3Q24 GDP growth in the US, as well as information from the USA on the number of new jobless claims and home sales in November. We will also get to know the decision of the Czech National Bank on interest rates, which will most likely remain unchanged, including the main rate at 4.00%.

Yesterday evening, **the US Fed cut interest rates by 25bp, as expected, and at the same time surprised markets with a much more hawkish message** from the conference, increasing the uncertainty about the pace of further easing. GDP and inflation forecasts were raised and the rate path expected by individual FOMC members (dot-plot) was clearly moved upwards. Fed chairman Jerome Powell said at the conference that the decision was a close call, the monetary policy moved to a more neutral stance and its "recalibration" entered a new phase. The market reacted by strengthening the dollar, stock markets losses and rising yields.

Consumer confidence indices improved slightly in December. The current indicator increased from -17.1pts to -16.7pts, and the leading indicator from -11.6pts to -11.5pts. This happened thanks to better assessment of developments in the overall economic situation over the past twelve months, current opportunities to make important purchases and future expectations of unemployment. On the other hand, indicators describing past changes in the financial situation, current financial situation, current and future opportunities to save money, as well as making important purchases in the future deteriorated.

In November, Poland received EUR346.5m in EU funds, including EUR151.9m under the Cohesion Policy and EUR50.7m under the Common Agricultural Policy. Polish contribution to the EU budget amounted to EUR609.8m, resulting in a balance of -EUR263.3m. The inflow of EU funds, measured as a 12-month rolling sum, has been clearly decreasing since the second half of last year. However, the data on fund transfers do not include loans and grants from the National Recovery Plan, which this year amounted to EUR15.7bn.

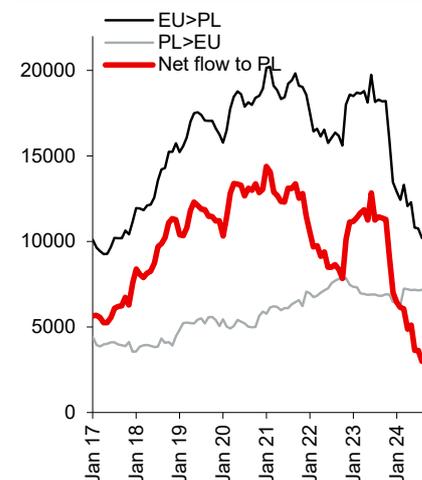
The total cereal harvest in 2024 amounted to 35.0m tonnes and was 2.4% lower than last year, GUS reported in the final estimate of the main crops. This is 0.3m tonnes lower than presented in the earlier estimate. The resulting estimates confirmed that the fruit harvest deteriorated significantly y/y, including the harvest of fruit from trees by 14.4% (17% in the previous estimate) and the harvest of fruit from shrubs and berry plantations by 14.9% (13% in the previous estimate). As it was pointed out earlier by GUS, the harvest of potatoes and beets was better than last year, and the harvest of other field vegetables was comparable to the previous year. Low fruit harvest is one of the factors that, in our opinion, may contribute to an increase in food price inflation in 1Q25.

On Wednesday, the Polish zloty strengthened slightly against the euro. The strengthening occurred in the first part of the session and its maximum exceeded 0.2%, but a significant part of it was corrected in the afternoon. Eventually, EURPLN ended the session less than 0.1% below the opening, which was the best result among the CEE currencies. The EURHUF exchange rate increased by more than 0.7% and the EURCZK exchange rate by about 0.2%. Early this morning, the zloty is stable, close to 4.26 per euro, but we can expect a weakening in reaction to the hawkish Fed and a clear strengthening of the dollar (EURUSD near 1.04, and temporarily even lower).

The domestic market saw a partial correction of the recent increases in yields and money market rates. Yields on domestic 5Y and 10Y bonds fell by 7 and 5 bp respectively, while yields on 2Y bonds remained stable. Changes in the core markets were noticeably smaller. German yields rose by 1-2 bp, more at the long end of the curve, and US yields fell by 1-2 bp, more at the short end of the curve. Domestic IRS rates fell by 6-9bp and FRA rates fell by 4-9bp, in both cases more at the long end of the curve. The sharp rise in US yields following the Fed decision will probably push domestic yields higher today.

The Ministry of Finance sold bonds at Wednesday's auction for PLN7.105bn and repurchased for PLN7.033bn. The finance minister said after the auction that next year's borrowing needs are covered in 20%.

Transfers between Poland and the EU, 12M moving sum, EUR mln



Source: Ministry of Finance, Santander

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FX market

Today's opening			
EURPLN	4.2592	CZKPLN	0.1693
USDPLN	4.0963	HUFPLN*	1.0461
EURUSD	1.0398	RONPLN	0.8567
CHFPLN	4.5557	NOKPLN	0.3616
GBPPLN	5.1624	DKKPLN	0.5708
USDCNY	7.2989	SEKPLN	0.3700

*for 100HUF

Last session in the FX market					18/12/2024
	min	max	open	close	fixing
EURPLN	4.2544	4.2700	4.2668	4.2644	4.2628
USDPLN	4.0509	4.0745	4.0644	4.0738	4.0621
EURUSD	1.0466	1.0512	1.0501	1.0468	

Interest rate market

18/12/2024

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
PS1026 (2L)	5.07	-3
DS1029 (5L)	5.45	-6
DS1034 (10L)	5.85	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.60	-4	4.45	-1	2.31	0
2L	5.15	-6	4.45	12	2.18	-2
3L	4.95	-7	4.40	13	2.15	-1
4L	4.89	-8	4.39	14	2.16	0
5L	4.89	-8	4.34	14	2.17	1
8L	4.98	-9	4.27	11	2.21	2
10L	5.04	-10	4.29	10	2.25	2

WIBOR rates

Term	%	Change (bps)
O/N	5.53	-12
T/N	5.76	0
SW	5.82	0
1M	5.87	2
3M	5.85	-1
6M	5.79	1
1Y	5.61	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.84	-1
3x6	5.71	-2
6x9	5.36	-4
9x12	5.07	-6
3x9	5.65	-3
6x12	5.31	-4

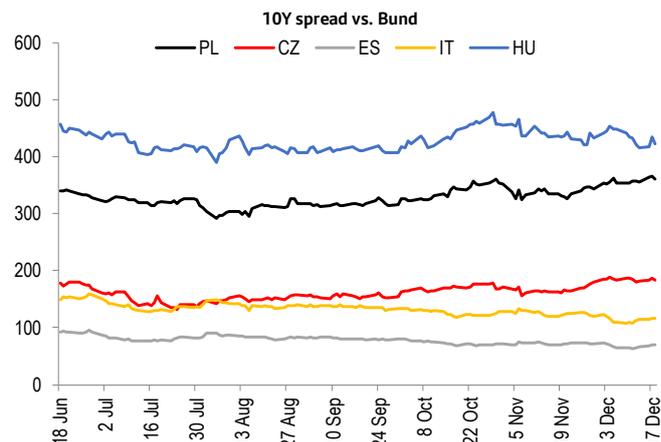
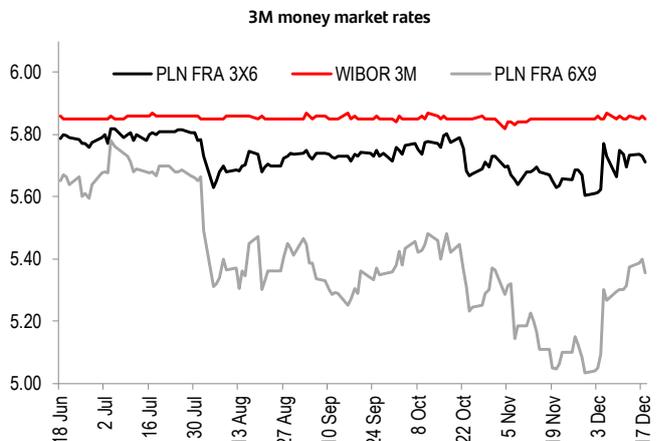
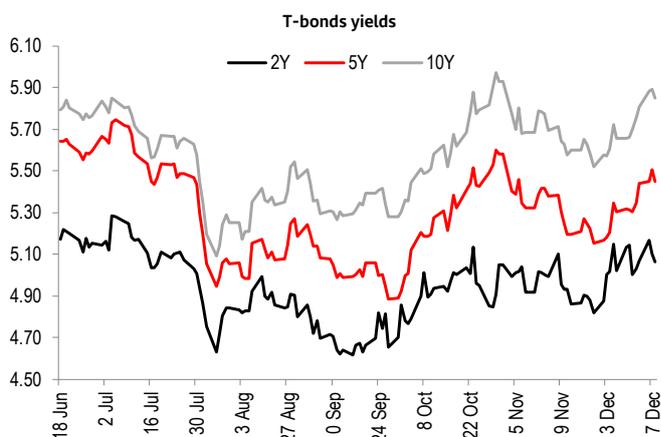
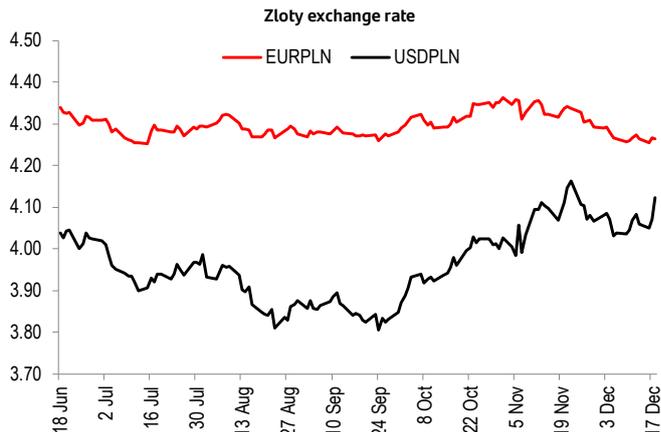
CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	70	0	361	-5
France	18	0	81	0
Hungary	130	0	423	-11
Spain	34	0	70	1
Italy	25	0	116	1
Portugal	18	0	49	-2
Ireland	10	0	30	0
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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (13 December)							
08:00	DE	Exports SA	Oct	% m/m	-2.6	-2.8	-1.7
10:00	PL	CPI	Nov	% y/y	4.6	4.6	4.6
11:00	EZ	Industrial Production SA	Oct	% m/m	0.0	0.0	-2.0
14:00	PL	Current Account Balance	Oct	€mn	-100	-947	1064
14:00	PL	Trade Balance	Oct	€mn	-883	-874	-740
14:00	PL	Exports	Oct	€mn	30581	31097	30311
14:00	PL	Imports	Oct	€mn	31501	31971	31051
MONDAY (16 December)							
	PL	Central Budget Cumul.	Nov	mn PLN	-	-149.5	-141.8
09:30	DE	Germany Manufacturing PMI	Dec	pts	43.1	42.5	43.0
09:30	DE	Markit Germany Services PMI	Dec	pts	49.5	51.0	49.3
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	45.3	45.2	45.2
10:00	EZ	Eurozone Services PMI	Dec	pts	49.5	51.4	49.5
14:00	PL	CPI Core	Nov	% y/y	4.2	4.3	4.3
TUESDAY (17 December)							
10:00	DE	IFO Business Climate	Dec	pts	85.6	84.7	85.7
11:00	DE	ZEW Survey Current Situation	Dec	pts	-92.6	-93.1	-91.4
14:00	HU	Central Bank Rate Decision	Dec	%	6.50	6.50	6.50
14:30	US	Retail Sales Advance	Nov	% m/m	0.5	0.7	0.4
15:15	US	Industrial Production	Nov	% m/m	0.2	-0.1	-0.3
WEDNESDAY (18 December)							
11:00	EZ	HICP	Nov	% y/y	2.3	2.2	2.3
14:30	US	Housing Starts	Nov	% m/m	2.6	1.8	-3.1
20:00	US	FOMC decision	Dec	%	4.50	4.50	4.75
THURSDAY (19 December)							
10:00	PL	Employment in corporate sector	Nov	% y/y	-0.6	-0.6	-
10:00	PL	Sold Industrial Output	Nov	% y/y	-2.0	-1.3	-
10:00	PL	Construction Output	Nov	% y/y	-11.6	-10.2	-
10:00	PL	PPI	Nov	% y/y	-3.8	-3.7	-
10:00	PL	Average Gross Wages	Nov	% y/y	10.0	9.3	-
14:30	US	GDP Annualized	3Q	% Q/Q	2.8	-	2.8
14:30	US	Initial Jobless Claims	Weekly	k	220	-	242
14:30	CZ	Central Bank Rate Decision	Dec	%	4.0	-	4.0
16:00	US	Existing Home Sales	Nov	% m/m	3.3	-	3.4
FRIDAY (20 December)							
10:00	PL	Retail Sales Real	Nov	% y/y	1.0	0.5	-
14:30	US	Personal Spending	Nov	% m/m	0.5	-	0.4
14:30	US	Personal Income	Nov	% m/m	0.4	-	0.6
14:30	US	PCE Deflator SA	Nov	% m/m	0.2	-	0.2
16:00	US	Michigan index	Dec	pts	-	-	74.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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