

31 March 2023

Eyeopener

Inflation fell in March, the question is how much

Today, flash inflation for March in Poland and euro zone, February PCE in the US
ESI indicator slightly lower in euro zone, higher in Poland
NBP deputy governor: recent data are in favour of bigger disinflation
EURPLN fluctuated near 4.68 again, local bonds stable

Today, the preliminary reading of Polish CPI inflation for March is due. In our view, it will retreat to around 15.8% (Bloomberg median is 16.0%) from the February peak of 18.4% y/y. In order to assess whether inflationary processes are intensifying or weakening, the change in prices m/m will be more important than y/y. In our view, March did not bring a significant improvement in this respect: we forecast 1.1% m/m in March after 2.5% in January and 1.2% in February, which will be one of the highest March readings of the last 20 years, indicating strong price momentum. From this data, it will be possible to make a rough estimate of March core inflation. In our view, it could remain close to the previous level of 12.0% y/y, perhaps gently lower. Also today, HICP inflation for March will be shown by the euro area and PCE inflation for February by the US.

Inflation in Germany surprised upwards with the preliminary March reading. In CPI terms, it fell to 7.4% y/y from 8.7% (instead of to 7.3%) and in HICP terms to 7.8% y/y from 9.3% (instead of to 7.5%). Such a reading basically prejudices that today we will also see a significant drop in Eurozone inflation, from 8.5% y/y perhaps even below 7.5%. What may be of concern in the German data is the persistence in food prices (higher by 22.3% y/y in March, 21.8% y/y in February) and services prices (4.8% y/y, previously 4.7%).

In the euro area, there was a decline in the **ESI industrial and services indicators**, leading them to lowest level since last December. The industrial index returned below the neutral level having spent two months above it. All sectoral indicators were lower than in February. The opposite was true of the data for Poland, with sentiment improving in all reported sectors (industry, trade and construction rated the best since mid-year last year). All sectors became slightly more optimistic about future business conditions, and all price expectation indices fell, as did consumer inflation expectations (the index is at its lowest since February 2020). Consumers were slightly less optimistic about their current and future financial situation than previously and expressed less enthusiasm to undertake large expenditures.

MPC's Ludwik Kotecki presented the view that the scenario of a return to rate hikes in Poland seems a real risk. In his view, inflation could be stuck at a high level. He also mentioned that voices in the Council for a rate cut already in 2023 are no longer heard. On the other hand, **NBP deputy governor Marta Kightley** said in an interview with PAP that recent economic data "are certainly working towards more disinflation", but due to the high uncertainty, for the time being the central bank is maintaining the scenario outlined in the latest projection. In her view, the turmoil caused by bank failures abroad means that "more risks have emerged that could lead to a deeper economic slowdown and, at the same time, to faster disinflation". This is therefore a very different assessment from that implied by recent statements by MPC members, which tended to imply a belief that fewer interest rate hikes abroad could hinder disinflation in Poland.

Local governments closed 2022 with a deficit of PLN8.2bn compared to a surplus of PLN17.4bn in 2021. In 4Q22, local government revenues were the same as a year earlier, while expenditures increased by 16.9% y/y, including investment spending by 24.4% y/y. Investment financed from EU funds amounted in 2022 to PLN15.8bn, the least since 2017. In contrast, total investment expenditure amounted to PLN60.3bn – all-time high in nominal values.

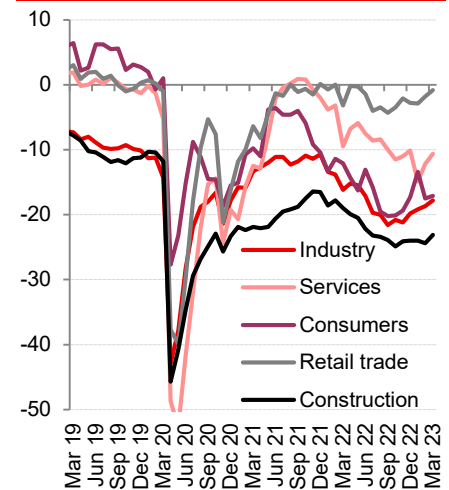
EURUSD rose from 1.085 to 1.09. Despite the weak ESI, the single currency benefited from rising expectations for ECB rate hikes, which again started to approach 4% in 2023. At the peak, just a few weeks ago, the market expected them to rise to 4.5% while at the bottom, i.e. in mid-March, the market assumed that the ECB would end hikes this year at 3.5%.

EURPLN fluctuated around 4.68 for another day in a row, ending the day slightly below this level. Obstacles to the appreciation of the zloty, despite the improvement in investment sentiment in European markets, are still priced in rate cuts in 2023, which the market is reluctant to abandon despite the MPC's apparent stiffening around the rate stabilisation scenario.

Other CEE currencies: EURCZK slipped to 23.50 from around 23.55. The koruna strengthened on a wave of signals from the CNB signalling a preference for a stronger currency and thanks to a further improvement in global market sentiment. EURHUF was stuck around 380. Signals from the MNB indicate that the existing monetary policy will be maintained for a longer period of time.

Debt market: The domestic yield curve remained stable despite higher yields in the euro area. Today's CPI data from Poland for March could break the stalemate and trigger volatility in the domestic market.

ESI sentiment indicators for Poland



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4.6739	CZKPLN	0.1982
USDPLN	4.2891	HUFPLN*	1.2217
EURUSD	1.0899	RUBPLN	0.0556
CHFPLN	4.6887	NOKPLN	0.4121
GBPPLN	5.3099	DKKPLN	0.6272
USDCNY	6.8652	SEKPLN	0.4135

*for 100HUF

Last session in the FX market 30/03/2023

	min	max	open	close	fixing
EURPLN	4.6722	4.6901	4.6851	4.6740	4.6801
USDPLN	4.2806	4.3310	4.3240	4.2879	4.3043
EURUSD	1.0822	1.0926	1.0839	1.0896	-

Interest rate market 30/03/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	6.15	7
WS0428 (5Y)	6.00	-1
DS1033 (10Y)	6.08	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.83	0	5.03	2	3.52	9
2L	6.28	-1	4.43	5	3.46	11
3L	5.76	-1	4.02	-8	3.29	10
4L	5.52	-2	3.81	-7	3.18	9
5L	5.44	-2	3.73	0	3.12	8
8L	5.38	-3	3.57	0	3.04	6
10L	5.41	-1	3.54	-1	3.01	2

WIBOR rates

Term	%	Change (bps)
O/N	6.89	20
T/N	6.76	2
SW	6.84	0
2W	6.82	-2
1M	6.84	-1
3M	6.90	0
6M	6.95	-1
1Y	7.06	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.90	1
3x6	6.84	2
6x9	6.64	0
9x12	6.22	-4
3x9	6.84	-1
6x12	6.62	0

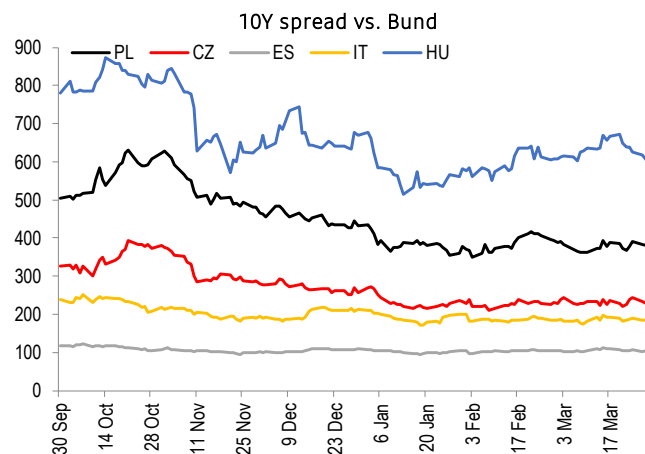
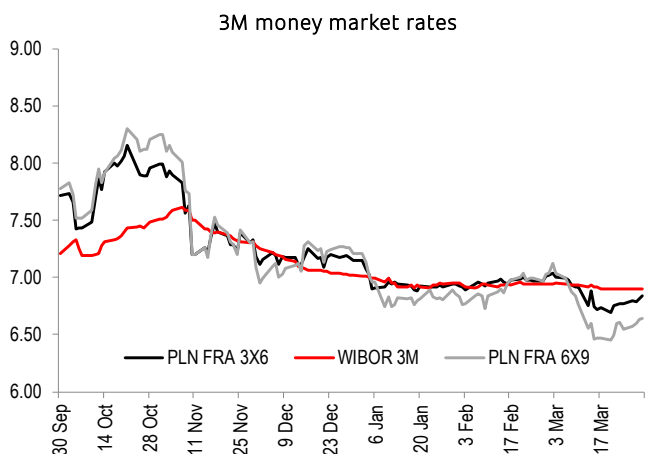
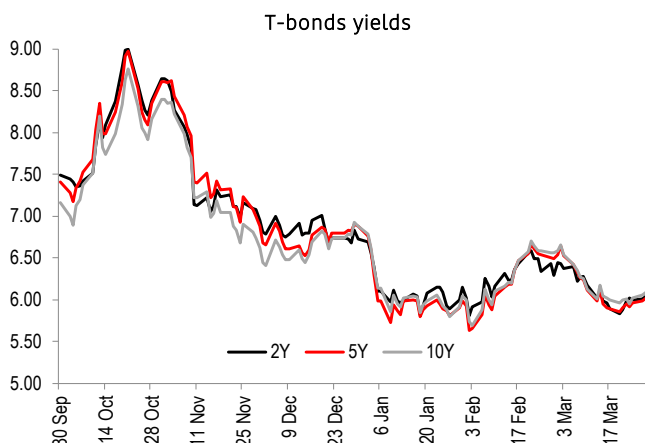
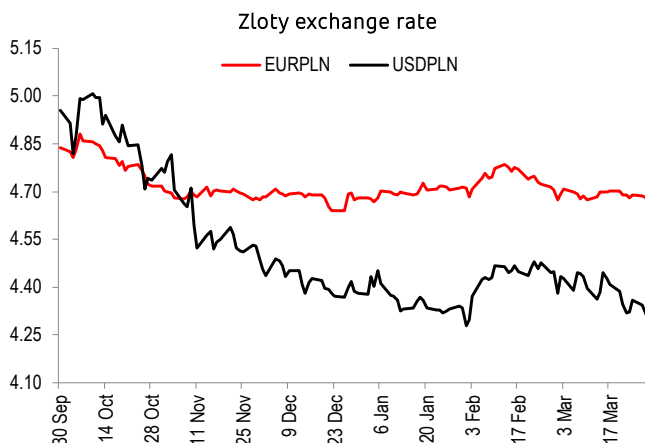
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	102	0	371	-7
France	14	0	51	-1
Hungary	169	0	0	-610
Spain	48	-5	103	0
Italy	46	-2	186	2
Portugal	35	-2	87	0
Ireland	20	0	45	0
Germany	12	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	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (24 March)							
09:30	DE	Germany Manufacturing PMI	Mar	pts	47.0	44.4	46.3
09:30	DE	Markit Germany Services PMI	Mar	pts	51.0	53.9	50.9
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.0	47.1	48.5
10:00	EZ	Eurozone Services PMI	Mar	pts	52.5	55.6	52.7
13:30	US	Durable Goods Orders	Feb	% m/m	0.5	-1.0	-5.0
MONDAY (27 March)							
10:00	DE	Ifo Business Climate	Mar	pts	91.0	93.3	91.1
TUESDAY (28 March)							
14:00	HU	Central Bank Rate Decision		%	13.0	13.0	13.0
16:00	US	Consumer Conference Board	Mar	pts	101.5	104.2	103.4
WEDNESDAY (29 March)							
14:30	CZ	Central Bank Rate Decision		%	7.0	7.0	7.0
16:00	US	Pending Home Sales	Feb	% m/m	-2.3	0.8	8.1
THURSDAY (30 March)							
11:00	EZ	ESI	Mar	pct.	99.8	99.3	99.6
13:30	US	Initial Jobless Claims		k	197	198	191
14:00	DE	HICP	Mar	% m/m	0.9	1.1	1.0
14:30	US	GDP Annualized	4Q	% Q/Q	2.7	2.6	2.7
FRIDAY (31 March)							
09:00	CZ	GDP SA	4Q	% y/y	0.2	-	0.2
10:00	PL	CPI	Mar	% y/y	16.1	15.8	-
11:00	EZ	Flash HICP	Mar	% y/y	7.1	-	8.5
11:00	EZ	Unemployment Rate	Feb	%	6.6	-	6.6
14:00	PL	Current account balance	4Q	€mn		-2810	-
14:30	US	Personal Spending	Feb	% m/m	0.3	-	1.8
14:30	US	Personal Income	Feb	% m/m	0.3	-	0.6
14:30	US	PCE Deflator SA	Feb	% m/m	0.3	-	0.6
16:00	US	Michigan index	Mar	pts	63.4	-	63.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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