

16 January 2023

Eyeopener

Inflation fell in December, but core inflation did not

December core inflation today

CPI dynamics fell to 16.6% y/y in December, Poland's C/A deficit much lower than expectations

Fitch rating agency maintained Poland's rating at "A-," with a stable outlook

EURPLN further in the band below 4.70, weakening of domestic debt

Today, we will find out how high was December core inflation in Poland. According to our calculations, it could have remained at the previous level of 11.4% y/y or increased gently.

Polish CPI inflation fell in December to 16.6% y/y from 17.5%, confirming the flash estimate. One of the main sources of the fall in inflation was the deceleration in energy prices, driven mainly by cheaper coal (-10.8% m/m). Solid fuel prices subtracted around 0.5 pp from the inflation rate in December (0.8 pp in November). Overall, the retreat in inflation in December was mainly due to non-core components, while core inflation remained at record high levels. Unless inflation rate jumps significantly above 20% in 1Q23, we believe that the MPC will not consider further monetary tightening in the coming months. On the other hand, we continue to believe that market-priced expectations of interest rate cuts before the end of 2023 are too optimistic, as the disinflation process will be slower than assumed by the central bank's latest projection. Read more in our [Economic Comment](#).

In November, **Polish C/A balance** was -€0.42bn vs. market expectations at around -€1.00bn and our -€0.49bn forecast. The goods trade balance was the cause of the relative low C/A deficit, coming in at just -€1.47bn after three prints below -€2bn, with us and the market expecting a figure of around -€2.30bn. We are surprised to see import growth drop to 17.7% y/y from 25.3%, the lowest since February 2021 and the first time April 2021 it was lower than export growth (20.3% y/y). The NBP report mentions continued strong performance of the automotive sector on the export side. Declining energy commodity prices depressed imports, but intermediate goods and consumer goods were also responsible for import deceleration, suggesting domestic demand weakness. The 12M moving sum of C/A balances was -3.5% GDP in November, slightly less negative than a month earlier (-3.7%).

Minister of Climate and Environment Anna Moskwa has informed about **additional government works to limit the increase in households' heating prices**. The existing law which imposes price caps depending on the type of fuel used in heating plants is to be strengthened with a provision guaranteeing that the price hike is no more than 40% compared to last September's net price (heat prices rose in January also due to the reinstatement of the 23% VAT rate). In our inflation forecast of just under 18% in January and just under 20% in February, we estimated the impact of higher heat costs quite conservatively therefore the new government action does not prompt us to revise our forecasts downwards.

On Friday, the **Sejm** approved the Supreme Court bill and referred it to the Senate. According to Ursula von der Leyen, the EC will only look at the provisions adopted in the law in terms of meeting one of the milestones once the legislative process is complete.

Rating agency Fitch has affirmed Poland's rating at 'A-' with a stable outlook. According to the agency, Poland's rating is supported by a diversified economy, strong macroeconomic fundamentals resulting from, among other things, EU membership and a slightly lower level of public debt than the average of countries with a similar rating. However, Poland is disadvantaged by lower governance indicators and a lower level of income relative the median of countries in 'A' rating basket.

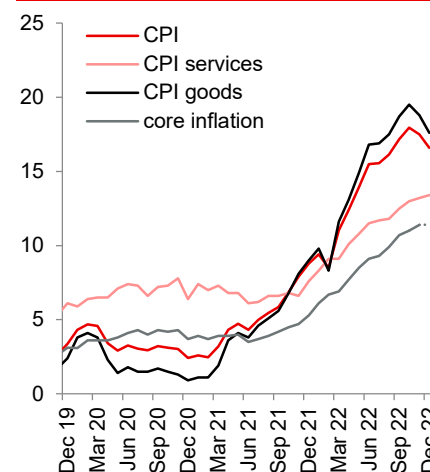
EURUSD fluctuated between 1.08 and 1.085 for the better part of the day of the day. Better-than-expected January US economic indicators from the University of Michigan (especially a markedly better assessment of the current situation by consumers) halted attempts to climb further.

EURPLN remained in a horizontal trend in the 4.67-4.70 zone. An improvement in Polish current account in November did not change the market situation, which is awaiting further steps on the issue of possible unblocking of the Recovery Fund.

Other CEE currencies: EURCZK fell to 23.98 from around 24.03. CNB member Jan Frait suggested that the central bank may not decide to loosen monetary policy this year. **EURHUF** oscillated around 396. Although December's inflation reading turned out to be higher than November's, it was clearly below the much more pessimistic (i.e. higher) market expectations. As a result, the forint exchange rate stabilised.

Debt market: Domestic yields rose by around 12 bps across the curve, moving around 6%. Today's core inflation reading for December may support the further unwinding of domestic yields.

CPI inflation in Poland, % y/y



Source: GUS, 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

Jarostaw Kosaty +48 887 842 480

Marcin Luzziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4,6958	CZKPLN	0,1954
USDPLN	4,3347	HUFPLN*	1,1790
EURUSD	1,0833	RUBPLN	0,0637
CHFPLN	4,6810	NOKPLN	0,4374
GBPPLN	5,2923	DKKPLN	0,6306
USDCNY	6,7085	SEKPLN	0,4162

*for 100HUF

Last session in the FX market 13.01.2023

	min	max	open	close	fixing
EURPLN	4,6817	4,6995	4,6942	4,6931	4,6915
USDPLN	4,3128	4,3471	4,3316	4,3425	4,3272
EURUSD	1,0778	1,0864	1,0836	1,0808	-

Interest rate market 13.01.2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6,00	4
DS0727 (5Y)	5,98	16
DS0432 (10Y)	6,02	10

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6,92	1	5,06	2	3,19	4
2L	6,23	1	4,47	7	3,20	3
3L	5,63	2	4,02	8	2,99	2
4L	5,38	4	3,77	9	2,86	1
5L	5,26	7	3,63	8	2,79	0
8L	5,19	12	3,47	7	2,72	0
10L	5,24	11	3,45	7	2,72	2

WIBOR rates

Term	%	Change (bps)
O/N	6,63	9
T/N	6,71	4
SW	6,83	-1
2W	6,87	-1
1M	6,93	1
3M	6,92	-3
6M	7,02	-3
1Y	7,11	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6,93	1
3x6	6,94	-2
6x9	6,82	6
9x12	6,34	6
3x9	6,95	-1
6x12	6,77	6

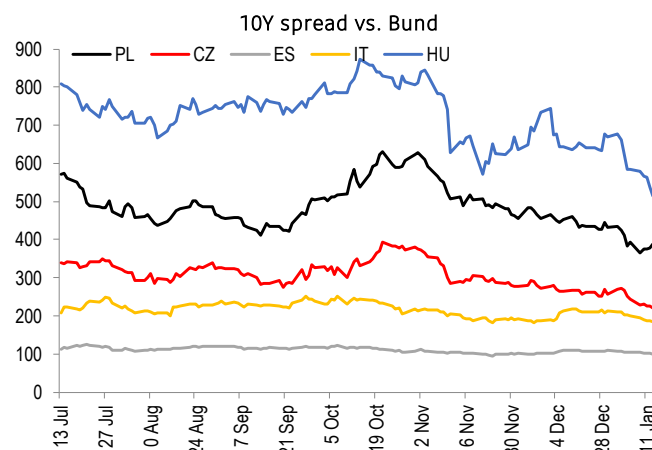
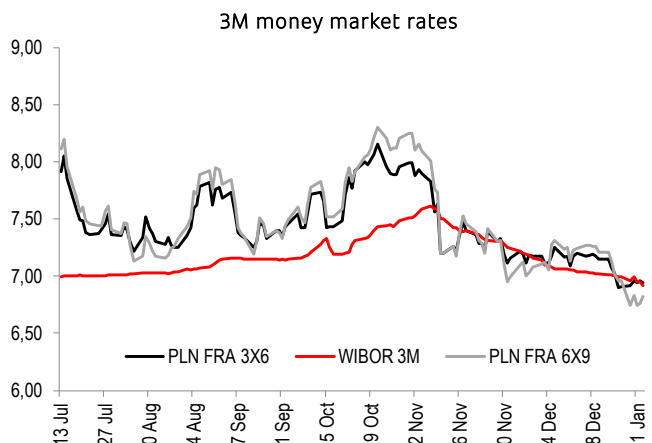
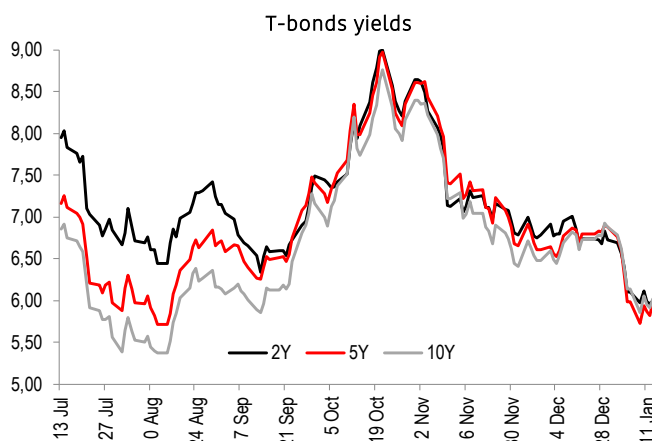
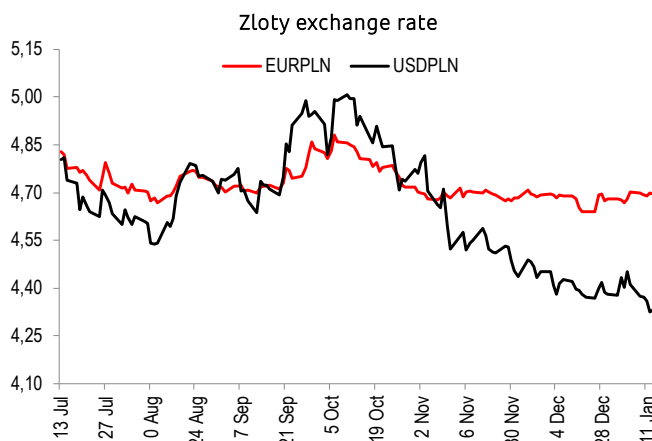
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	117	2	388	9
France	10	0	48	-1
Hungary	206	-4	516	-22
Spain	48	0	101	-1
Italy	45	0	184	-2
Portugal	33	0	93	-2
Ireland	17	0	45	0
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 (13 January)							
08:30	HU	CPI	Dec	% y/y	25.8	24.5	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	1.0	-1.9
14:00	PL	Current Account Balance	Nov	€mn	-1014.0	-486.0	-422.0
14:00	PL	Trade Balance	Nov	€mn	-2327.0	-2343.0	-1496.0
14:00	PL	Exports	Nov	€mn	29808.5	29995.0	30018.0
14:00	PL	Imports	Nov	€mn	31878.0	32338.0	31514.0
16:00	US	Michigan index	Jan	pts	60.5	64.6	59.7
MONDAY (16 January)							
14:00	PL	CPI Core	Dec	% y/y	11.5	11.4	-
TUESDAY (17 January)							
08:00	DE	HICP	Dec	% m/m	-1.2	-	0.0
11:00	DE	ZEW Survey Current Situation	Jan	pts	-56.4	-	-61.4
WEDNESDAY (18 January)							
11:00	EZ	HICP	Dec	% y/y	9.2	-	10.1
14:30	US	Retail Sales Advance	Dec	% m/m	-0.75	-	-0.6
15:15	US	Industrial Production	Dec	% m/m	0.0	-	-0.22
THURSDAY (19 January)							
10:00	PL	Consumer confidence	Jan			-	
14:30	US	Initial Jobless Claims		k	215.0	-	205.0
14:30	US	Housing Starts	Dec	% m/m	-5.4	-	-0.5
14:30	US	Index Philly Fed	Jan		-10.8	-	-13.7
FRIDAY (20 January)							
10:00	PL	Business confidence	Jan			-	
10:00	PL	Employment in corporate sector	Dec	% y/y	2.3	2.3	-
10:00	PL	Average Gross Wages	Dec	% y/y	12.4	12.3	-
16:00	US	Existing Home Sales	Dec	% m/m	-3.18	-	-7.67

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>.