

13 February 2023

Eyeopener

Supreme Court Act without president's signature

Balance of payments for December today

President sent the Supreme Court Act to the Constitutional Tribunal

Wnorowski: no room for rate cuts in 2023; Tyrowicz: inflation near 10% at the year-end

Dollar rallied again, zloty depreciated, Polish bond yields higher

Today, Poland's balance of payments data for December will be released. According to our forecast, the current account balance amounted to -€1.8bn (in line with consensus), with a rather pronounced deceleration at the end of the year in exports (to 15.6% y/y from 20.3%) and imports (to 13.7% y/y from 17.7%). The last three balance of payments publications surprised with a smaller current account deficit than the market had expected.

The Michigan index describing US consumer optimism surprised positively in February on the back of a significantly better-than-forecast assessment of the current situation (we suspect this is the impact of a positive rebound in the markets).

President Andrzej Duda on Friday evening announced that he will send the Supreme Court Act to the Constitutional Tribunal for preventive control. This means that the law will not be implemented until the Tribunal rules on its accordance with constitution. It is very difficult to say how long this may take. According to TOK FM, it takes on average about two years for a case to be heard in the Court, although there are cases that are heard immediately. The matter is further complicated by the internal conflict in the Tribunal around who is currently the chairman. In our view, the President's decision puts the prospect of unblocking the EU funding further away.

MPC's Henryk Wnorowski said in an interview with Biznes24 that the current level of interest rates in Poland is appropriate to steer inflation towards the target, and he sees no room for interest rate cuts in 2023. This is a more hawkish stance than that of NBP President Adam Glapiński, who hinted at Thursday's conference that the question of whether there is room for rate cuts will be debated perhaps as early as May-June. In another interview for TV Trwam Wnorowski said that the cycle of rate hikes was not over yet. **MPC's Joanna Tyrowicz** said today on TVN24 that inflation should be close to 10% at the end of the year (clearly above the 6% predicted by President Glapiński).

The inflation rate for pensioner households, which is a component of the indexation mechanism, was 14.8% in 2022. This means that the **pension indexation will be at least 14.8%**, compared to the 9.8% assumed in the 2023 budget. The government has also set the minimum amount of the increase at PLN250, meaning that benefit recipients receiving less than PLN1690 will get a higher pension hike in percentage terms than the official one (provided their benefit is at least equal to the minimum pension). We estimate that in the case of Social Security benefits, this applies to about 11% of pensions, 23% of disability pensions and about 15% of survivor pensions. The actual cost of the social benefit valorisation will therefore amount to about PLN45bn, compared to the PLN30bn budgeted for this purpose in the Budget Law.

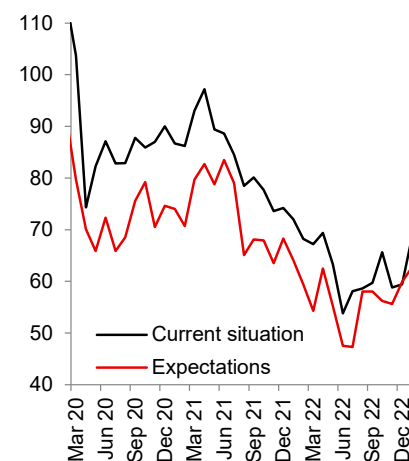
EURUSD has slipped from above 1.07 to below this level. The dollar was helped by an increase in geopolitical uncertainty in the CEE region, including a statement from Russia to reduce oil production from March by 0.5 million barrels per day (about 5% of its output), and a better-than-expected reading of the US Michigan index for February.

EURPLN rose from around 4.75 to the area of 4.77. During the day, the rate even tried to cross 4.78 after reports of Russian missiles flying to Ukraine over part of Romanian territory, but the Romanian government's denial calmed the situation somewhat. The President's decision which potentially postpones the unblocking of EU funding for Poland may contribute to further weakening of the zloty at the beginning of the week, in our view.

Other CEE currencies: the EURHUF moved above 387 from below this level. EURCZK fluctuated around 23.69. Y/y inflation readings from Hungary and Czechia came in above expectations. The market is concerned that exceptionally high inflation in Hungary will hinder the country's withdrawal from high interest rates.

Debt market: The domestic yield curve rose by an average of about 15 bps, the IRS curve rose by an average of about 9 bps. Expectations of higher rates in Poland also rose in the longer-dated FRA contracts. The weakening of the domestic market is a result of both differing opinions from the MPC regarding the possibility of rate cuts this year and growing geopolitical concerns.

Michigan indexes, pts



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.7733	CZKPLN	0.2009
USDPLN	4.4654	HUFPLN*	1.2302
EURUSD	1.0685	RUBPLN	0.0608
CHFPLN	4.8358	NOKPLN	0.4396
GBPPLN	5.3936	DKKPLN	0.6406
USDCNY	6.8222	SEKPLN	0.4272

*for 100HUF

Last session in the FX market						10/02/2023
	min	max	open	close	fixing	
EURPLN	4.7477	4.7852	4.7534	4.7722	4.7716	
USDPLN	4.4209	4.4800	4.4320	4.4737	4.4565	
EURUSD	1.0666	1.0752	1.0724	1.0667	-	

Interest rate market 10/02/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.17	13
DS0727 (5Y)	6.05	17
DS0432 (10Y)	6.10	16

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.00	9	5.31	5	3.39	4
2L	6.41	17	4.79	4	3.37	4
3L	5.88	17	4.36	5	3.18	6
4L	5.63	15	4.11	6	3.06	3
5L	5.52	14	3.96	7	2.98	3
8L	5.41	13	3.75	8	2.90	5
10L	5.43	12	3.70	7	2.90	1

WIBOR rates

Term	%	Change (bps)
O/N	6.63	-1
T/N	6.73	-1
SW	6.83	1
2W	6.85	1
1M	6.90	2
3M	6.93	-1
6M	6.99	0
1Y	7.10	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.94	1
3x6	6.95	3
6x9	6.84	11
9x12	6.48	16
3x9	6.97	2
6x12	6.87	13

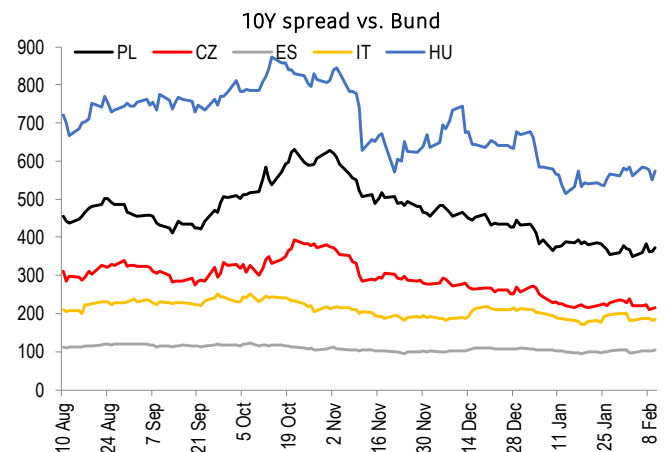
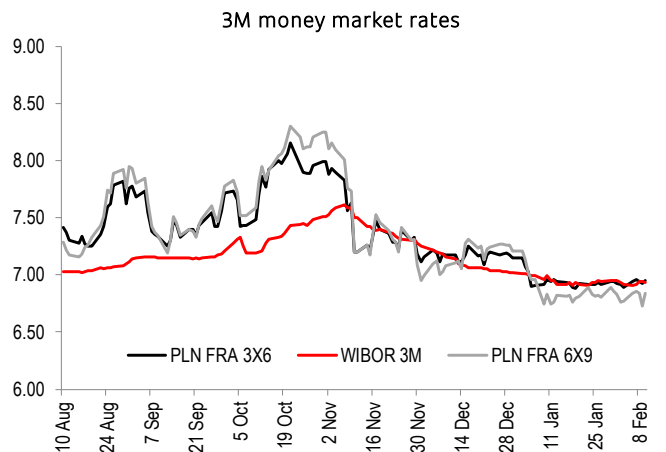
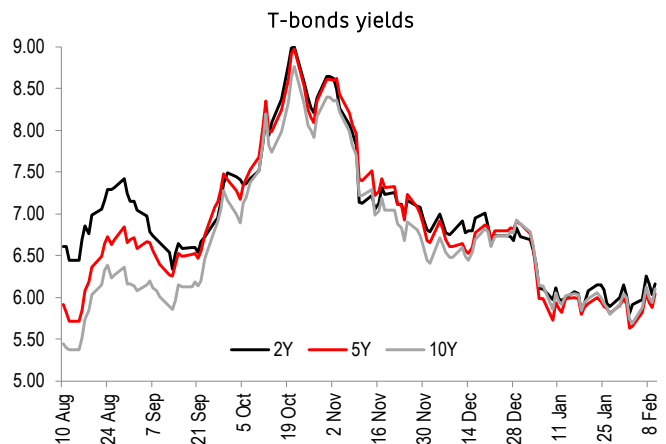
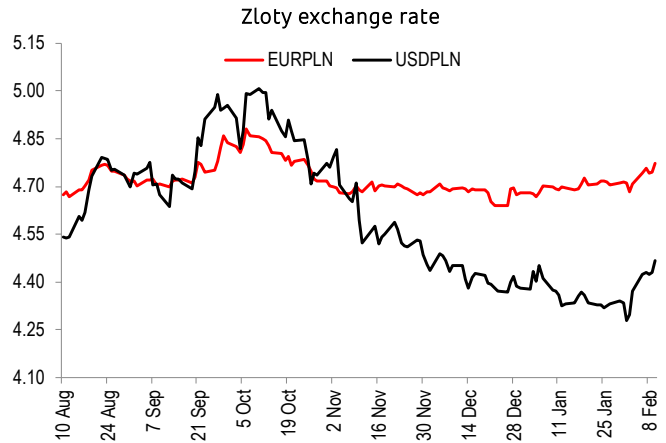
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	96	2	374	11
France	10	0	47	1
Hungary	165	5	575	23
Spain	45	3	104	2
Italy	45	3	185	2
Portugal	30	3	88	2
Ireland	18	0	45	2
Germany	11	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 (10 February)								
08:30	HU	CPI	Jan	% y/y	25.2	-	25.7	24.5
09:00	CZ	CPI	Jan	% y/y	17.1	-	17.5	15.8
16:00	US	Michigan index	Feb	pts	65.0	-	66.4	64.9
MONDAY (13 February)								
14:00	PL	Current Account Balance	Dec	€mn	-1660	-1764	-	-422
14:00	PL	Trade Balance	Dec	€mn	-1951	-2148	-	-1496
14:00	PL	Exports	Dec	€mn	27202	27011	-	30018
14:00	PL	Imports	Dec	€mn	29105	29159	-	31514
TUESDAY (14 February)								
09:00	HU	GDP	4Q	% y/y	0.8	-	-	4.0
10:00	PL	GDP	4Q	% y/y	2.2	2.2	-	3.6
11:00	EZ	GDP SA	4Q	% y/y	1.9	-	-	2.4
14:30	US	CPI	Jan	% y/y	6.2	-	-	6.5
WEDNESDAY (15 February)								
10:00	PL	CPI	Jan	% y/y	17.6	17.6	-	16.6
11:00	EZ	Industrial Production SA	Dec	% m/m	-0.7	-	-	1.0
14:30	US	Retail Sales Advance	Jan	% m/m	1.7	-	-	-1.1
15:15	US	Industrial Production	Jan	% m/m	0.5	-	-	-0.7
THURSDAY (16 February)								
09:30	PL	ECJ advocate general: opinion on CHF mortgages						
14:30	US	Initial Jobless Claims		k	190.0	-	-	196.0
14:30	US	Housing Starts	Jan	% m/m	-2.0	-	-	-1.4
14:30	US	PPI	Jan	% m/m	0.4	-	-	-0.5
FRIDAY (17 February)								
	PL	S&P rating/outlook review						A-/stable

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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