

Eyeopener

Core inflation rose again

Today inflation in the euro zone, housing data from USA
 Core inflation rose to new record, but slightly lower than forecast
 MPC's Sura quits, Litwiniuk sees room for cautious rate hikes
 EURPLN fairly stable, bond yields lower

Today, HICP inflation in the euro zone and US housing market data. Domestic focus will be probably on the new draft of coal subsidies, as the government will be working on it today.

Core inflation excluding food and energy rose in June to 9.1% y/y – its new record high, but below our forecast (9.2%) and market consensus (9.3%). Three other core inflation measures also rose to new records: CPI less administrative prices to 15.9% y/y, CPI ex most volatile prices to 11.2% y/y, 15% trimmed mean to 10.7% y/y. The inflationary trend is still strong and broad-based, however it seems to be losing momentum somehow: monthly change in the main core inflation reached 0.6%, which was the first print below 1% m/m since December. We expect core inflation to keep climbing in the nearest months, towards 10% y/y at the end of this year, and then it should start subsiding, as the expected slowdown in domestic demand and increasing labour market slack will reduce inflationary pressures in 2023.

According to PAP, the government wants to introduce a **one-off coal subsidy** of PLN3000 per household. The allowance will be available to households where the main source of heating is a coal stove. According to the draft, the deadline for applying for this allowance is 30 November 2022, and the municipality has a maximum of one month to pay the granted allowance. According to the government's impact assessment to the previous law on coal subsidies, there were 3.8 million households in Poland in 2021 for which coal was the primary source of heating. This would mean a one-off cost to the state budget of around PLN11bn.

MPC member Rafat Sura resigned from his position on the MPC. The reasons for his resignation were not explained, but it is possible that it is related to his upcoming appointment to the Supreme Administrative Court (he had already received a positive recommendation months ago). Sura was elected by the Senate; his term was due to expire in November this year. The head of the Senate's public finance committee said yesterday that it was not a foregone conclusion that Joanna Tyrowicz, who had been considered earlier, would be the candidate to replace Sura. According to **MPC's Przemysław Litwiniuk**, there is still room for further interest rate hikes in Poland. However, he points out that the MPC has to take into account the expected economic slowdown, and such an approach leads it to consider increases of a smaller scale, with the possibility of continuing the cycle at subsequent meetings this year.

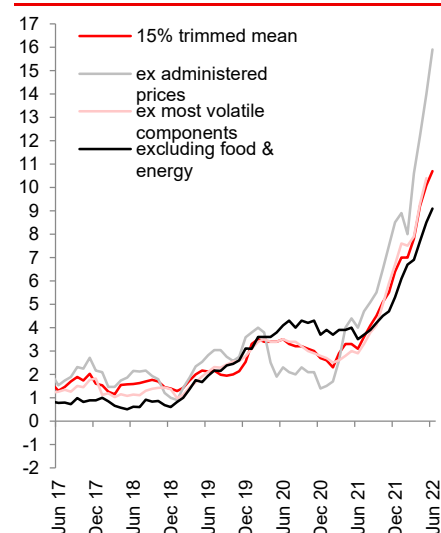
EURUSD rose from the vicinity of 1.01 near the level of 1.02. The euro strengthened for the second day in a row in anticipation of the ECB meeting and details of the new anti-fragmentation facility (TPM). Before the announcement of its details, investors' appetites to "blindly" attack the psychological level of parity are clearly diminishing.

EURPLN rose from the vicinity of 4.77 it recorded at the opening of the European session to around 4.78. Despite the improvement in European sentiment, the zloty was hurt by the weekend's spontaneous statement by the head of the National Bank of Poland, who signaled that the MPC could raise rates by up to 25 bps in September. As a result of the statement, expectations for rate hikes in the FRA market fell by about 25bp on average, putting downward pressure on the zloty.

Other CEE currencies: the EURCZK fluctuated around the 24.50 level. Markets are awaiting the CNB's scheduled August 4 meeting, the first with CEO Ales Michl preferring currency interventions to rate hikes, while other board members tend to favour raising rates. The EURHUF rose minimally around 400, with the forint being hurt by the government's announcement, amid budget problems, of raises for uniformed services and the EC's infringement procedure against Hungary over price discrimination against foreigners in the local retail fuel market. The only limited weakening of the forint was the result of aggressive rate hikes - the key interest rate rose 385 bps in just two weeks - and MNB swap interventions in the foreign exchange market.

Debt market: The short end of the yield curve and IRS recorded declines of about 20bp, on the longer end they did not exceed 10bp. The weekend statement by the President of the National Bank of Poland influenced a marked decline in market expectations for the country's interest rate target. The 2-year ASW spread also widened minimally by about 5bp. Domestic declines in yields and IRS rates contrasted with what was happening in the main markets where both yields and interest rate expectations rose.

Core inflation, % y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.7828	CZKPLN	0.1947
USDPLN	4.7083	HUFPLN*	1.1787
EURUSD	1.0153	RUBPLN	0.0836
CHFPLN	4.8272	NOKPLN	0.4684
GBPPLN	5.6378	DKKPLN	0.6423
USDCNY	6.7461	SEKPLN	0.4534

*for 100HUF

Last session in the FX market						18/07/2022
	min	max	open	close	fixing	
EURPLN	4.764	4.783	4.780	4.775	4.777	
USDPLN	4.684	4.742	4.737	4.699	4.715	
EURUSD	1.008	1.020	1.009	1.016	-	

Interest rate market 18/07/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.76	-7
DS0726 (5Y)	7.04	-7
DS0432 (10Y)	6.72	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.65	-24	3.48	0	0.96	2
2L	7.41	-22	3.39	2	1.33	2
3L	6.98	-18	3.24	6	1.46	5
4L	6.66	-11	3.14	6	1.57	5
5L	6.46	-7	3.08	7	1.67	4
8L	6.18	-4	3.02	8	1.90	6
10L	6.17	-3	3.04	9	2.00	3

WIBOR rates

Term	%	Change (bps)
O/N	6.36	-2
T/N	6.55	-5
SW	6.64	1
2W	6.64	1
1M	6.68	1
3M	7.00	0
6M	7.30	0
1Y	7.45	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.12	-20
3x6	7.57	-29
6x9	7.67	-29
9x12	7.57	-27
3x9	7.76	-31
6x12	7.86	-29

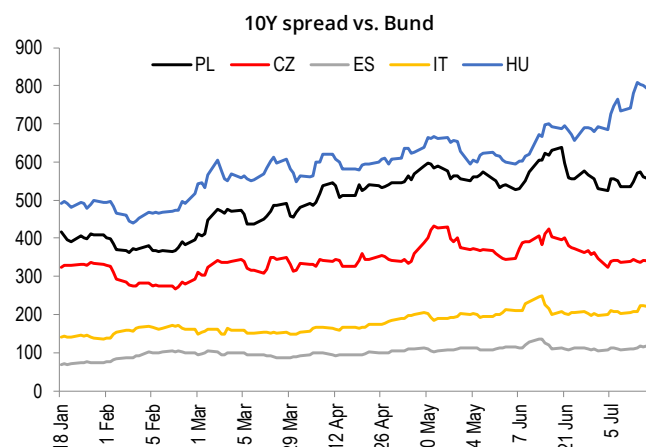
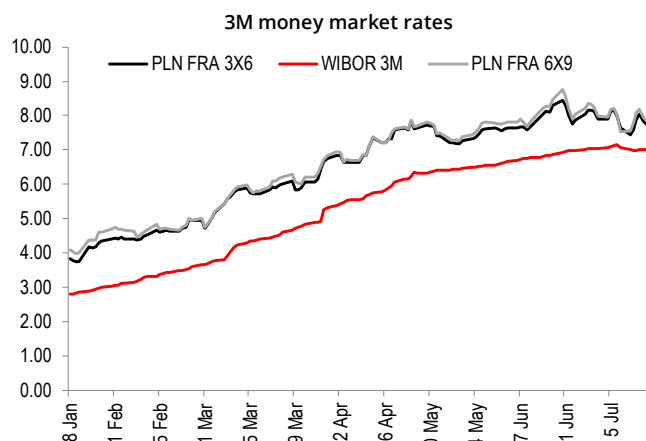
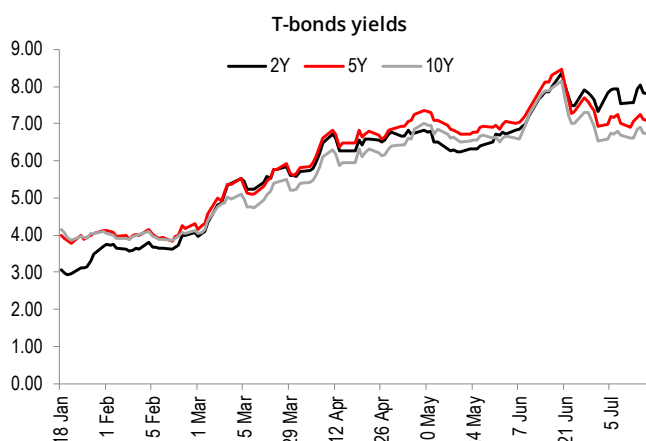
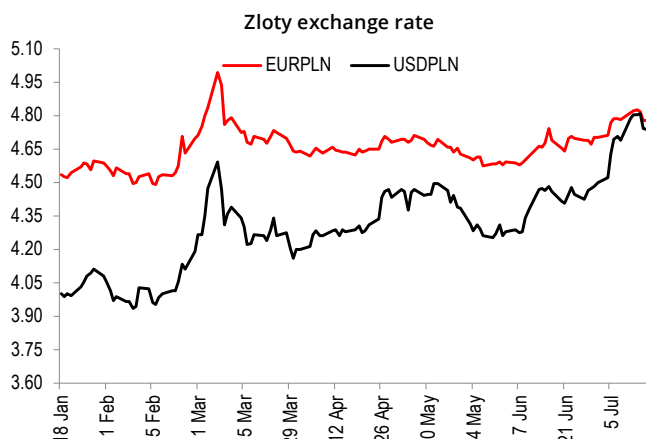
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	0	0	-563
France	15	0	0	-61
Hungary	211	-3	0	-801
Spain	68	0	0	-116
Italy	78	0	0	-223
Portugal	53	0	0	-118
Ireland	15	-1	0	-60
Germany	14	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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (8 July)							
10:00	PL	CPI	Jun	% y/y	15.6	15.6	13.9
14:30	US	Retail Sales Advance	Jun	% m/m	0.9	-	-0.3
15:15	US	Industrial Production	Jun	% m/m	0.0	-	0.1
16:00	US	Michigan index	Jul	pts	49.2	-	50.0
MONDAY (18 July)							
14:00	PL	CPI Core	Jun	% y/y	9.3	9.2	9.1
TUESDAY (19 July)							
11:00	EZ	HICP	Jun	% y/y	8.6		8.6
14:30	US	Housing Starts	Jun	% m/m	2.97		-14.4
WEDNESDAY (20 July)							
10:00	PL	Employment in corporate sector	Jun	% y/y	2.2	2.1	2.4
10:00	PL	Average Gross Wages	Jun	% y/y	13.3	13.3	13.5
10:00	PL	Sold Industrial Output	Jun	% y/y	11.2	12.4	15.0
10:00	PL	PPI	Jun	% y/y	25.2	25.3	24.7
16:00	US	Existing Home Sales	Jun	% m/m	-0.18		-3.39
THURSDAY (21 July)							
10:00	PL	Construction Output	Jun	% y/y	11.25	8.7	13.0
10:00	PL	Retail Sales Real	Jun	% y/y	5.85	5.8	8.2
14:15	EZ	ECB Main Refinancing Rate		%	0.25		0.0
14:30	US	Initial Jobless Claims		k	240.0		244.0
14:30	US	Index Philly Fed	Jul	pts	-0.5		-3.3
FRIDAY (22 July)							
09:30	DE	Germany Manufacturing PMI	Jul	pts	50.9		52.0
09:30	DE	Markit Germany Services PMI	Jul	pts	51.4		52.4
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	51.0		52.1
10:00	EZ	Eurozone Services PMI	Jul	pts	52.0		53.0
14:00	PL	Money Supply M3	Jun	% y/y	7.7	7.6	7.6

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

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