

13 January 2023

Eyeopener

Today we'll see what lowered December inflation

Today we will learn detailed December inflation plus November balance of payments
 US inflation fell exactly in line with market expectations
 Different opinions from the MPC regarding interest rate outlook
 EURPLN remains below 4.70, EURUSD bounced up
 Polish debt market stable

This morning, GUS will show details of December CPI inflation which will allow us to see more precisely what was the reason behind its surprisingly strong year-end decline. We suspect coal, which was also the main cause of the November fall. In the afternoon, the NBP will publish the balance of payments for November. We expect the current account deficit to come below market consensus, but with a still fairly large trade deficit and a further convergence of the paths of the annual growth of exports and imports of goods.

US CPI inflation was exactly in line with market expectations, falling in December to 6.5% y/y from 7.1% and core inflation to 5.7% y/y from 6.0%. Inflation was dragged down by energy (-4.5% m/m) and fuel prices (-9.4% m/m), but also by falling prices of used cars due to a rebound in new car production. At the same time services continued to grow in price (+0.6% m/m). With this level of inflation, real annual wage growth remained negative which implies downward pressure on consumer spending at the turn of the year.

Following the US inflation reading for December, the **Fed's Patrick Harker** stated that the time for large-scale rate rises is over and from now on the pace of rate hikes should be reduced to 25 bps. In his view, after raising rates "slightly" above 5%, the Fed should keep rates unchanged for an extended period. The rise in unemployment as a result of the Fed's policy may be limited due to demographic trends, but reaching the 2% inflation target may, however, in his opinion, take a few years.

According to **MPC's Ireneusz Dąbrowski**, there is a high probability that there will be room for interest rate cuts in late 2023 and early 2024, which means, according to him, that the market is not necessarily wrong in pricing-in cuts as early as the end of this year. At the same time, the end of the tightening cycle cannot yet be declared due to the risk that the opening of China will trigger a new wave of commodity price increases. A different view was expressed by **Ludwik Kotecki**: he regards the mere talk now of the possibility of rate cuts as a communication error that could undermine the effectiveness of monetary policy. According to him, there will be no room for rate cuts this year. Interestingly, also **Henryk Wnorowski**, so far counted among the 'dovish' group, said that one or two small rate hikes in 1Q cannot be ruled out if the inflationary impulse proves to be significant.

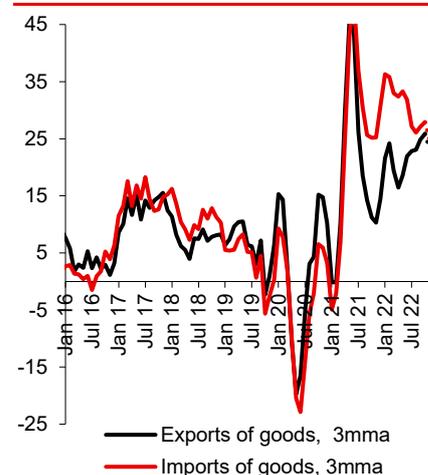
EURUSD fluctuated around 1.08 to break away upwards from that level in the evening. After an overnight test of 1.085 this morning, the rate returned to around 1.083. A consensus reading of US CPI inflation worked against the US dollar, as did a statement by the Fed's Harker, who signalled a slower pace of further hikes and the imminent end of the cycle.

EURPLN remained in the range of 4.67 - 4.70. To break out of this zone, the exchange rate needs more volatility in global currency markets, or the publication of more significant data from the country. Today's publication of the domestic balance of payments may support the zloty, in our opinion.

Other CEE currencies: EURCZK held steady near 24.03. EURHUF tried for another day in a row to push for the 400 level. Concerns about the budget deficit, which rose sharply in the last two months of last year under the influence of energy subsidies and pension payments, to about 6.1% of GDP, are weighing on the value of the forint.

Debt market: Domestic yield curve remained relatively stable, as did interest rate expectations in the FRA market. The US CPI inflation reading, which was in line with expectations, did not significantly affect the debt markets. Today's domestic inflation reading should not have a significant impact on quotes, barring a significant revision.

Poland's foreign trade turnover: goods, in EUR, %y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.6916	CZKPLN	0.1950
USDPLN	4.3307	HUFPLN*	1.1657
EURUSD	1.0839	RUBPLN	0.0640
CHFPLN	4.6605	NOKPLN	0.4369
GBPPLN	5.2807	DKKPLN	0.6305
USDCNY	6.7229	SEKPLN	0.4153

*for 100HUF

Last session in the FX market 12/01/2023

	min	max	open	close	fixing
EURPLN	4.6807	4.7013	4.6814	4.6986	4.6888
USDPLN	4.3242	4.3702	4.3521	4.3417	4.3556
EURUSD	1.0728	1.0838	1.0761	1.0819	-

Interest rate market 12/01/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.96	-3
DS0727 (5Y)	5.83	-4
DS0432 (10Y)	5.92	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.90	0	5.05	-1	3.15	1
2L	6.21	-1	4.40	-6	3.17	-2
3L	5.61	-6	3.93	-7	2.97	-5
4L	5.33	-4	3.68	-11	2.85	-6
5L	5.19	-6	3.54	-11	2.78	-6
8L	5.08	-10	3.40	-10	2.72	-6
10L	5.13	-9	3.38	-9	2.70	-9

WIBOR rates

Term	%	Change (bps)
O/N	6.54	1
T/N	6.67	-2
SW	6.84	0
2W	6.88	0
1M	6.92	0
3M	6.95	0
6M	7.05	-1
1Y	7.12	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.91	0
3x6	6.96	2
6x9	6.76	2
9x12	6.28	2
3x9	6.96	5
6x12	6.71	4

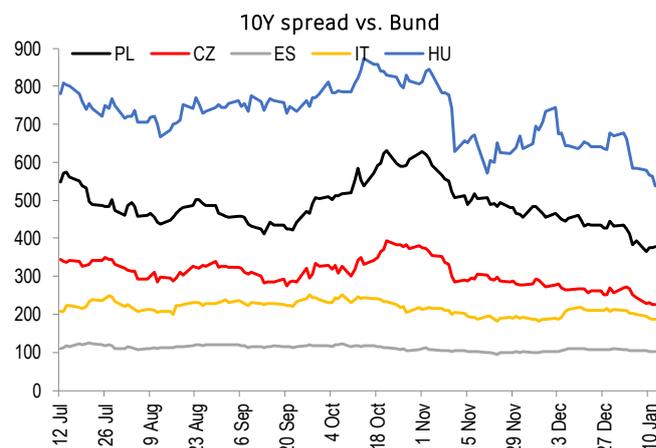
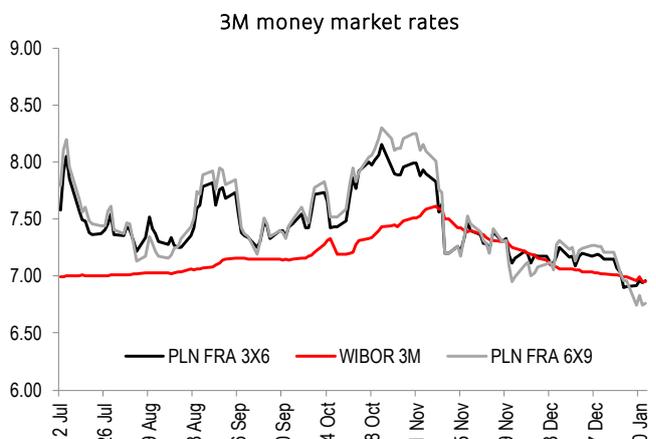
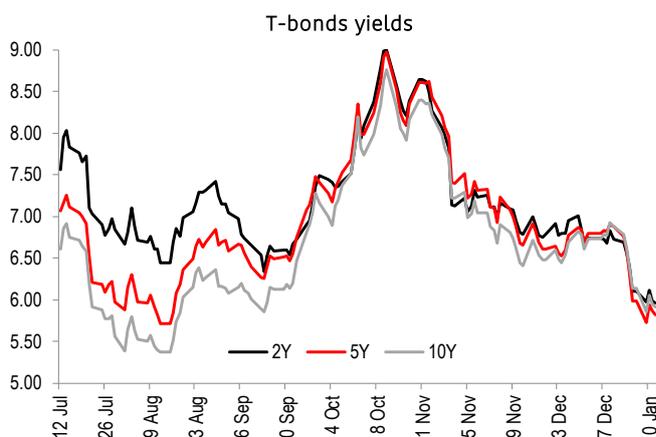
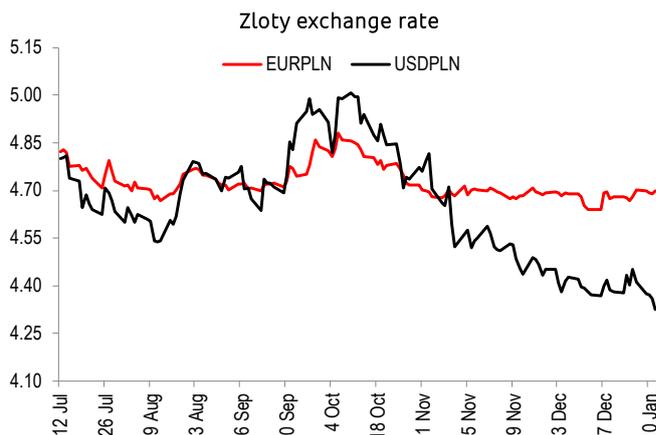
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	115	0	379	2
France	10	-2	49	0
Hungary	210	0	538	-26
Spain	48	-2	102	0
Italy	45	-2	186	0
Portugal	33	-2	95	1
Ireland	18	-2	45	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



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	-5.3	0.6
08:00	DE	Retail Sales	Nov	% m/m	1.5	1.1	-2.8
09:00	CZ	Industrial Production	Nov	% y/y	-1.5	0.5	2.9
11:00	EZ	Flash HICP	Dec	% y/y	9.5	9.2	10.1
11:00	EZ	Retail Sales	Nov	% m/m	0.5	0.8	-1.5
11:00	EZ	ESI	Dec	pct.	94.5	95.8	94.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	200	223	256
14:30	US	Unemployment Rate	Dec	%	3.7	3.5	3.6
16:00	US	Durable Goods Orders	Nov	% m/m	-2.1	-2.1	-2.1
16:00	US	ISM services	Dec	pts	55.0	49.6	56.5
16:00	US	Factory Orders	Nov	% m/m	-1.0	-1.8	0.4
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	4.1	0.8	5.0
09:00	CZ	GDP SA	3Q	% y/y	1.7	1.5	1.7
11:00	EZ	Unemployment Rate	Nov	%	6.5	6.5	6.5
TUESDAY (10 January)							
No key events or releases							
WEDNESDAY (11 January)							
09:00	CZ	CPI	Dec	% y/y	16.2	15.8	16.2
THURSDAY (12 January)							
14:30	US	CPI	Dec	% m/m	-0.1	-0.1	0.1
FRIDAY (13 January)							
08:30	HU	CPI	Dec	% y/y	26.0	-	22.5
10:00	PL	CPI	Dec	% y/y	16.6	16.6	17.5
11:00	EZ	Industrial Production SA	Nov	% m/m	0.5	-	-2.0
14:00	PL	Current Account Balance	Nov	€mn	-973	-486	-549
14:00	PL	Trade Balance	Nov	€mn	-2263	-2343	-2277
14:00	PL	Exports	Nov	€mn	29870	29995	28677
14:00	PL	Imports	Nov	€mn	32057	32338	30954
16:00	US	Michigan index	Jan	pts	60.3	-	59.7

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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