19 July 2023

Eyeopener

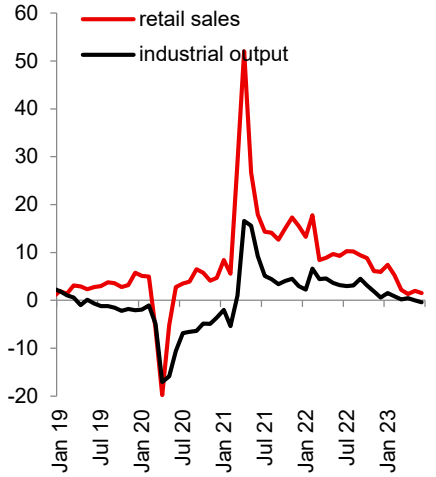
Weaker US data

Today June HICP inflation in the euro zone and US house starts
US retail sales and industrial output below expectations
New comments from the MPC suggesting rate cut this year
Zloty slightly weaker, domestic yield curve lower

The day will begin with the publication of the June reading of the Harmonised Index of Consumer Prices (HICP) in the euro area. The market expects it will not change from the preliminary value of 5.5% y/y. In the afternoon, data on housing starts in June in the US will be published. According to the consensus, we should see a decline of 9.9% m/m.

US retail sales growth was weaker than expected in June, reaching only 0.2% m/m, but with an upward revision of the previous reading. June's downward surprise was driven to a large extent by a decline in sales of building materials (-1.2% m/m vs. +1.4% m/m in May), which are generally characterised by high volatility. Overall, sales of other goods changed in line with expectations, with the highest growth achieved by furniture and electronics, whose sales increased by 1.4% m/m and 1.1% m/m respectively. The data point to a slight increase in consumer spending in 2Q, equal to around 0.9% on an annualised basis compared to 1.9% in 1Q. In our view, this is a good enough result to slow the rate of inflation decline in the near term.

US data, %y/y



Source: Bloomberg, Santander

US industrial production fell by 0.5% m/m in June, led by declines in its main subcategories: manufacturing (-0.3% m/m), utilities (-2.6% m/m) and mining (-0.2% m/m). In addition, May's reading was revised downwards, from -0.2% m/m to -0.5% m/m. The decline in capacity utilisation to 78.9%, the lowest since October 2021, is also not encouraging. All of this implies that the industrial sector continues to perform poorly compared to the rest of the US economy.

MPC's Gabriela Masłowska said in an interview with PAP Biznes that a 25bp interest rate cut in September or October is possible if macroeconomic data will justify it, but decisions regarding it will not be taken hastily. Masłowska also assessed that the economic situation does not require any radical easing measures, which makes a 25bp cut sufficient for the beginning.

MPC's Henryk Wnorowski said in an interview with Radio Maryja that it cannot be ruled out that the first interest rate cut will take place in 2023. Wnorowski also said that it would be a "dream come true" if inflation fell below 10% as early as July, but if it would not happen then, it would definitely happen in August (our forecast for August is just above 10%).

During yesterday's session, **EURUSD** slipped below its opening price, to 1.122, after earlier rises to 1.127. The dollar recovered on strong corporate earnings overseas, despite slightly weaker data from the US economy. Looking ahead to the next few months, we think there is a chance for EURUSD to return below 1.10, especially if the ECB were to soften its rhetoric somewhat if only inflation declines at faster rate. **The zloty this time weakened slightly against the euro and the dollar**. The Czech koruna did not escape slight depreciation either, losing more than 0.3% against the euro. The signal for CZK weakening may have been CNB board member Eva Zamrazilová's statement to the Czech parliament about the sufficiency of monetary tightening, the shift of the discussion at the central bank to when to start rate cuts and the prospect of the koruna weakening this year.

Interest rate markets saw further declines. Bond yields fell both in Poland and abroad. Bond yields in the euro area recorded the highest declines, slipping by 9-15bp. In the USA, falls amounted to 2-5bp. On the domestic market, two-year yields were the least changed, falling by only 2bp. Five- and 10-year yields fell by around10 bp. Swap rates also suffered declines, by 4-12bp. FRA rates reaching nine months forward and beyond fell gently. Certainly, the fall in domestic rates was helped by the movement in the core markets yesterday. We are of the opinion that the market is pricing in too much in terms of interest rate cuts, which will in time call for an upward adjustment of rates. In the current situation, however, it is difficult to pinpoint what could trigger such a move, though it seems to us that the moment of correction is getting closer.

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FX market

Today's opening

EURPLN	4.4455	CZKPLN	0.1862
USDPLN	3.9627	HUFPLN*	1.1798
EURUSD	1.1211	RUBPLN	0.0436
CHFPLN	4.6206	NOKPLN	0.3937
GBPPLN	5.1561	DKKPLN	0.5966
USDCNY	7.2118	SEKPLN	0.3877

*for 100HUF

Last session in the FX market 18/07/2023

	min	max	open	close	fixing
EURPLN	4.4295	4.4527	4.4381	4.4442	paused at 08:14:55
USDPLN	3.9340	3.9648	3.9453	3.9597	paused at 08:14:57
EURUSD	1.1215	1.1275	1.1250	1.1221	-

Interest rate market 18/07/2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.22	-5
WS0428 (5Y)	5.14	-9
DS1033 (10Y)	5.35	-11

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.93	0	5.55	2	3.97	-3
2L	5.11	-4	4.94	2	3.76	-8
3L	4.67	-6	4.50	0	3.48	-10
4L	4.47	-8	4.22	-1	3.30	-10
5L	4.37	-9	4.06	-1	3.18	-9
8L	4.38	-11	3.84	-2	3.01	-9
10L	4.47	-10	3.79	-2	2.98	-9

WIBOR rates

Term	%	Change (bps)
O/N	6.84	17
T/N	6.90	2
SW	6.84	0
2W	6.84	3
1M	6.85	-2
3M	6.80	-1
6M	6.72	-2
1Y	6.68	-3

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.69	0
3x6	6.17	0
6x9	5.40	-2
9x12	4.81	-5
3x9	6.05	0
6x12	5.29	-2

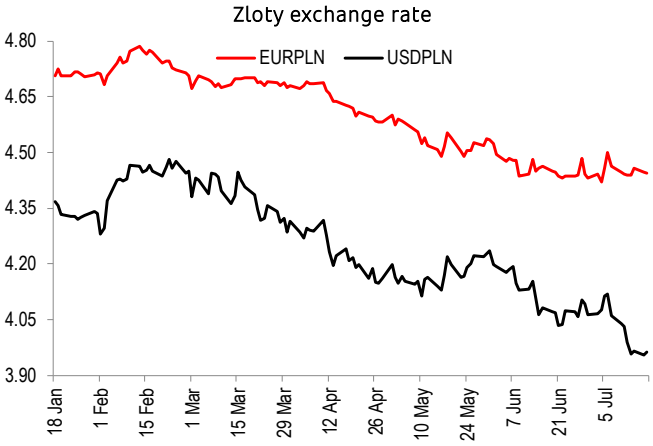
Measures of fiscal risk

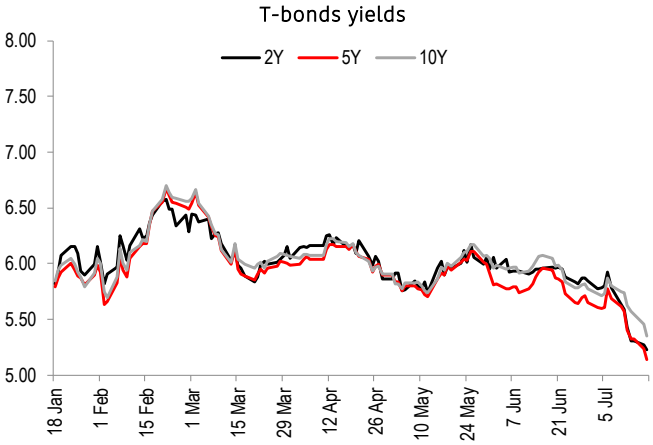
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	70	0	300	0
France	13	0	56	0
Hungary	156	0	462	-3
Spain	49	0	104	-3
Italy	35	0	167	-5
Portugal	37	0	74	-3
Ireland	18	0	44	0
Germany	11	0	-	-

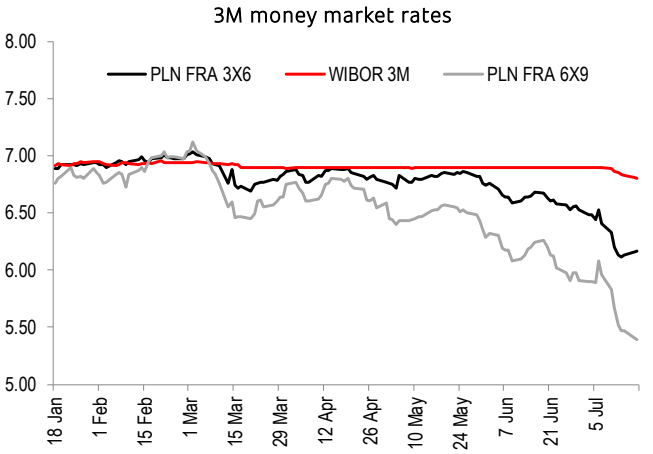
* 10Y treasury bonds over 10Y Bunds

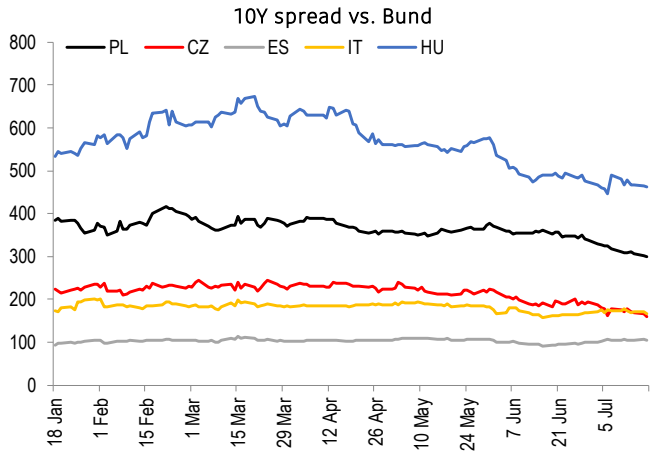
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream









Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (14 July)					
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
			MONDAY (17 July)					
14:00	**PL**	**CPI Core**	**Jun**	**% y/y**	**11.1**	**11.0**	**11.1**	**11.5**
			TUESDAY (18 July)					
14:30	US	Retail Sales Advance	Jun	% m/m	0.5	-	0.2	0.5
15:15	US	Industrial Production	Jun	% m/m	0.0	-	-0.5	-0.5
			WEDNESDAY (19 July)					
11:00	EZ	HICP	Jun	% y/y	5.5			5.5
14:30	US	Housing Starts	Jun	% m/m	-9.87			21.7
			THURSDAY (20 July)					
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
			FRIDAY (21 July)					
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*

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