

Eyeopener

Unexpected improvement in sentiment in Europe

Ifo indicator for Germany today

Energy Regulatory Office (URE) has approved electricity tariffs for 2023

Poland's core inflation rose to 11.4% y/y.

Preliminary Eurozone PMI readings surprised on the upside

EURPLN remained near 4.69, domestic yields rose

Today, German Ifo index will be released. In the following days of this week, we will see a number of data releases from Poland.

Energy Regulatory Office (URE) has approved tariffs for the sale of energy to so-called ex-officio sellers and the largest distribution companies. According to the office's calculations, once the consumption threshold is exceeded, up to which prices are frozen, monthly electricity bills for households will increase by approximately 60% in 2023. These changes will not, in our view, affect inflation estimates in the first few months of the year, but may move our year-end forecast upwards by 0.4-0.5 pp.

Flash PMIs for Germany and the Eurozone came as a positive surprise. Both the manufacturing and services indicators beat expectations. According to the survey, current production in the German economy improved in November on the back of better availability of components (lower supply chain tensions). Demand, however, remained subdued, which together resulted in the cost index remaining below the neutral 50-point level for the third consecutive month (while reaching its lowest level since 1Q21). Companies signalled that they were looking to fill vacancies. Firms' expectations for the 12 months ahead continued to indicate a reduction in business activity, but this was the least negative reading since August. Eurozone PMIs, despite rebounding, still point to negative economic growth in 4Q22.

Final HICP inflation data for the Eurozone for November confirmed the decline from 10.6% y/y, but to 10.1% rather than 10% as the preliminary reading had shown. Core inflation remained at 5.0% y/y, the highest level since these data have been published (January 1997), which should support the ECB's decidedly hawkish stance.

Polish main **core inflation** measure, CPI excluding food, fuel and energy, rose in November to 11.4% y/y from 11.0% (another all-time high) at the time when headline CPI pulled back to 17.5% y/y from 17.9%. We expect core inflation to rise some more in December, possibly to 11.7%, but in 1Q23 a downside trend should already set in, due to a strong base effect (there was a marked acceleration of the underlying inflation in early 2022). By the end of 2023 core inflation may fall below 7% y/y. In m/m terms core inflation rose by 0.7%, compared to 1.0% a month earlier. Note that these two readings were both 0.6pp above the 5Y averages for the respective months so its hard to say that inflationary pressure has already started to ease. Out of three alternative measures of core CPI two also set new records in November (comparable data since 2001). 15-percent trimmed mean was at 14.5% y/y and CPI excluding most volatile components at 15.0% y/y), while CPI excluding administered prices dropped to 18.1% y/y (which makes it the second highest reading aafter October's 18.7%).

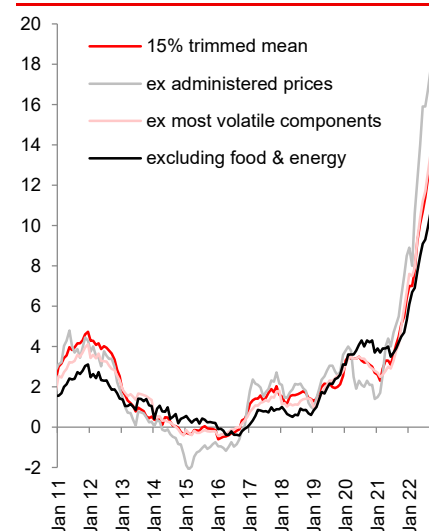
EURUSD remained close to the 1.06 level, with ECB members Robert Holzmann, Olli Rehn, and Francois Villeroy de Galhau advocating further rate hikes to combat inflation, signalling 50bp hikes in February and March. In response, Fed member John Williams said that the FOMC could raise rates higher in 2023 than the latest 'dot plot' indicating a 5.1% level. In contrast, Fed's Mary Daly stated that all FOMC members favoured raising rates to the target level and then keeping them unchanged until the end of 2023. As a result of the cited statements by central bankers, the exchange rate remained in a clinch.

EURPLN continued to fluctuate in the 4.68 - 4.70 zone, with the zloty waiting for the national recovery plan financing issue to be resolved. For the time being, changes in the value of the US dollar on global markets are too small to stimulate greater volatility in the zloty.

Other CEE currencies: **EURHUF** rose from around 405 above 406. **EURCZK** stayed close to 24.25.

Debt market: Domestic yield curve rose by around 14bp on average. Expectations of rate hikes on longer-dated FRA contracts also rose. The Ministry of Finance sold bonds for PLN4.25bn at a swap tender and repurchased PLN3.9bn. German yields rose by around 7bp following the hawkish statements by ECB members. US yields fell, giving no credence to signals of a possible Fed rate hike in 2023 above FOMC members' recently elevated 'dot plot' forecasts.

Core CPI inflation in Poland, % y/y



Source: NBP, 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
 Jarosław Kosaty +48 887 842 480
 Marcin Luziński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4,6840	CZKPLN	0,1924
USDPLN	4,4054	HUFPLN*	1,1421
EURUSD	1,0632	RUBPLN	0,0673
CHFPLN	4,7407	NOKPLN	0,4469
GBPPLN	5,3776	DKKPLN	0,6294
USDCNY	6,9811	SEKPLN	0,4263

*for 100HUF

Last session in the FX market 16.12.2022

	min	max	open	close	fixing
EURPLN	4,6808	4,6975	4,6869	4,6873	4,6934
USDPLN	4,3947	4,4248	4,4022	4,4179	4,4227
EURUSD	1,0595	1,0662	1,0643	1,0606	-

Interest rate market 16.12.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6,95	15
DS0727 (5Y)	6,77	17
DS0432 (10Y)	6,69	15

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,38	7	5,02	-3	3,02	6
2L	6,97	12	4,49	-3	3,15	10
3L	6,48	15	4,05	-2	3,03	9
4L	6,20	17	3,80	0	2,95	8
5L	6,05	17	3,67	2	2,90	8
8L	5,90	19	3,48	2	2,83	10
10L	5,91	20	3,45	3	2,82	11

WIBOR rates

Term	%	Change (bps)
O/N	6,56	-1
T/N	6,78	2
SW	6,84	0
2W	6,88	0
1M	7,00	1
3M	7,06	-2
6M	7,20	-1
1Y	7,31	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,08	0
3x6	7,25	8
6x9	7,32	4
9x12	7,09	4
3x9	7,35	5
6x12	7,38	10

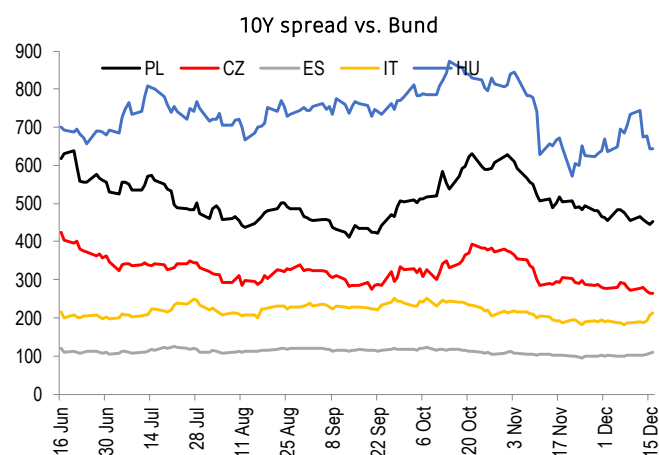
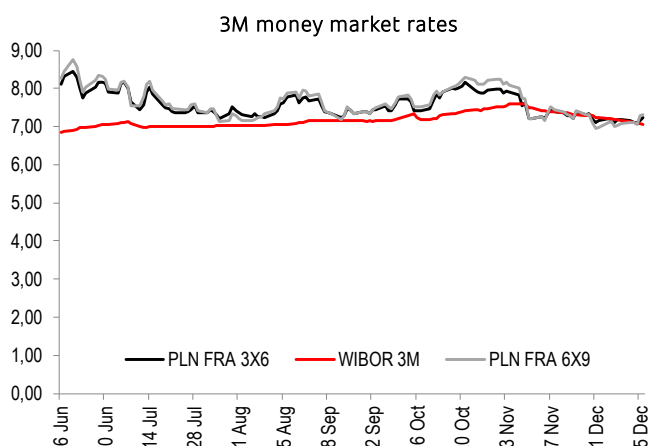
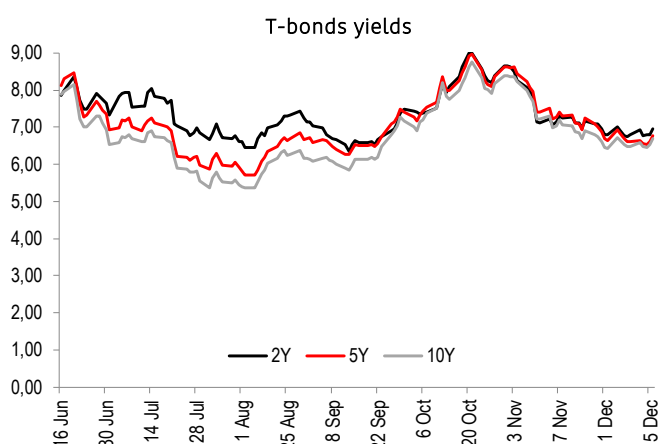
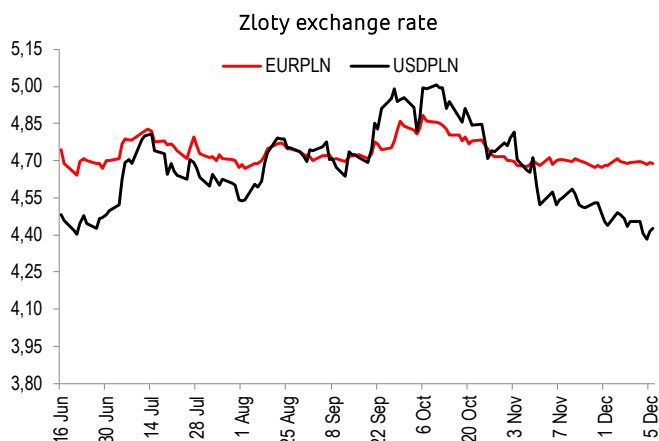
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	117	0	453	7
France	15	0	52	2
Hungary	202	0	644	1
Spain	58	3	110	2
Italy	58	3	213	6
Portugal	43	3	103	3
Ireland	23	2	50	1
Germany	15	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 (16 December)							
09:30	DE	Germany Manufacturing PMI	Dec	pts	46.3	47.4	46.2
09:30	DE	Markit Germany Services PMI	Dec	pts	46.3	49.0	46.1
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	47.1	47.8	47.1
10:00	EZ	Eurozone Services PMI	Dec	pts	48.5	49.1	48.5
11:00	EZ	HICP	Nov	% y/y	10.0	10.1	10.6
14:00	PL	CPI Core	Nov	% y/y	11.3	11.4	11.0
MONDAY (19 December)							
10:00	DE	Ifo Business Climate	Dec	pts	-	-	86.3
TUESDAY (20 December)							
10:00	PL	Employment in corporate sector	Nov	% y/y	2.3	2.3	2.4
10:00	PL	Sold Industrial Output	Nov	% y/y	2.2	4.0	6.8
10:00	PL	PPI	Nov	% y/y	21.1	20.7	22.9
10:00	PL	Average Gross Wages	Nov	% y/y	12.8	12.7	13.0
14:00	HU	Central Bank Rate Decision	Dec.22	%	-	-	13.0
14:30	US	Housing Starts	Nov	% m/m	-1.8	-	-4.2
WEDNESDAY (21 December)							
10:00	PL	Construction Output	Nov	% y/y	-1.6	-2.2	3.9
10:00	PL	Retail Sales Real	Nov	% y/y	0.3	-0.2	0.7
14:30	CZ	Central Bank Rate Decision	Dec.22		-	-	7.0
16:00	US	Consumer Conference Board	Dec	pts	101.0	-	100.2
16:00	US	Existing Home Sales	Nov	% m/m	-5.2	-	-5.9
THURSDAY (22 December)							
14:00	PL	Money Supply M3	Nov	% y/y	5.9	5.7	7.0
14:30	US	GDP Annualized	3Q	% Q/Q	2.9	-	-0.6
14:30	US	Initial Jobless Claims		k	232	-	230
FRIDAY (23 December)							
10:00	PL	Unemployment Rate	Nov	%	5.1	5.1	5.1
14:30	US	Durable Goods Orders	Nov	% m/m	-0.5	-	1.0
14:30	US	Personal Spending	Nov	% m/m	0.2	-	0.8
14:30	US	Personal Income	Nov	% m/m	0.2	-	0.7
14:30	US	PCE Deflator SA	Nov	% m/m	0.3	-	0.3
16:00	US	Michigan index	Dec	pts	59.1	-	56.8
16:00	US	New Home Sales	Nov	% m/m	-5.1	-	7.5

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.