

12 December 2022

Eyeopener

Inflation pressure is falling in the USA

Today no key releases in Poland, November CPI in Czechia
 Polish MPC minutes from November meeting: preference for prolonged return of CPI to the target
 US PPI inflation down for the second time in a row, slightly better consumer sentiment
 Zloty marginally weaker, Polish bond yields were stable

No major data from the country **today**. From the CEE region, we will get to see the CPI inflation reading from Czechia for November – showing a 1.2% m/m rebound after a surprise 1.4% decline, meaning an unexpected return above 16% y/y from 15.1% in October.

MPC's Ludwik Kotecki said that inflation will peak in February next year. In his view, the appropriate scale of rate hikes per meeting should be more than 25bp but less than 100bp. 25bp steps will be justified when economic activity worsens, particularly if the labour market is affected. In his view a strong depreciation of the zloty could be a trigger to make the MPC discuss rate hike again. According to Kotecki, it is too early to start discussing rate cuts at the end of 2023. MPC's **Joanna Tyrowicz** expressed a similar opinion. **Przemysław Litwiniuk** supports further rate hikes to keep the zloty in check and to maintain a psychological effect on inflation expectations of households and companies.

The **minutes from the Polish MPC meeting in November** does not mention any votes on rate change proposals. The decision to keep rates unchanged was, in the majority's view, in line with the 2022 monetary policy guidelines, namely with the flexibility in determining the desired pace of inflation's return to target. In this case, flexibility means stretching out the process over time to avoid macroeconomic destabilisation (such a risk was, in the opinion of the majority, associated with accelerating the fall in inflation to the target with further rate hikes). According to the minority, amid still favourable economic conditions, including on the labour market, high actual and expected inflation, the current level of rates will only cause slow disinflation and will not be sufficient to lower inflation expectations to a level consistent with the medium-term inflation target. We think the bar for a return to rate hikes by the Polish MPC is set very high and the emphasised flexible approach will manifest itself in a long period of keeping rates unchanged, probably at least until the end of 2023.

The **preliminary December reading of the University of Michigan's consumer confidence index** showed an increase to 59.1 points against market expectations of 57 points (November reading 56.8 points, October reading 59.9 points). Household sentiment improved in December with a better assessment of current conditions (59.1 points in December from 56.8 points in November) and expectations (60.2 points from 58.8 points). Annual inflation is now seen by survey respondents at 4.6% y/y compared to 4.9% y/y in the previous month - still very high, while expected 5-10 year inflation remains stable at 3.0% y/y. Rising inflation concerns, borrowing costs and weakening activity may keep US household sentiment under pressure in the months ahead. **November's US PPI inflation** reading fell to 7.4% y/y against expectations of 7.2% and 8.1% y/y a month earlier. The decline was mainly due to declines in the energy price component (-3.3% y/y vs +2.3% y/y in October) and transport and storage services (-0.9% y/y vs +0.4% a month earlier). Core PPI inflation (excluding food, energy and transport services) also declined, falling to 4.9% in November against 5.4% in October.

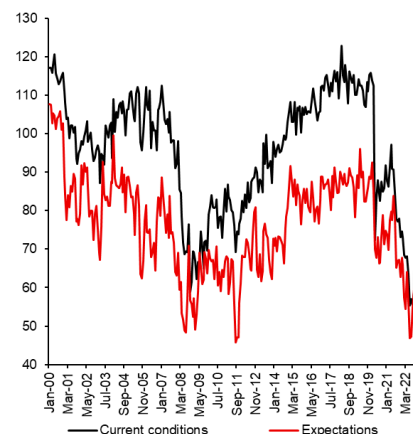
EURUSD fluctuated around 1.055. Producer inflation fell for the second month in a row but consumer sentiment as measured by the University of Michigan index improved. This week, the exchange rate will await the Fed and ECB meetings. The slower pace of rate hikes in the US and the announcement of the start of balance sheet reduction by the ECB should favour the common currency.

EURPLN has been hovering in the 4.68 - 4.70 zone for several days. The fate of the zloty in the coming days will depend on the decisions and rhetoric of major central banks this week.

Other CEE currencies: EURCZK continued to stabilize around 24.30. Today's inflation reading from Czechia is unlikely to materially affect policy for the CNB, which is awaiting the 1Q23 inflation peak. EURHUF rose to 419 from around 417.

Debt market: Domestic yield curve remained stable. The MPC minutes did not affect the market in any way. There were no significant changes in the core bond markets either. Producer inflation in the US fell, but less than market expectations, so markets that had discounted this fact in previous days were unable to react with lower yields.

University of Michigan US consumer sentiment index, pts



Source: Refinitiv Datastream, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarostaw Kosaty +48 887 842 480
Marcin Luźniński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.6849 | CZKPLN | 0.1924 |
| USDPLN | 4.4557 | HUFPLN* | 1.1336 |
| EURUSD | 1.0517 | RUBPLN | 0.0712 |
| CHFPLN | 4.7469 | NOKPLN | 0.4442 |
| GBPPLN | 5.4296 | DKKPLN | 0.6294 |
| USDCNY | 6.9766 | SEKPLN | 0.4288 |

*for 100HUF

Last session in the FX market 09.12.2022

| | min | max | open | close | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4.6751 | 4.6970 | 4.6797 | 4.6931 | 4.6821 |
| USDPLN | 4.4175 | 4.4617 | 4.4248 | 4.4469 | 4.4351 |
| EURUSD | 1.0505 | 1.0588 | 1.0575 | 1.0547 | - |

Interest rate market 09.12.2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| PS1024 (2Y) | 6.79 | 3 |
| DS0727 (5Y) | 6.60 | 0 |
| DS0432 (10Y) | 6.48 | 0 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 7.22 | 1 | 5.11 | 1 | 2.77 | 1 |
| 2L | 6.65 | 4 | 4.64 | 3 | 2.87 | 4 |
| 3L | 6.09 | 2 | 4.19 | 4 | 2.77 | 2 |
| 4L | 5.75 | -1 | 3.94 | 5 | 2.70 | 6 |
| 5L | 5.56 | -3 | 3.80 | 8 | 2.66 | 7 |
| 8L | 5.40 | -6 | 3.59 | 9 | 2.61 | 7 |
| 10L | 5.43 | -4 | 3.55 | 11 | 2.62 | 6 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 6.63 | -6 |
| T/N | 6.79 | 1 |
| SW | 6.88 | 1 |
| 2W | 6.89 | -1 |
| 1M | 6.99 | 0 |
| 3M | 7.16 | -2 |
| 6M | 7.30 | -3 |
| 1Y | 7.43 | -5 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 7.16 | -1 |
| 3x6 | 7.18 | 0 |
| 6x9 | 7.08 | 5 |
| 9x12 | 6.82 | 14 |
| 3x9 | 7.29 | -3 |
| 6x12 | 7.26 | 15 |

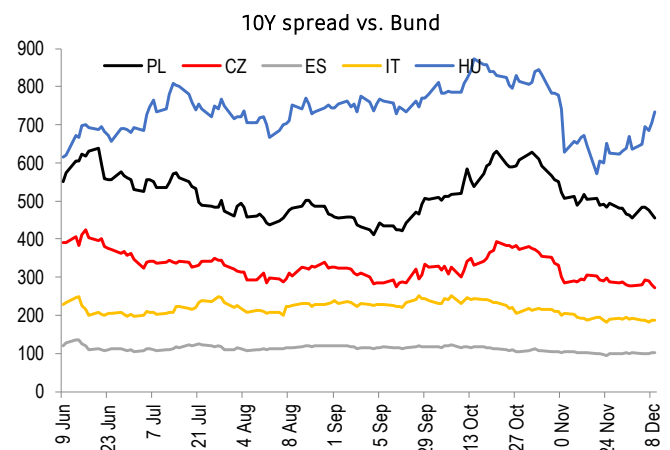
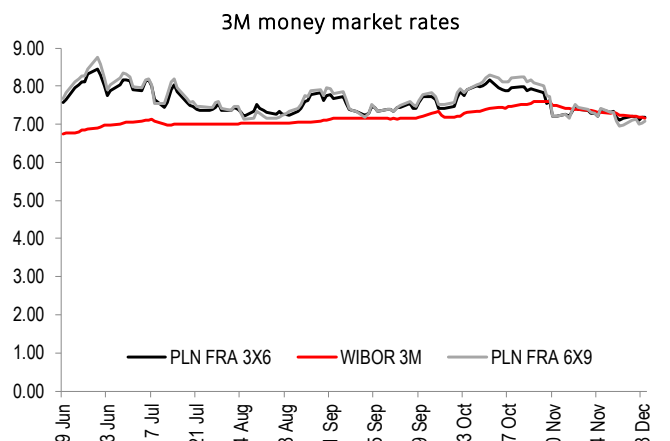
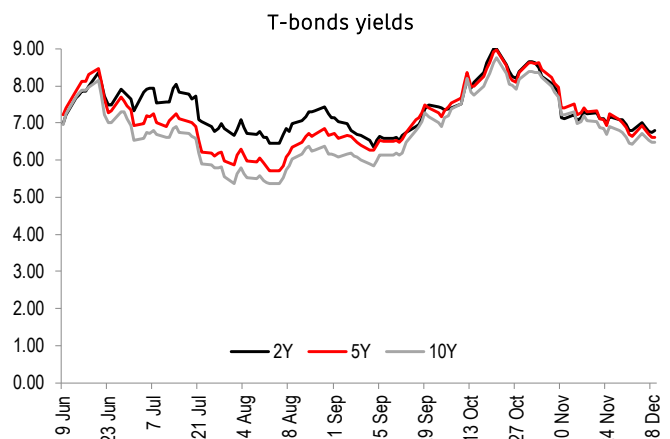
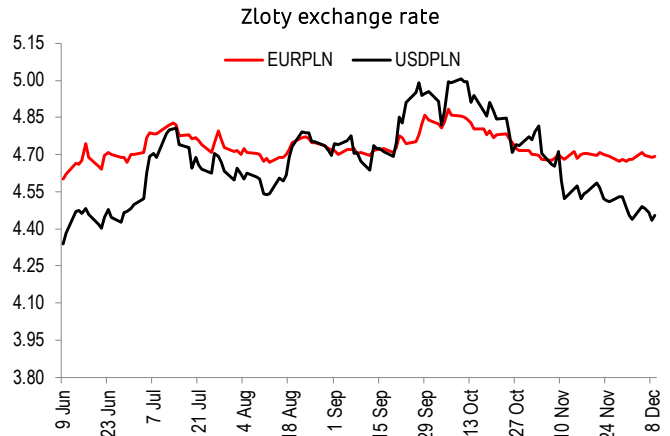
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 117 | 0 | 455 | -11 |
| France | 15 | 0 | 46 | -2 |
| Hungary | 204 | 0 | 734 | 27 |
| Spain | 53 | 0 | 102 | 1 |
| Italy | 53 | 0 | 188 | 0 |
| Portugal | 38 | 0 | 93 | -1 |
| Ireland | 18 | 0 | 46 | 0 |
| 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 (9 December) | | | | | | | |
| 16:00 | US | Michigan index | Dec | pts | 57.0 | 59.1 | 56.8 |
| MONDAY (12 December) | | | | | | | |
| 09:00 | CZ | CPI | Nov | % y/y | 15.5 | - | 15.1 |
| TUESDAY (13 December) | | | | | | | |
| 08:00 | DE | HICP | Nov | % m/m | 0.0 | - | 1.1 |
| 11:00 | DE | ZEW Survey Current Situation | Dec | pts | -57.5 | - | -64.5 |
| 14:30 | US | CPI | Nov | % m/m | 0.3 | - | 0.4 |
| WEDNESDAY (14 December) | | | | | | | |
| 11:00 | EZ | Industrial Production SA | Oct | % m/m | -1.2 | - | 0.9 |
| 14:00 | PL | Current Account Balance | Oct | €mn | -796 | -1578 | -1561 |
| 14:00 | PL | Trade Balance | Oct | €mn | -2316 | -2599 | -2054 |
| 14:00 | PL | Exports | Oct | €mn | 28072 | 28264 | 28498 |
| 14:00 | PL | Imports | Oct | €mn | 30392 | 30863 | 30552 |
| 20:00 | US | FOMC decision | | | 4.50 | - | 4.00 |
| THURSDAY (15 December) | | | | | | | |
| 10:00 | PL | CPI | Nov | % y/y | 17.4 | 17.4 | 17.9 |
| 14:15 | EZ | ECB Main Refinancing Rate | | % | 2.50 | - | 2.00 |
| 14:30 | US | Initial Jobless Claims | week | k | 230 | - | 230 |
| 14:30 | US | Retail Sales Advance | Nov | % m/m | 0.0 | - | 1.3 |
| 15:15 | US | Industrial Production | Nov | % m/m | 0.2 | - | -0.1 |
| FRIDAY (16 December) | | | | | | | |
| 09:30 | DE | Germany Manufacturing PMI | Dec | pts | 46.2 | - | 46.2 |
| 09:30 | DE | Markit Germany Services PMI | Dec | pts | 46.3 | - | 46.1 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Dec | pts | 47.1 | - | 47.1 |
| 10:00 | EZ | Eurozone Services PMI | Dec | pts | 48.5 | - | 48.5 |
| 11:00 | EZ | HICP | Nov | % y/y | 10.0 | - | 10.6 |
| 14:00 | PL | CPI Core | Nov | % y/y | 11.3 | 11.2 | 11.0 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.