

16 February 2023

Eyeopener

Inflation lower than expected, but more stubborn

Today opinion of the ECJ Advocate General important for Polish banks, US PPI inflation
 Inflation in January increased less than expected, but core inflation strengthened
 Solid rebound in US retail sales
 Dollar strengthened, Polish yields temporarily decreased

Today, the Advocate General of the European Court of Justice is expected to publish opinion whether or not banks can sue clients whose mortgage contracts were canceled to seek remuneration for non-contractual use of capital. Should the opinion turn out to be negative for domestic banks, the deterioration of local sentiment could affect not only the Warsaw Stock Exchange but also the zloty. However, we do not exclude the possibility that the opinion may turn out to be inconclusive, shifting the responsibility on this issue to the domestic judiciary, in which case the reaction of the domestic market could even be positive. The US PPI inflation is expected to show continuation of downward trend (to 5.4% y/y), started in mid-2022 above 11%.

Polish CPI inflation rose less than had been forecasted, to 17.2% y/y from 16.6% y/y, mostly due to smaller price growth in food and energy. However in other areas, the new year the new year apparently brought a stronger upward price correction than might have been expected, as according to our estimates, core inflation rose to 11.8% y/y, setting a new record with a monthly price change of as much as 1.3%, the highest rise recorded so far for January and the third highest print in the 22-year history of the data. We still think that CPI will go up again in February, to large extent due to low base effect, setting the local peak somewhere between 18.5% and 19% y/y. As mentioned earlier, in February the data will reveal the changes in the CPI weighting system, which – according to our estimates – may add 0.1-0.2pp to the headline number (so the January print will be revised accordingly). From March onwards, inflation will probably start to decline, but we still believe that it will be close to 10% y/y at the end of this year. Moreover, the reduction in core inflation will be proceeding noticeably slower. Read more in [Economic Comment](#).

MPC's Gabriela Mastowska wrote in the article for Radio Maryja that the conditions for considering interest rate cuts in Poland may appear at the turn of 2023 and 2024 at the earliest. In turn, a reconsideration of rate hikes could occur if one of the NBP's projections shows a serious risk of a revival of inflationary pressure, although according to her, this is an unlikely situation.

The European Commission filed a lawsuit against Poland to the European Court of Justice due to the Constitutional Court's challenge to the principle of the primacy of EU law over national law in 2021. The EC's decision reinforces our impression that there is currently no reconciliation effort between the Polish government and the Commission, so that the freeze of Poland's access to recovery funds and the new EU budget could be prolonged.

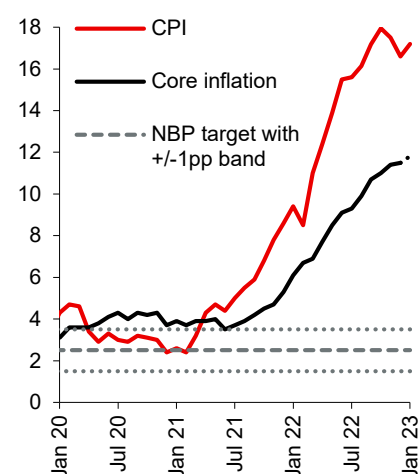
US retail sales stood out among the yesterday US data releases, rebounding by 3.0% m/m after two months of declines of 1.1% m/m. The rebound was strong in almost all categories, particularly in purchases of durable goods and clothing. Following the data, the Atlanta Fed index estimating GDP growth in the current quarter rose to 2.4% in SAAR terms from 2.1% before the data release, while it was still below 1% in late January and early February.

EURUSD slipped on Wednesday to 1.067, which is where it started the week, although it turned around overnight, returning slightly above 1.07. Strong US data and the Fed's still hawkish stance should favour the dollar in the near term in our view.

EURPLN fell below 4.76 ahead of the inflation data, but later climbed somewhat. Today, the ECJ opinion may potentially affect the pair. **EURCZK** also moved lower yesterday, to its lowest levels in around 15 years. **EURHUF** was below 380 on Tuesday night for the first time since May last year, and rebounded yesterday.

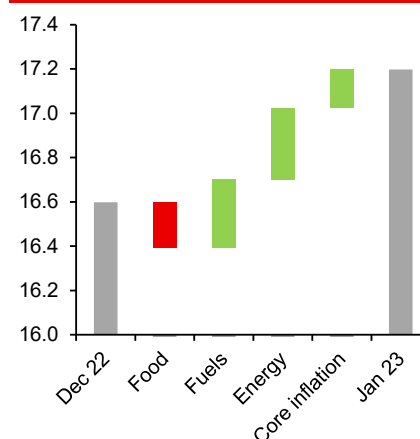
The domestic debt market reacted to the CPI data by shifting the entire yield curve down by around 20bp, but then was cancelling this move throughout the day (FRA rates reaching more than a year ahead reacted the same way). In the face of rising yields in the core markets, the spread of 10-year domestic bond to the German Bund narrowed by 6bp and to US Treasuries by 8bp. Domestic debt market may be also vulnerable to the today's opinion of the ECJ Advocate General.

Polish inflation, % y/y



Source: GUS, NBP, Santander

CPI inflation, breakdown of change vs last month, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.7645	CZKPLN	0.2009
USDPLN	4.4498	HUFPLN*	1.2424
EURUSD	1.0708	RUBPLN	0.0596
CHFPLN	4.8238	NOKPLN	0.4355
GBPPLN	5.3936	DKKPLN	0.6406
USDCNY	6.8565	SEKPLN	0.4272

*for 100HUF

Last session in the FX market 15/02/2023

	min	max	open	close	fixing
EURPLN	4.7515	4.7778	4.7722	4.7616	4.7593
USDPLN	4.4298	4.4724	4.4549	4.4585	4.4372
EURUSD	1.0663	1.0732	1.0715	1.0680	-

Interest rate market 15/02/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.24	0
DS0727 (5Y)	6.18	0
DS0432 (10Y)	6.20	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.00	-3	5.37	-1	3.44	0
2L	6.50	-2	4.93	1	3.51	2
3L	5.98	-1	4.53	2	3.33	3
4L	5.72	1	4.25	2	3.20	3
5L	5.59	1	4.10	4	3.12	3
8L	5.45	2	3.84	5	3.03	3
10L	5.46	3	3.77	5	3.02	4

WIBOR rates

Term	%	Change (bps)
O/N	6.61	-5
T/N	6.72	2
SW	6.83	0
2W	6.84	0
1M	6.89	-2
3M	6.93	0
6M	7.00	0
1Y	7.10	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.94	-1
3x6	6.96	-3
6x9	6.87	-4
9x12	6.56	-1
3x9	7.00	-3
6x12	6.88	-4

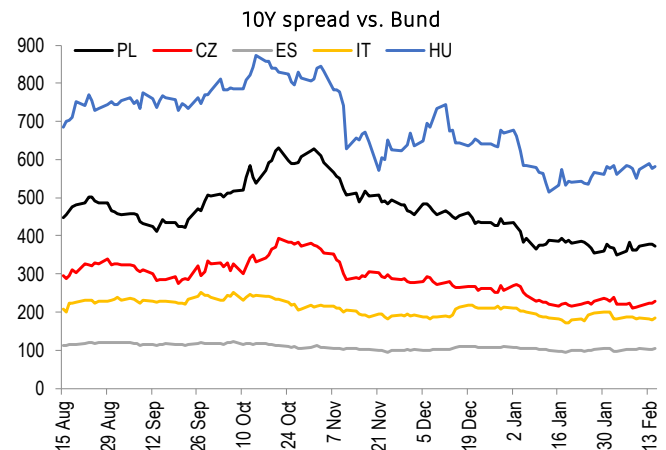
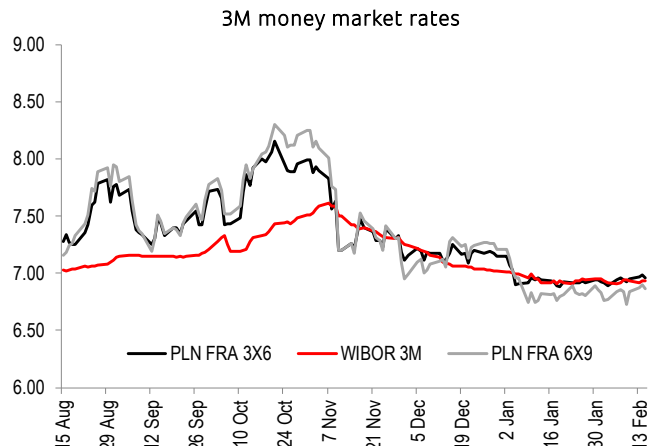
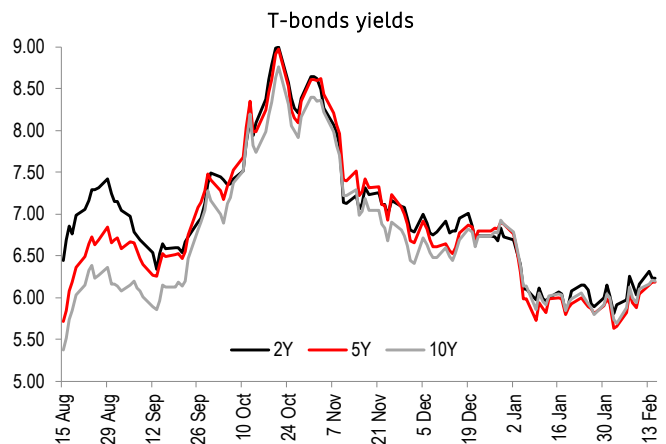
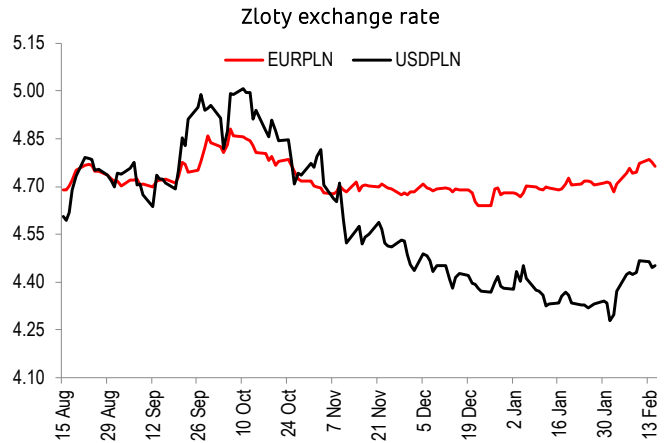
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	96	0	372	-5
France	10	0	47	1
Hungary	164	0	583	6
Spain	45	3	105	4
Italy	40	-2	186	7
Portugal	30	3	90	3
Ireland	18	0	46	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	-2526	313
14:00	PL	Trade Balance	Dec	€mn	-1951	-2148	-2716	-978
14:00	PL	Exports	Dec	€mn	27202	27011	26040	31234
14:00	PL	Imports	Dec	€mn	29105	29159	28756	32212
TUESDAY (14 February)								
09:00	HU	GDP	4Q	% y/y	1.2	-	0.4	4.0
10:00	PL	GDP	4Q	% y/y	2.2	2.2	2.0	3.6
11:00	EZ	GDP SA	4Q	% y/y	1.9	-	1.9	2.4
14:30	US	CPI	Jan	% y/y	6.2	-	6.4	6.5
WEDNESDAY (15 February)								
10:00	PL	CPI	Jan	% y/y	17.6	17.6	17.2	16.6
11:00	EZ	Industrial Production SA	Dec	% m/m	-0.8	-	-1.1	1.4
14:30	US	Retail Sales Advance	Jan	% m/m	2.0	-	3.0	-1.1
15:15	US	Industrial Production	Jan	% m/m	0.5	-	0.0	-1.0
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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