10 July 2023

Eyeopener

Interest rate cuts looming

Today publication of NBP's Inflation Report
NBP president announced the end of hiking cycle and signalled rate cuts later this year
Zloty trimmed some losses, market rates and yields decreased

Today at 9:00 CET, the NBP published its Inflation Report, which will show the central bank's economic projections in detail. At 10:00, the NBP's research team will hold a presentation of the projection, during which additional assumptions behind the projection may be outlined. At this week's Sejm session (Tuesday-Thursday), the NBP President is expected to present testimonty on the NBP activity in 2022, while next relevant domestic data (balance of payments for May, inflation for June) will be known on Friday. Abroad, inflation data from various countries, including Germany, the US, the Czechia, will follow during the week. Those from China, released this morning (CPI 0.0% y/y, PPI -5.4% y/y), were again below expectations.

The NBP President Adam Glapinski announced on Friday that the cycle of rate hikes had come to an end and announced rate cuts later this year. The NBP President did not rule out cutting rates this year, even in September, conditonal on inflation below 10% and forecasts showing it falling further. Our current forecast shows CPI at 10.3% in August and 9.2% in September, which would open the door for a rate cut on October 4th. Should inflation fall faster, the first rate cut would be possible as early as September. We think that the NBP reference rate could be cut to 6.0% by the end of this year. In our view, the economic scenario will not warrant more aggressive monetary easing in the short term, so cuts are likely to be put on hold after this short run and could resume around mid-2024, assuming inflation continues to fall. Read more in the Economic comment.

The MPC member Ludwik Kotecki said in an interview with Business Insider that he believes it is too early to discuss rate cuts and such a move could be interpreted as a political contribution to the election campaign. At the same time, he suggested that the worsening of GDP growth outlook indicates less need for further rate hikes (which he has voted for so far).

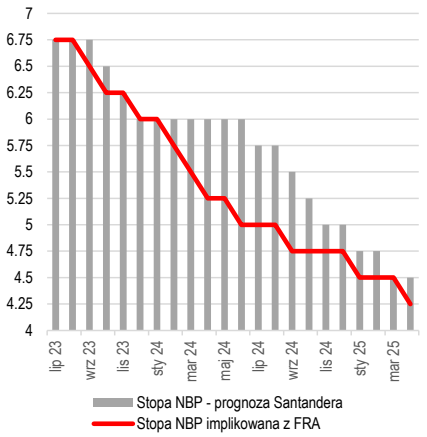
The government's planned increase in the cap on electricity consumption, which guarantees 2022 prices, could lower the path of inflation. A proposal to increase the cap on electricity consumption guaranteeing a 'price freeze' from 2022 for households has appeared on the legislative work list for adoption in Q3. Since GUS has already taken into account the impact of the price freeze in the January reading, we assume that the increase in the limit will lower CPI as soon as the new regulations come into force - probably in October at the earliest, with the publication of inflation for September. Such a change could lower y/y inflation by a maximum of 0.2pp, depending on how much the threshold is raised.

According to S&P, the Constitutional Court's verdict on the Supreme Court could be important for the rating outlook. A positive verdict of the Constitutional Court on the law adopted by the parliament could unblock Recovery funds (grants of EUR23bn and loans of PLN12bn, i.e. a total of around 5% of GDP) and reduce potential future difficulties in raising funds under the main EU budget. The hearing of the case has been taken off the cause list without a new date, due to a conflict in the Constitutional Court preventing it from being ruled on by the full court. The government has tried to influence a change in the rules on the full composition of the Constitutional Court, but so far without much success.

The zloty was making up for losses at the end of the week. The slightly weaker-than-forecast US employment data contributed to a drop in US yields and ended a correction in risk appetite in global markets. The zloty was one of the best-performing currencies of the emerging economies on Friday alongside the Mexican peso and the Brazilian real. perhaps also with the support of the BGK exchange. Even the forint joined this group after a considerable sell-off in the previous days and also in the first part of Friday's session. We think that the zloty will remain in a horizontal trend in the next week, as excessive depreciation would be unwelcome by the NBP and the MF in terms of the fight against inflation or the impact on foreign currency debt, and excessive appreciation could hurt exports.

Domestic rates are falling again. With rates falling in the US (in reaction to employment data) and Germany, domestic rates also declined. With less upward pressure on rates in the core markets with a dovish change in tone by the NBP president and suggestions of rate cuts this year, this could keep domestic rates on a downward trend in anticipation of further disinflation in PPI and CPI data and a steepening of the swap curve. Possible further fiscal proposals ahead of the election may also keep asset swap spreads broadly level in the months ahead, although the large liquidity cushion (PLN139bn after June) may translate into relatively lower issuance, which could in turn lead to temporary declines in credit spreads.

NBP reference rate forecasts, %



Source: NBP, Refinitiv, Santander

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Santander

FX market

Today's opening

EURPLN	4.4627	CZKPLN	0.1859
USDPLN	4.0755	HUFPLN*	1.1475
EURUSD	1.0949	RUBPLN	0.0444
CHFPLN	4.5607	NOKPLN	0.3805
GBPPLN	5.2055	DKKPLN	0.5958
USDCNY	7.2371	SEKPLN	0.3734

*for 100HUF

Last session in the FX market 07/07/2023

	min	max	open	close	fixing
EURPLN	4.4550	4.4927	4.4811	4.4595	4.4803
USDPLN	4.0670	4.1341	4.1133	4.0674	4.1189
EURUSD	1.0865	1.0963	1.0889	1.0961	-

Interest rate market 07/07/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.79	-14
WS0428 (5Y)	5.68	-9
DS1033 (10Y)	5.80	-7

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.32	-12	5.66	-5	4.01	-1
2L	5.70	-17	5.17	-1	3.94	-2
3L	5.30	-18	4.81	1	3.72	-3
4L	5.11	-17	4.58	1	3.55	-2
5L	5.02	-17	4.42	2	3.45	-1
8L	5.01	-15	4.18	4	3.29	0
10L	5.07	-14	4.10	4	3.26	1

WIBOR rates

Term	%	Change (bps)
O/N	6.87	-9
T/N	6.81	1
SW	6.84	0
2W	6.85	0
1M	6.87	-2
3M	6.90	0
6M	6.92	0
1Y	6.94	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.81	-5
3x6	6.41	-13
6x9	5.96	-13
9x12	5.36	-24
3x9	6.37	-12
6x12	5.90	-7

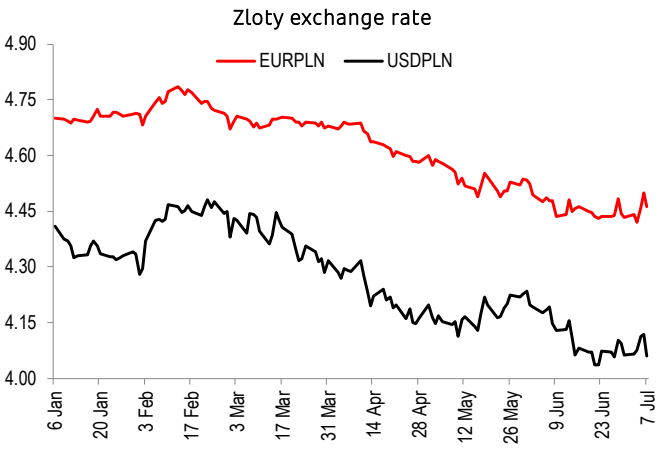
Measures of fiscal risk

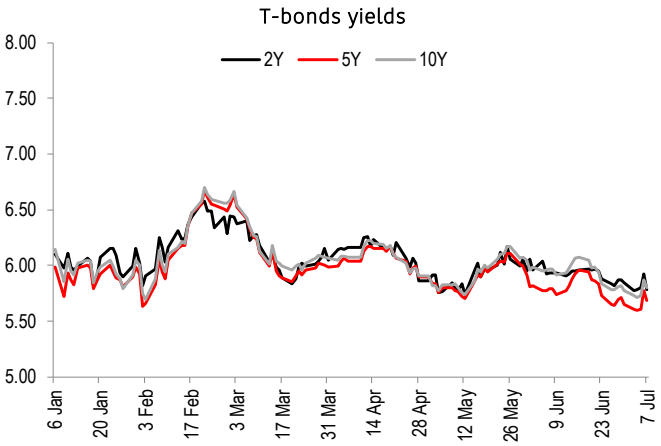
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	74	0	317	-8
France	13	0	55	-1
Hungary	159	0	490	44
Spain	49	0	105	-2
Italy	35	0	172	-3
Portugal	37	0	73	-3
Ireland	17	0	43	-1
Germany	10	0	-	-

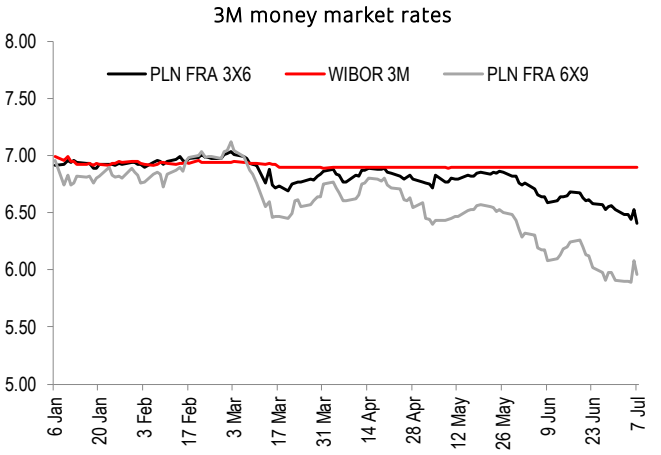
* 10Y treasury bonds over 10Y Bunds

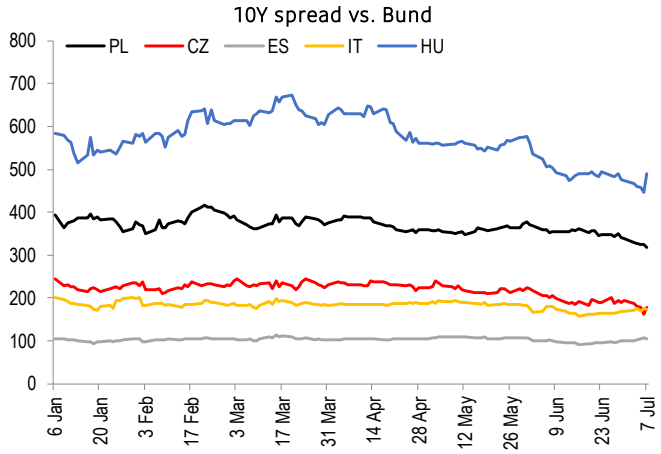
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream









Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (7 July)					
08:00	DE	Industrial Production SA	May	% m/m	0.0	-	-0.2	0.3
08:30	HU	CPI	Jun	% y/y	20.0	-	20.1	21.5
09:00	CZ	Industrial Production	May	% y/y	-3.0	-	1.4	1.2
14:30	US	Change in Nonfarm Payrolls	Jun	k	200	-		339
14:30	US	Unemployment Rate	Jun	%	3.6	-		3.7
15:00	**PL**	**Press conference of NBP president**						
			MONDAY (10 July)					
9:00	**PL**	**Inflation Report**	Jun	pts	50.0	-	50.5	50.9
			TUESDAY (11 July)					
08:00	DE	HICP	Jun	% m/m	0.4	-	-	-
11:00	DE	ZEW Survey Current Situation	Jul	pts		-	-	-56.5
			WEDNESDAY (12 July)					
14:30	US	CPI	Jun	% m/m	0.3	-	-	0.1
			THURSDAY (13 July)					
09:00	CZ	CPI	Jun	% y/y		-	-	11.1
11:00	EZ	Industrial Production SA	May	% m/m	0.5	-	-	1.0
14:30	US	Initial Jobless Claims	Jul.23	k	245	-	-	248
			FRIDAY (14 July)					
10:00	**PL**	**CPI**	**Jun**	**% y/y**	**11.5**	**11.5**	**-**	**13.0**
14:00	**PL**	**Current Account Balance**	**May**	**€mn**	**437**	**856**	**-**	**359**
14:00	**PL**	**Trade Balance**	**May**	**€mn**	**609**	**1266**	**-**	**209**
14:00	**PL**	**Exports**	**May**	**€mn**	**28047**	**28066**	**-**	**26337**
14:00	**PL**	**Imports**	**May**	**€mn**	**27387**	**26800**	**-**	**26128**
16:00	US	Michigan index	Jul	pts	65.5	-	-	64.4

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*

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