

9 January 2023

Eyeopener

Inflation lower than expected, again

Today unemployment rate in the euro zone

CPI inflation in Poland fell to 16.6% y/y in December

Zloty temporarily weaker on Thursday, debt markets stronger at the end of the week

Today no major data from the Polish economy. Industrial production data will be published in Hungary, GDP in the Czech Republic and unemployment rate in the Eurozone. Friday's data from the US saw a marked strengthening of bonds and an increase in risk appetite, suggesting a 'soft landing' of the US economy (not bad employment, decelerating wages).

CPI inflation slid to 16.6% y/y in December from 17.5% y/y in November, way below forecasts (we: 17.2% y/y, market: 17.3% y/y). Surprise came mostly from lower energy prices, which fell by as much as 3.3% m/m and deducted 0.6 pp from the headline. We think that happened mostly due to decline in coal prices. Other categories were roughly in line with our expectations, with food prices up by 1.4% m/m, fuel prices down by 1.6% m/m and core inflation at 11.4-11.5% y/y. We are expecting CPI to go up in January-February, driven by a reversal of tax cuts and new year's readjustment of prices. It now seems that the CPI will peak below 20% y/y in February and then it will follow a downward trend to end 2023 at around 11% y/y. CPI reading is supportive for the MPC to keep rates unchanged in the upcoming months.

NBP President Adam Glapiński said at the conference on Thursday that the Council still considers the current level of interest rates appropriate. He signalled that the Council would like to start cutting rates, but needs to see clear and strong disinflation. To him a descent of CPI to 6% already this year would be a case for rate cuts, but since the November projection showed c.8% at the end of this year, he is not that convinced that easing should already start in 2023 (our forecast points to c. 11%). When it comes to the possibility of further rate hikes, only in the Q&A session after his speech he mentioned that the next two readings of CPI are highly uncertain and it is best to formally keep the tightening phase open. Much of his speech was focused on the upcoming disinflation, its pace and signs that increase its probability (falling commodity prices, lower price pressure across the world). We see this as an attempt to curb inflation expectations in the period of wait-and-see, when there is no adjustment of monetary policy tools. We have doubts that inflation would be falling in 2023 as swiftly as in the NBP projection and this delay will be making the MPC less open to rate cuts during the year. The expected economic rebound in 2H23 may also discourage some members from voting for lower rates. We see a switch to monetary policy easing only in 2024.

According to the **minutes of the MPC's December meeting**, Council members assessed that the economy continued to deteriorate in 4Q22, although some pointed out that leading indicators suggest the beginning of the recovery phase. Most central bankers were of the view that the weakening economy and tightening monetary policy would support a gradual return of inflation to target. However, some pointed out that the scale of rate hikes was insufficient for inflation's return to target.

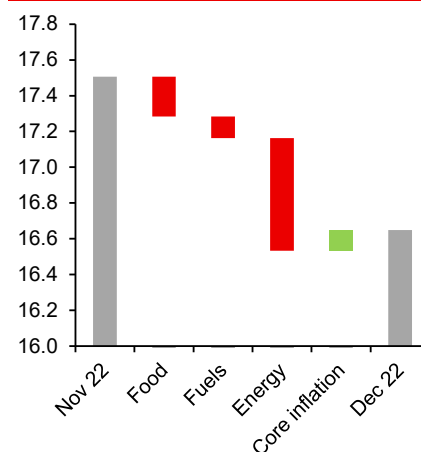
According to estimates by the Ministry of Family and Social Welfare, the **registered unemployment rate** stood at 5.2% in December, in line with expectations. The 0.1 pp increase over November is a change in line with the normal seasonal pattern, so it does not represent a significant change in the labour market. On a monthly basis, there were 13k more unemployed - by comparison, in recent years before the pandemic in good economic conditions, December's gains were 14-17k people. Compared to December 2021, the number of unemployed was 82.2k less, compared to November's annual change of -98.8k. In addition, the number of job offers reported to labour offices was about 30% lower y/y in December, as it was in November, showing weakening demand for labour. We expect that the response of the unemployment rate to the economic slowdown will continue to be modest, and we will see it gradually move toward 6% over the course of 2023.

EURUSD was moving lower on Thursday, with the dollar supported by higher-than-expected US labour market data in the ADP report. On Friday, after the employment, payrolls and ISM services data, EURUSD returned above 1.06, and this morning it is around 1.069.

EURPLN rose to just above 4.68 on Thursday from around 4.67. The zloty was hurt by the strengthening of the dollar against the euro. On Friday, with the domestic market closed, the movement retreated on a wave of improving global sentiment.

The low inflation reading on Thursday pulled down yields in the **domestic debt market**. The entire curve moved in parallel by about 15-20 points. The deeper decline was prevented by the upward correction of yields in the core markets. The IRS curve, in turn, fell by as much as 30-35 basis points. FRA rates fell by from 10 points for the 3x6 rate to as much as 60 points for the 21x24 rate. The FRA market has begun to price in the possibility that at the end of this year NBP rates will be almost 50 basis points lower than they are now, and at the end of 2024 - by more than 200 points.

Breakdown of change in CPI inflation, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.6865	CZKPLN	0.1928
USDPLN	4.3857	HUFPLN*	1.1665
EURUSD	1.0683	RUBPLN	0.0621
CHFPLN	4.7346	NOKPLN	0.4391
GBPPLN	5.3179	DKKPLN	0.6281
USDCNY	6.7617	SEKPLN	0.4186

*for 100HUF

Last session in the FX market 06/01/2023

	min	max	open	close	fixing
EURPLN	4.6798	4.7068	4.6825	4.6995	4.6709
USDPLN	4.4242	4.4787	4.4535	4.4262	4.397
EURUSD	1.0482	1.0622	1.0513	1.0617	-

Interest rate market 06/01/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.10	0
DS0727 (5Y)	5.98	0
DS0432 (10Y)	6.15	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.94	2	5.10	-7	3.16	0
2L	6.30	2	4.54	-17	3.24	-4
3L	5.80	2	4.08	-21	3.08	-6
4L	5.53	2	3.84	-20	2.97	-8
5L	5.41	3	3.70	-20	2.90	-9
8L	5.33	-1	3.52	-17	2.83	-10
10L	5.38	0	3.50	-14	2.85	-8

WIBOR rates

Term	%	Change (bps)
O/N	6.55	-9
T/N	6.74	1
SW	6.84	-2
2W	6.85	0
1M	6.89	-1
3M	6.99	-1
6M	7.11	-1
1Y	7.19	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.90	2
3x6	6.91	1
6x9	6.96	0
9x12	6.33	-3
3x9	7.06	0
6x12	7.03	0

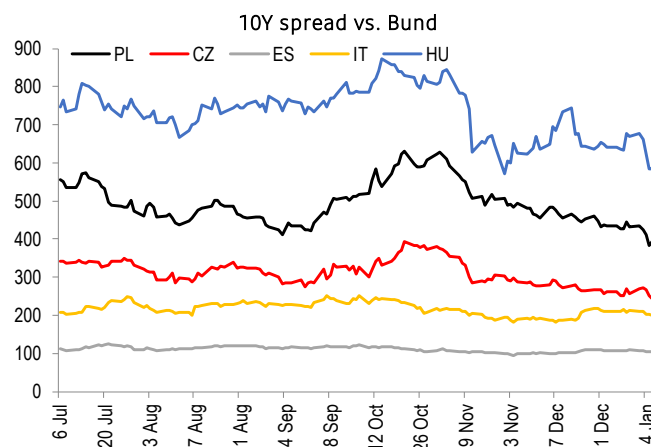
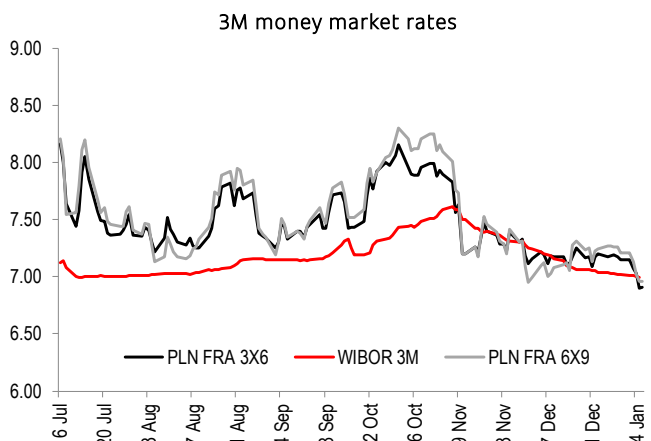
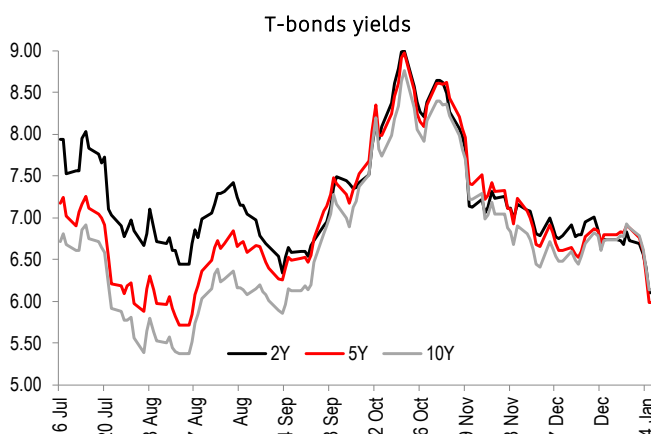
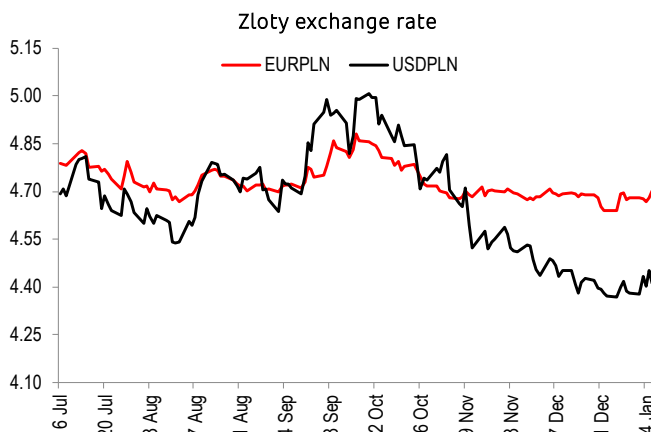
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	115	-2	394	10
France	15	0	51	0
Hungary	213	-4	584	-1
Spain	53	0	105	-1
Italy	53	0	201	-2
Portugal	38	0	102	0
Ireland	23	0	50	-2
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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (6 January)							
08:00	DE	Factory Orders	Nov	% m/m	-0.5	-	0.8
08:00	DE	Retail Sales	Nov	% m/m	1.5	-	-2.7
09:00	CZ	Industrial Production	Nov	% y/y	-1.5	-	2.9
11:00	EZ	Flash HICP	Dec	% y/y	9.5	-	10.0
11:00	EZ	Retail Sales	Nov	% m/m	0.5	-	-1.8
11:00	EZ	ESI	Dec	pct.	94.5	-	93.7
14:30	US	Change in Nonfarm Payrolls	Dec	k	200.0	-	263.0
14:30	US	Unemployment Rate	Dec	%	3.7	-	3.7
16:00	US	Durable Goods Orders	Nov	% m/m	-2.1	-	-2.1
16:00	US	ISM services	Dec	pts	55.0	-	56.5
16:00	US	Factory Orders	Nov	% m/m	-1.0	-	1.0
MONDAY (9 January)							
08:00	DE	Industrial Production SA	Nov	% m/m	0.3	0.2	-0.4
08:30	HU	Industrial Production SA	Nov	% y/y	-	-	5.1
09:00	CZ	GDP SA	3Q	% y/y	-	-	1.7
11:00	EZ	Unemployment Rate	Nov	%	-	-	6.5
TUESDAY (10 January)							
No key events or releases							
WEDNESDAY (11 January)							
09:00	CZ	CPI	Dec	% y/y	-	-	16.2
THURSDAY (12 January)							
14:30	US	CPI	Dec	% m/m	0.04	-	0.1
FRIDAY (13 January)							
08:30	HU	CPI	Dec	% y/y	-	-	22.5
10:00	PL	CPI	Dec	% y/y	16.6	16.6	17.5
11:00	EZ	Industrial Production SA	Nov	% m/m	-	-	-2.0
14:00	PL	Current Account Balance	Nov	€mn	-973.0	-486.0	-549.0
14:00	PL	Trade Balance	Nov	€mn	-2263.0	-2343.0	-2277.0
14:00	PL	Exports	Nov	€mn	29870.0	29995.0	28677.0
14:00	PL	Imports	Nov	€mn	32057.0	32338.0	30954.0
16:00	US	Michigan index	Jan	pts	60.25	-	59.7

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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