13 July 2023

Eyeopener

Lower inflation in USA

Today industry output in the euro zone, US labour market
Faster decline of US CPI inflation
Oil price exceeded USD80/bbl, USDPLN below 4.00
Declines on interest rate market

Today at 9:00CET, we will get to see data on June inflation in the Czech Republic. After the CPI fell to 11.1% y/y in May, the market expects a further decline to 9.7% y/y. On a monthly basis, an increase of 0.3% m/m is expected. Later, euro zone industrial production data for May will be published, which the market expects to rise by 0.5% m/m after 1.0% m/m in April. The afternoon will bring the release of the number of new jobless claims in the US. An increase of 245k is expected, compared to 248k in the previous week.

Despite increasing energy and gasoline prices, **US CPI inflation** in June came in below expectations, with readings of 0.2% m/m and 3.0% y/y against expectations of 0.3% m/m and 3.1% y/y. Core inflation was also below expectations, coming in at 0.2% m/m versus 0.4% m/m in May. The lower inflation reading does not change our expectations for the Fed's monetary policy - we still expect a rate hike on 26 July. Although the latest core inflation reading broke a string of six consecutive numbers above 0.3%, the reported slowdown was mainly driven by highly volatile items such as hotel rates and airfares. Moreover, inflation rates in the services and real estate sectors remain high, with readings equal, respectively, 6.6% y/y and 6.3% y/y. All of this could provide a basis for further tightening of monetary policy, at least in the short term.

MPC's Henryk Wnorowski stated that inflation in September would certainly fall below 10%, and significantly so, but in his opinion further arguments would be needed for a rate cut. **Cezary Kochalski**, on the other hand, said that in some time there will be space to discuss rate cuts. We expect the MPC to make the first cut of 25bp at October (or even September) meeting, with the reference rate falling to 6.00% by the end of the year.

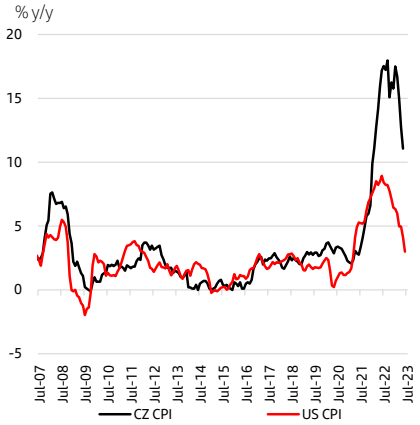
In response to positive inflation data from the United States, **the price of a barrel of Brent crude oil surpassed $80** for the first time since early May. This indicates improved optimism in commodity markets, as well as expectations of an imminent end to the US interest rate hike cycle. As forecasts did not expect the oil price to rise above $80 until around November this year, a continuation of the current oil price or a further rise could mean a slower deceleration of inflation in the coming months, especially with a possible weakening of the zloty. Currently, this risk is mitigated by the strengthening of the zloty against the dollar.

The deepening of the fall in US inflation led to a significant rise in **EURUSD** to around 1.11. This in turn supported the strengthening of CEE currencies. The Hungarian forint continued to make up for recent losses, reaching 375 to the euro. The Czech koruna also gained, although, in our view, it still remains in a slight depreciation trend.

EURPLN remained in a narrow fluctuation range. In the first half of the day, the zloty lost ground against the euro, exceeding 4.45 around midday, before recovering almost completely, ending the day close to the opening rate, at 4.44. The USDPLN exchange rate, following the publication of inflation data from the United States, broke through the 4.00 level, falling by more than 1.0%.

Further declines on the interest rate markets. Bond yields fell in both the US and euro area, by 9-14bp and 6-10bp respectively. This supported continued falls in the domestic market, with yields going down by 10-16bp. 5Y yields recorded the largest falls. In the swap rate market, falls amounted to 13-18bp, and in the FRA rate market up to 21bp. Although the market had already priced in a lot in terms of interest rate cuts, it managed to price in even more after the dovish tone of the NBP president. Inflation data from the USA only reinforced the belief that the decline in inflation could be more rapid and the corresponding reaction of the core markets supported the declines in domestic rates.

US and Czech headline CPI, % y/y



Source: Refinitiv, Santander

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FX market

Today's opening			
EURPLN	4,4381	CZKPLN	0,1864
USDPLN	3,9834	HUFPLN*	1,1706
EURUSD	1,1141	RUBPLN	0,0437
CHFPLN	4,6030	NOKPLN	0,3935
GBPPLN	5,1686	DKKPLN	0,5954
USDCNY	7,1710	SEKPLN	0,3845

*for 100HUF

Last session in the FX market 12.07.2023

	min	max	open	close	fixing
EURPLN	4,4349	4,4520	4,4361	4,4411	4,4471
USDPLN	3,9877	4,0403	4,0194	3,9937	4,0347
EURUSD	1,1012	1,1125	1,1034	1,1120	-

Interest rate market 12.07.2023

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5,64	-15
WS0428 (5Y)	5,61	-7
DS1033 (10Y)	5,75	-6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6,22	-10	5,60	-7	4,03	2
2L	5,61	-9	5,05	-12	3,95	1
3L	5,22	-9	4,68	-13	3,73	1
4L	5,05	-6	4,45	-13	3,56	1
5L	4,98	-4	4,30	-12	3,45	0
8L	4,99	-2	4,08	-9	3,29	0
10L	5,06	-2	4,02	-7	3,25	0

WIBOR rates

Term	%	Change (bps)
O/N	6,89	-5
T/N	6,88	2
SW	6,83	-1
2W	6,83	-1
1M	6,85	0
3M	6,85	-1
6M	6,80	1
1Y	6,77	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6,77	-3
3x6	6,33	-8
6x9	5,83	-13
9x12	5,28	-8
3x9	6,27	-10
6x12	5,74	-16

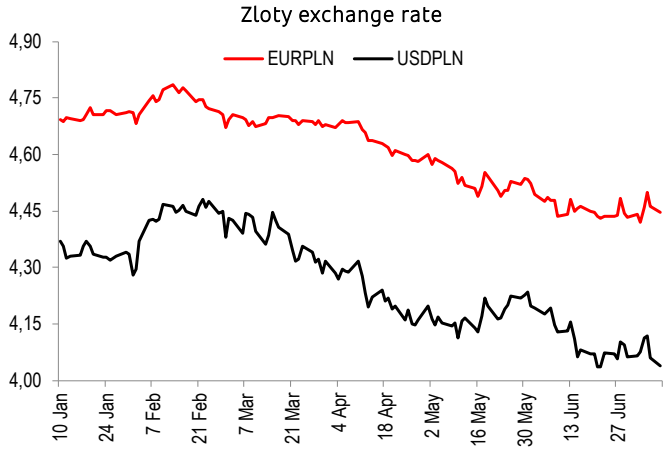
Measures of fiscal risk

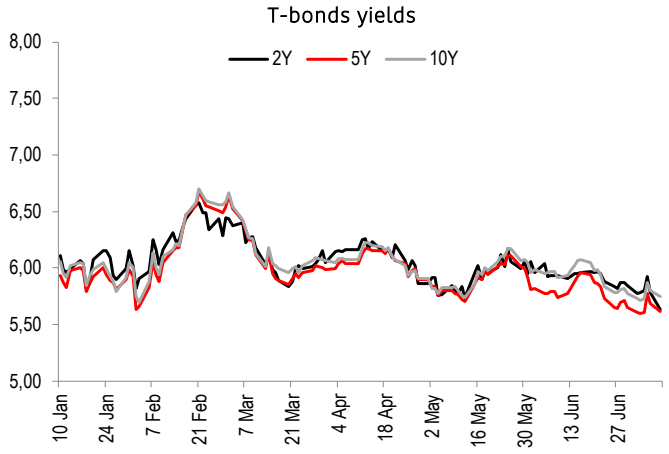
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	74	0	311	-5
France	13	0	56	0
Hungary	159	0	480	-11
Spain	49	0	105	0
Italy	35	0	173	1
Portugal	37	0	75	2
Ireland	17	0	44	1
Germany	10	0	-	-

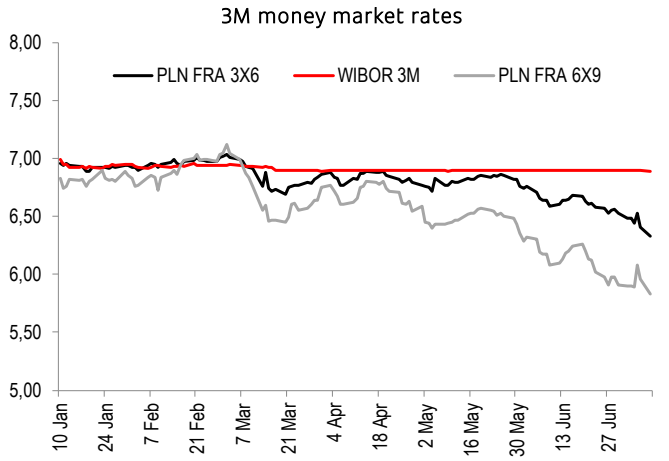
* 10Y treasury bonds over 10Y Bunds

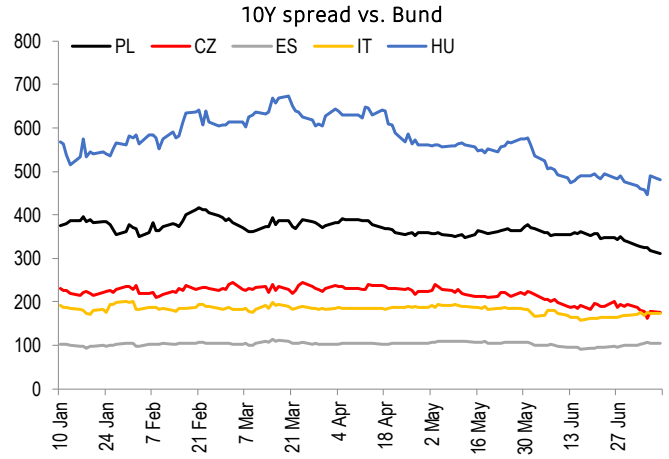
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream









Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			MONDAY (10 July)					
09:00	**PL**	**Inflation Report**						
			TUESDAY (11 July)					
08:00	DE	CPI	Jun	% m/m	0.3	-	0.3	-0.1
11:00	DE	ZEW Survey Current Situation	Jul	pts	-10.5	-	-14.7	-8.5
			WEDNESDAY (12 July)					
14:30	US	CPI	Jun	% m/m	0.3	-	0.2	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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