

18 July 2023

# Eyeopener

## Core inflation going down

Today US data: retail sales and industrial output  
Core inflation declined to 11.1% y/y  
Zloty slightly weaker, rates go further down

**Today**, we will get to see a small bundle of data from the US: retail sales, which according to market expectations should rise by 0.5% m/m in June after a 0.3% m/m increase in May, and industrial production, which, after declines in May, should see a slight increase in June.

**The new drought report from the Institute of Soil Science and Plant Cultivation (IUNG) showed no improvement.** The summary index describing the level of desiccation, which is used to determine drought risk, has further deteriorated compared to the previous report from 10 days ago and was clearly worse than in the previous two years, which were also marked by drought during the same period. According to the Institute, the agricultural drought spans the entire country (the previous report referred to 15 out of 16 voivodeships) and all surveyed crop types. According to us, as a consequence of such weather conditions, fruit and vegetable prices will break away upwards from the seasonal pattern in autumn, but this will not be enough to stop the fall in overall CPI inflation.

**The MPC member Ludwik Kotecki** said in an interview with Money.pl that cutting interest rates now would be a mistake, as July's inflation projection does not indicate that the timing of inflation's return to the target is getting closer. In our view, the MPC will cut interest rates by 75bp this year, for the first time in October or September.

The main measure of **Polish core inflation**, CPI ex food, energy and fuel, dropped in June to 11.1% y/y from 11.5%. It has been falling for three months now with the peak set at 12.3% y/y in March. We believe core inflation will be more stubborn than headline CPI and will be falling slower. As a result, in 4Q23 core inflation may be above headline consumer inflation and may end the year slightly below 8% y/y. In m/m terms the main measure of core inflation was 0.3%, which is c.0.2pp above the usual change seen in June (in May the reading was 0.4pp above the seasonal pattern and in April 0.75pp above). The other three measures of underlying price trends also decreased y/y and one of them, CPI ex most volatile components, showed negative m/m growth for the first time in almost three years. In the following quarters the resilience of the labour market and the economic rebound we expect should add to the persistence of core CPI, although they should not prevent its gradual fall.

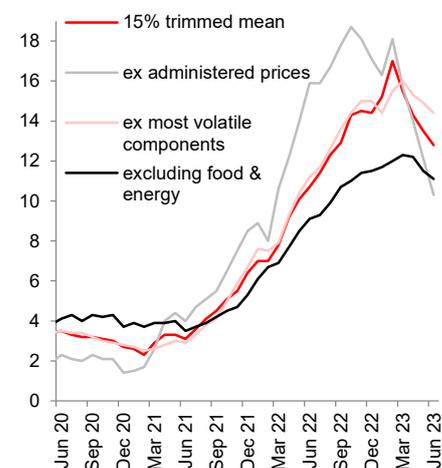
The Deputy Minister of Finance Artur Soboń said that **the government would consider upholding the zero VAT rate on food** (which is currently in force until the end of the year). The annual cost of the reduction of VAT on food is around PLN11bn. Upholding the reduced rate would subtract around 1 percentage point from our CPI forecasts for 2024.

**Empire State Manufacturing Index**, which describes the US manufacturing activity, came in at 1.1 points in July, recording a smaller m/m decline than the market had expected. The index reached its second highest level since November. The positive reading is due, among other factors, to an improvement in new orders, which reached its highest level since October 2022.

**EURUSD** fluctuated during yesterday's session, rising to 1.124 before slipping slightly below the opening rate to end the day at 1.122. **The zloty lost against both the euro and the dollar yesterday.** The EURPLN exchange rate, after several brief dips below the opening rate, stood at 4.446 at the end of the session. USDPLN remains below 4.00 and, after a slight weakening, ended the session at 3.964. The Czech koruna also lost (c. 0.1%), while the forint exchange rate against the euro did not see much change, ending the session close to the opening. The weakening of the CEE currencies is consistent with our medium-term scenario. The weaker performance in yesterday's session was linked to the general deterioration in risk appetite also evident in the stock markets, as a result of weaker economic activity data in China. The weak data increases the likelihood of a prolonged period of deflation in China and puts this year's GDP growth targets in doubt, also posing risks to the growth outlook of the global economy. The Chinese authorities will be deciding on economic policy later in the month, and Beijing's suggestions so far have pointed to maintaining a limited degree of stimulus.

**After a temporary deceleration, interest rate markets saw further declines.** Euro zone bond yields fell by 2-3bp and US bond yields declined by 1-2bp. In the domestic market, bond yields fell by 3-9bp. Swap rates also went down, by 8-16bp, and FRA rates, by 2-16bp. Market rates in the region were also moving lower. The first session of this week brought confirmation of the claim that in the current intense downward movement of domestic rates, it is difficult to pinpoint the exact moment when yields reach local bottom. The scale of daily movements is large and it is possible that foreign investors are returning to the domestic bond market after a prolonged absence, encouraged by the strong signal from the NBP president that interest rates will be lower. Admittedly, early and large rate cuts would not be good for the medium-term inflation outlook for 4-6 quarters, but in the current strong disinflationary trend this seems less important. We do, however, maintain the view that the market is clearly exaggerating the scale of the interest rate cuts being priced in, and an upward adjustment of market rates should soon follow. It will not be helped by further PPI disinflation, but the auction and better activity data could potentially be such a factor.

Core inflation measures in Poland, % y/y



Source: NBP, Santander

### Economic Analysis Department:

aI. Jana Pawła II 17, 00-854 Warszawa  
email: ekonomia@santander.pl  
website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
Piotr Bielski +48 691 393 119  
Bartosz Białas +48 517 881 807  
Cezary Chrapek, CFA +48 887 842 480  
Marcin Luziński +48 510 027 662  
Grzegorz Ogonek +48 609 224 857

### FX market

#### Today's opening

EURPLN	4,4409	CZKPLN	0,1867
USDPLN	3,9464	HUFPLN*	1,1869
EURUSD	1,1247	RUBPLN	0,0435
CHFPLN	4,5956	NOKPLN	0,3918
GBPPLN	5,1663	DKKPLN	0,5959
USDCNY	7,1735	SEKPLN	0,3850

\*for 100HUF

#### Last session in the FX market 17.07.2023

	min	max	open	close	fixing
EURPLN	4,4425	4,4550	4,4527	4,4456	4,452
USDPLN	3,9517	3,9731	3,9661	3,9573	3,9616
EURUSD	1,1202	1,1248	1,1225	1,1234	-

### Interest rate market 17.07.2023

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5,31	-13
WS0428 (5Y)	5,32	-8
DS1033 (10Y)	5,57	-5

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6,01	-2	5,49	-6	3,97	-3
2L	5,22	-12	4,84	-13	3,82	-7
3L	4,84	-14	4,39	-15	3,56	-9
4L	4,70	-10	4,14	-15	3,38	-9
5L	4,65	-10	4,01	-13	3,26	-9
8L	4,71	-10	3,81	-11	3,11	-9
10L	4,81	-9	3,77	-11	3,08	-9

#### WIBOR rates

Term	%	Change (bps)
O/N	6,67	-20
T/N	6,88	0
SW	6,84	0
2W	6,81	-3
1M	6,87	2
3M	6,81	-2
6M	6,74	-1
1Y	6,71	-2

#### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	6,68	-2
3x6	6,11	-2
6x9	5,47	-5
9x12	5,01	-3
3x9	6,04	3
6x12	5,30	-15

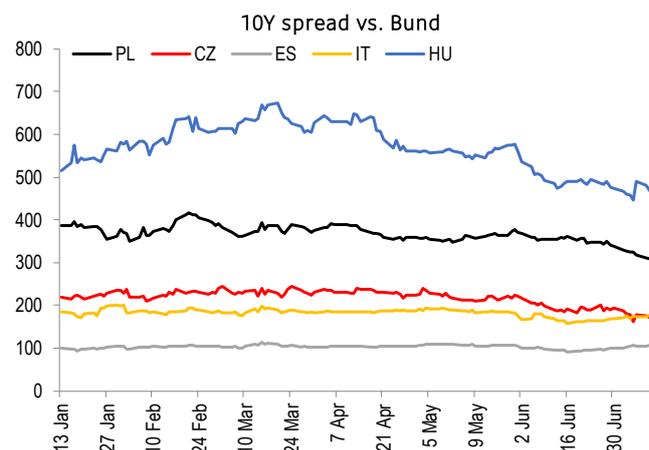
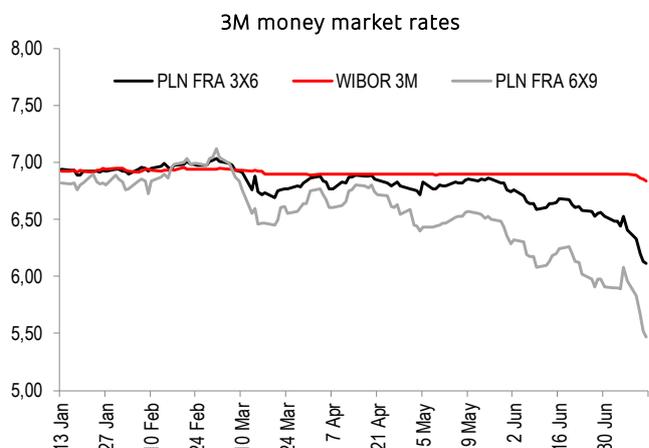
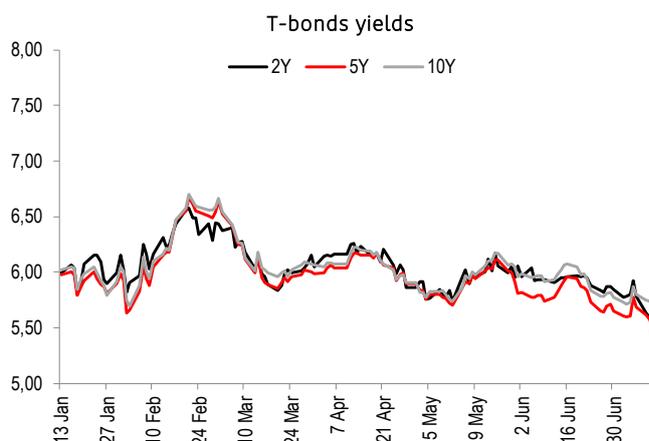
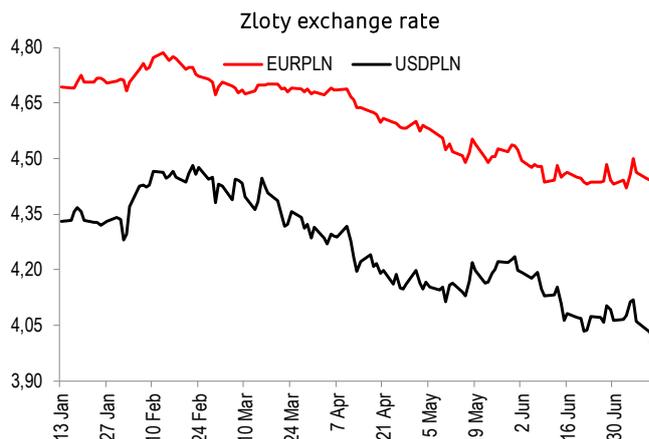
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	70	-1	311	3
France	13	0	56	0
Hungary	156	0	467	-13
Spain	49	-1	104	-1
Italy	35	0	169	-4
Portugal	37	0	74	-2
Ireland	17	0	42	-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		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
<b>FRIDAY (14 July)</b>								
10:00	PL	CPI	Jun	% y/y	11.5	11.5	11.5	13.0
14:00	PL	Current Account Balance	May	€mn	437	856	1392	529
14:00	PL	Trade Balance	May	€mn	609	1266	1111	327
14:00	PL	Exports	May	€mn	28047	28066	28221	26408
14:00	PL	Imports	May	€mn	27387	26800	27110	26081
16:00	US	Michigan index	Jul	pts	65.5	-	72.6	64.4
<b>MONDAY (17 July)</b>								
14:00	PL	CPI Core	Jun	% y/y	11.1	11.0	11.1	11.5
<b>TUESDAY (18 July)</b>								
14:30	US	Retail Sales Advance	Jun	% m/m	0.5	-	-	0.3
15:15	US	Industrial Production	Jun	% m/m	0.1	-	-	-0.16
<b>WEDNESDAY (19 July)</b>								
11:00	EZ	HICP	Jun	% y/y	5.5	-	-	5.5
14:30	US	Housing Starts	Jun	% m/m	-9.87	-	-	21.7
<b>THURSDAY (20 July)</b>								
10:00	PL	Employment in corporate sector	Jun	% y/y	0.4	0.4	-	0.4
10:00	PL	Sold Industrial Output	Jun	% y/y	-1.8	-2.5	-	-3.2
10:00	PL	Construction Output	Jun	% y/y	1.2	3.0	-	-0.7
10:00	PL	PPI	Jun	% y/y	1.0	0.0	-	3.1
10:00	PL	Average Gross Wages	Jun	% y/y	12.1	12.3	-	12.2
14:30	US	Initial Jobless Claims	Jul/23	k	245.0	-	-	237.0
16:00	US	Existing Home Sales	Jun	% m/m	-1.98	-	-	0.23
<b>FRIDAY (21 July)</b>								
10:00	PL	Retail Sales Real	Jun	% y/y	-5.0	-4.8	-	-6.8

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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.