18 August 2023

Eyeopener

Retroactive reduction in electricity price

Today Eurozone inflation
A 5% electricity price cut in the whole 2023 under the consumption limit approved by Sejm
Polish goods exports to the EU fell again
Marginal depreciation of the zloty, domestic yields significantly higher

The focus **today** will be on the publication of inflation data from the euro area. The market expects a further decline in HICP inflation in July to 5.3% y/y from 5.5%. There will also be data on Polish HICP inflation. Weaker sentiment prevailed in the Asian session amid concerns about growth in China and high interest rates in the US. Market participants will be slow to direct their attention to next week's symposium in Jackson Hole, where important message on US monetary policy outlook have often been made.

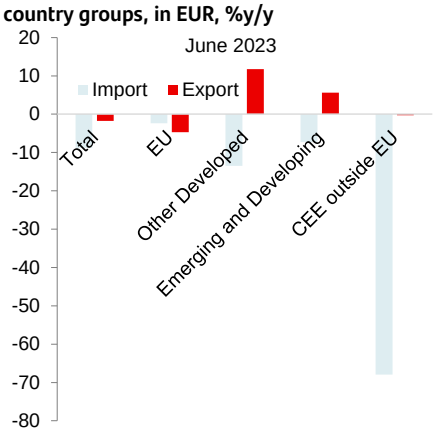
Sejm adopted a provision for a 5% reduction in the price of electricity for households applicable up to the set consumption limit (and just increased by another law). The reduction is to be retroactive, from the beginning of the year, and all the resulting overpayment is to be cleared with the next electricity bill. We assume that in the month in which the provision comes into force (we assume September), the Central Statistical Office (GUS) will correct the price of electricity in the CPI, which will reduce headline inflation by c. 0.2 pp, and as a result, at the end of 3Q, the annual CPI growth will already be clearly below 9% y/y, according to our forecasts.

GUS data on foreign trade in goods showed that in June, exports fell by 1.8% y/y (in May it was
-0.8% y/y), including to the EU by 4.7% y/y (previously -3.6% y/y) and to Germany by 2.4% y/y (in May up 0.7% y/y). Among the main recipients of goods from Poland, the largest increases in the value of shipments were to the USA (+23% y/y) and the UK (+8.9% y/y). For the first time in over a year, the growth of exports to Ukraine was negative (-5.8% y/y). Total imports fell by 8.8% y/y, with imports from the EU down by 2.4% y/y, from Germany by 6.4% and from China by 12.2% y/y. A slowdown was also felt in imports from the USA (-26.7% y/y) and imports from South Korea grew more slowly than in previous months (+12.5% y/y, while the average for January-May was 33% y/y). The GUS data, as well as the NBP's balance of payments data released earlier, pointed to the continuation of the merchandise trade surplus, but based not so much on the strength of exports as on the weakness of imports.

The zloty weakened slightly. Yesterday's session was rather positive for the currencies of emerging economies, although declines prevailed in equity markets and the VIX volatility index rose to its highest level since May. The zloty exchange rate saw little change once again and went slightly up against the euro and the dollar. The forint strengthened slightly to 384.7 and the Czech koruna remained almost unchanged near 24.07. The dollar strengthened against the euro from over 1.09 to 1.086, supported by a rise in US bond yields and the spread over European yields. This widening of the spread is a reaction to the US economic data released this week, which surprised positively increasing expectations of interest rate rises in the US. In the medium term, we still assume a gradual weakening of the zloty, supported by rate cuts, although the surprisingly high current account surplus may hinder such a weakening of the zloty.

Significant market rate rises. Yesterday's session saw significant increases in domestic market rates. FRA rates rose by 7-15bp, IRS rates rose by 10-13bp and bond yields rose by 6-12bp with the curves steepening. Such a move was supported by changes in the core markets. German Bund yields rose by 2-4bp and US Treasuries by 1-7bp, reflecting the hawkish FOMC minutes published the day before and the higher-than-expected Philadelphia Fed index, which rose to 12 points from -13.5 points in August against expectations of -10 points. The number of new jobless claims came in at 239k last week, compared to 248k previously and 240k expected. We think that after a sizable upward adjustment in domestic market rates for the IRS and bond curve, the potential for this move to continue is gradually diminishing.

Poland's international trade in goods by country groups, in EUR, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.4675	CZKPLN	0.1853
USDPLN	4.1043	HUFPLN*	1.1497
EURUSD	1.0886	RUBPLN	0.0439
CHFPLN	4.6708	NOKPLN	0.3879
GBPPLN	5.2372	DKKPLN	0.5994
USDCNY	7.2813	SEKPLN	0.3754

*for 100HUF

Last session in the FX market **17.08.2023**

	min	max	open	close	fixing
EURPLN	4.4608	4.4765	4.4670	4.4697	4.4681
USDPLN	4.0924	4.1164	4.1110	4.1106	4.1094
EURUSD	1.0861	1.0918	1.0867	1.0872	-

Interest rate market **17.08.2023**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.53	11
WS0428 (5Y)	5.48	13
DS1033 (10Y)	5.69	13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.94	4	5.62	-1	3.98	1
2L	5.30	11	5.10	-4	3.80	2
3L	4.97	12	4.76	-2	3.59	3
4L	4.85	14	4.58	2	3.46	4
5L	4.81	15	4.47	1	3.39	5
8L	4.89	15	4.31	3	3.31	6
10L	4.99	14	4.28	3	3.28	4

WIRON rate

Term	%	Change (bps)
WIRON	6.42	12

WIBOR rates

Term	%	Change (bps)
O/N	6.44	-27
T/N	6.81	-4
SW	6.84	0
1M	6.81	0
3M	6.68	-2
6M	6.54	-1
1Y	6.50	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.47	0
3x6	6.02	1
6x9	5.45	6
9x12	5.05	13
3x9	5.87	1
6x12	5.32	7

CDS rates and 10Y yield spread vs. German Bund

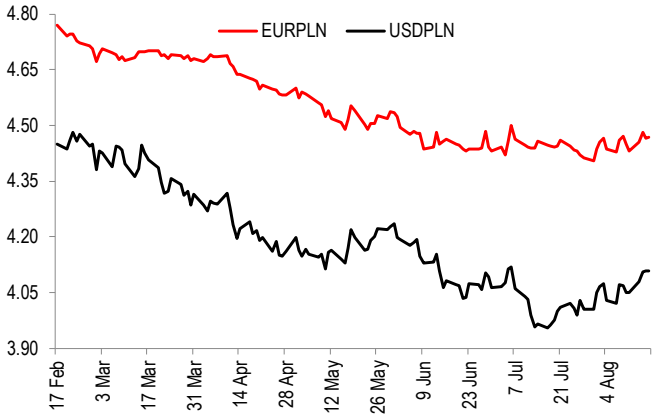
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	68	0	300	7
France	13	0	55	0
Hungary	157	0	500	8
Spain	50	2	106	0
Italy	36	1	171	1
Portugal	36	0	74	-2
Ireland	17	0	42	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

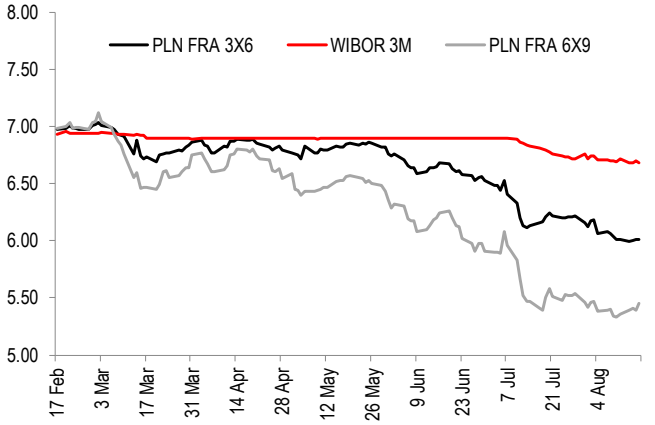
Source: Refinitiv, Datastream

Zloty exchange rate

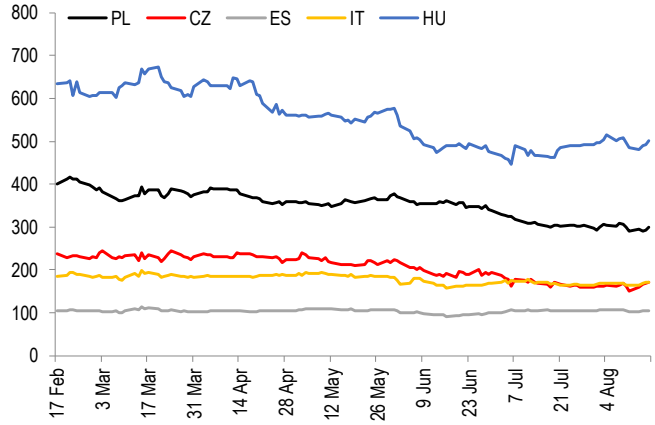


T-bonds yields

3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (11 August)					
10:00	**PL**	**NBP Quick Monitoring**						
16:00	US	Michigan index	Aug	pts	71.3	-	71.2	71.6
			MONDAY (14 August)					
10:00	**PL**	**CPI**	**Jul**	**% y/y**	**10.8**	**10.8**	**10.8**	**11.5**
14:00	**PL**	**Current account**	**Jun**	**€mn**	**1752**	**1488**	**2431**	**1479**
14:00	**PL**	**Balance of trade**	**Jun**	**€mn**	**730**	**1122**	**1029**	**1127**
14:00	**PL**	**Export**	**Jun**	**€mn**	**28750**	**28550**	**27886**	**28222**
14:00	**PL**	**Import**	**Jun**	**€mn**	**27750**	**27428**	**26857**	**27095**
			TUESDAY (15 August)					
11:00	DE	ZEW	Aug	pts	-63.0	-	-71.3	-59.5
14:30	US	Retail sales	Jul	% m/m	0.4	-	0.7	0.3
			WEDNESDAY (16 August)					
08:30	HU	GDP	2Q	% y/y	-1.2	-	-2.4	-0.9
10:00	**PL**	**GDP**	**2Q**	**% y/y**	**-0.3**	**0.1**	**-0.5**	**-0.3**
11:00	EZ	GDP SA	2Q	% y/y	0.6	-	0.6	0.6
11:00	EZ	Industrial production	Jun	% m/m	0.0	-	0.5	0.0
14:00	**PL**	**CPI core**	**Jul**	**% y/y**	**10.7**	**10.6**	**10.6**	**11.1**
14:30	US	Housing starts	Jul	% m/m	1.1	-	3.9	-11.7
15:15	US	Industrial production SA	Jul	% m/m	0.3	-	1.0	-0.8
20:00	US	Minutes FOMC	Aug					
			THURSDAY (17 August)					
14:30	US	Initial jobless claims	week	k	240	-	239	248
			FRIDAY (18 August)					
11:00	EZ	HICP	Jul	% y/y	5.3	-	-	5.5

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

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.