19 March 2024

# Eyeopener

## Core inflation remains elevated

Today, German economic data for March
Core inflation came in at 5.4% y/y in February, in line with expectations
Bank of Japan raised rated first time since 2007 and abandoned yield curve control policy
Weaker zloty amid weaker sentiment for currencies of emerging economies
Yields rise domestically, in the region and in core markets

**Today**, the March reading of the ZEW index, which measures business conditions in Germany, will be published. The market expects it fell by 0.7 points to -82.4, which would indicate a deterioration in economic sentiment. In addition, data on February house construction starts will come in from the US.

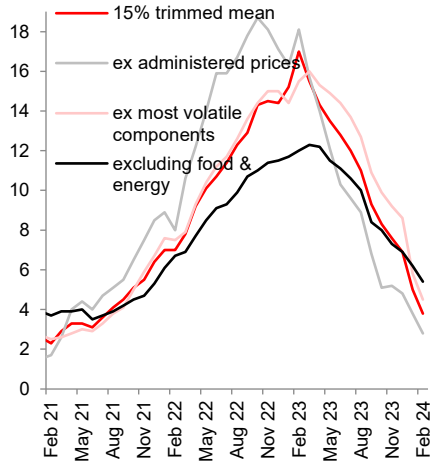
As expected, the **Bank of Japan raised interest rates for the first time since 2007**, the main rate to 0.1% from -0.1%, which had been held in place since 2016. It also ended its Yield Curve Control policy and stopped buying ETFs and JREITs. The curve control policy was aimed at keeping 10-year bond yields at 0% with an upper limit of tolerable deviations set at 1%. Despite this decision and the signalling that this was the start of a normalisation of monetary policy, the yen lost and USDJPY went above 150. At the same time, the Bank of Japan signalled the continuation of bond buying, leading to a strengthening of bonds. The market expects further gradual rate rises.

**The main measure of core inflation (CPI ex food, fuels and energy) was 5.4% y/y in February**, in line with market expectations and our estimates, down from 6.9% y/y in December and 6.2% y/y in January (the January print was shown only today). The m/m growth was 0.5% in February, following 0.4% in January and 0.3% in December. Such prints are still too high to secure a lasting stabilisation of headline CPI around the target and are significantly above the historical m/m pattern at the start of the year (median core CPI growth from 10 years before the pandemic was -0.1% for January and +0.1% for February). We expect the main measure of core inflation to decline some more in the coming months, to slightly above 4% y/y in May, but by the end of the year it should be back above 5% y/y on consumption recovery. MPC members claim to be focused on core CPI now and in our view such trajectory, among other factors, may prevent them from easing monetary policy this year.

**Zloty exchange rate correction**. Amid mixed performance of European equity markets yesterday's session was marked by a weakening of the currencies of emerging economies. The region's currencies were part of this trend. The EURPLN exchange rate rose 0.7% to around 4.32. The koruna lost slightly less, and the forint lost on a similar scale, but from a stronger opening in the face of Friday's news that the government will consult with the central bank on a potential expansion of the powers of the central bank supervisory board before sending the relevant bill to parliament. The region's currencies lost ground despite a rise in market rates with a slight strengthening of the dollar against the euro.

**Rates rose and the curve steepened**. FRA rates rose by 4-15bp, IRS rates by 8-10bp and bond yields by 5-12bp, with larger increase at the long end of the curve. Market rates rose in the underlying markets by 1-2bp on the euro curve and 1-3bp on the dollar curve. Rates in the region also rose, continuing the move initiated a week ago, despite an expected rate cut in the Czech Republic this week, in view of the fact that the market had already discounted a significant move in rates in the region in previous months. The rise in domestic rates was expected to be supported by fairly hawkish comments from MPC member I. Dabrowski and the low probability of a rate hike even in 2025, as well as confirmation that core inflation is still growing at a fairly high rate of 0.4-0.5% m/m. Market rates might have been also influenced by anticipation of strong wage and retail sales data later in the week. Today, the focus will be on the switch auction.

**Core inflation measures, % y/y**




*Source: NBP, Santander*

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**FX market**

**Today's opening**

| | | | |
|---|---|---|---|
| EURPLN | 4.3182 | CZKPLN | 0.1711 |
| USDPLN | 3.9776 | HUFPLN* | 1.0839 |
| EURUSD | 1.0857 | RUBPLN | 0.0433 |
| CHFPLN | 4.4725 | NOKPLN | 0.3724 |
| GBPPLN | 5.0520 | DKKPLN | 0.5791 |
| USDCNY | 7.1993 | SEKPLN | 0.3802 |

*for 100HUF

**Last session in the FX market** **18.03.2024**

| | min | max | open | close | fixing |
|---|---|---|---|---|---|
| EURPLN | 4.3001 | 4.3244 | 4.3010 | 4.3196 | 4.3086 |
| USDPLN | 3.9463 | 3.9755 | 3.9506 | 3.9713 | 3.9528 |
| EURUSD | 1.0868 | 1.0905 | 1.0885 | 1.0870 | |

**Interest rate market** **18.03.2024**

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

| Benchmark (term) | % | Change (bps) |
|---|---|---|
| DS0725 (2Y) | 5.18 | 1 |
| WS0428 (5Y) | 5.41 | 12 |
| DS1033 (10Y) | 5.56 | 11 |

**IRS on the interbank market****

| Term | PL | | US | | EZ | |
|---|---|---|---|---|---|---|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 5.88 | 5 | 5.36 | 0 | 3.62 | 1 |
| 2L | 5.46 | 8 | 4.91 | 1 | 3.25 | 2 |
| 3L | 5.17 | 9 | 4.63 | 0 | 3.01 | 3 |
| 4L | 5.03 | 8 | 4.42 | 1 | 2.88 | 2 |
| 5L | 4.98 | 9 | 4.37 | 2 | 2.80 | 2 |
| 8L | 4.97 | 8 | 4.25 | 3 | 2.72 | 2 |
| 10L | 5.03 | 9 | 4.22 | 2 | 2.72 | 2 |

**WIRON rate**

| Term | % | Change (bps) |
|---|---|---|
| WIRON | 5.10 | -2 |

**WIBOR rates**

| Term | % | Change (bps) |
|---|---|---|
| O/N | 5.63 | -9 |
| T/N | 5.78 | 1 |
| SW | 5.82 | -1 |
| 1M | 5.85 | 0 |
| 3M | 5.86 | 1 |
| 6M | 5.86 | 0 |
| 1Y | 5.86 | 0 |

**FRA rates on the interbank market****

| Term | % | Change (bps) |
|---|---|---|
| 1x4 | 5.88 | 2 |
| 3x6 | 5.84 | 1 |
| 6x9 | 5.76 | 5 |
| 9x12 | 5.46 | 7 |
| 3x9 | 5.83 | 0 |
| 6x12 | 5.73 | 7 |

**CDS rates and 10Y yield spread vs. German Bund**

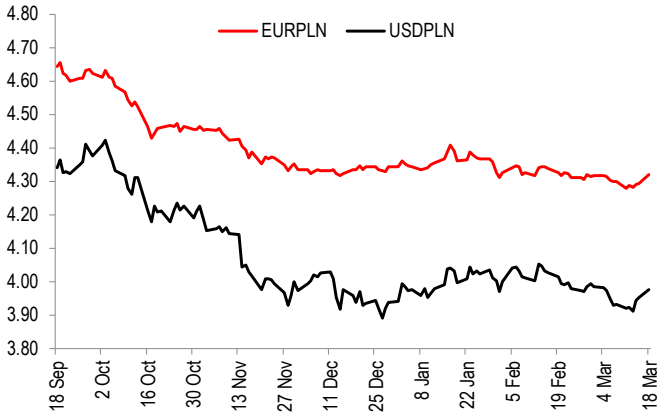
| Country | CDS 5Y USD | | 10Y spread* | |
|---|---|---|---|---|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 69 | 2 | 310 | 9 |
| France | 11 | 0 | 43 | -1 |
| Hungary | 130 | 0 | 408 | 2 |
| Spain | 36 | 0 | 79 | -2 |
| Italy | 25 | 0 | 123 | -4 |
| Portugal | 27 | 0 | 63 | -1 |
| Ireland | 15 | 0 | 38 | -1 |
| Germany | 8 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

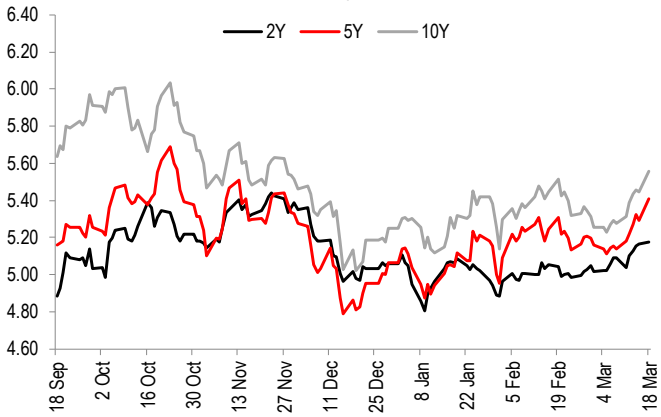
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

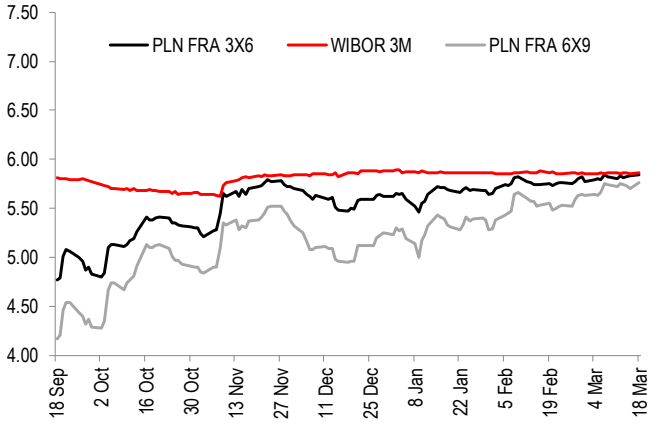
Zloty exchange rate



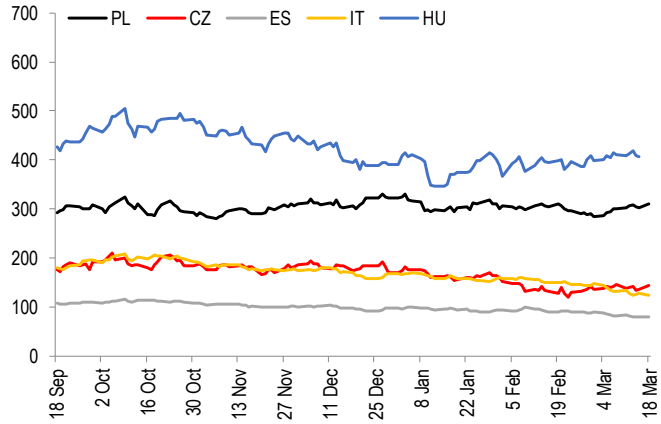

T-bonds yields




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 (15 March)** | | | | | |
| 09:00 | CZ | Industrial Production | Jan | % y/y | 2.0 | - | 0.0 | -6.0 |
| **10:00** | **PL** | **CPI** | **Feb** | **% y/y** | **3.2** | **3.1** | **2.8** | **3.9** |
| **14:00** | **PL** | **Current Account Balance** | **Jan** | **€mn** | **1 459** | **1 494** | **1 179** | **-24** |
| **14:00** | **PL** | **Trade Balance** | **Jan** | **€mn** | **947** | **1 385** | **1 286** | **-556** |
| **14:00** | **PL** | **Exports** | **Jan** | **€mn** | **27 200** | **27 785** | **27 102** | **24 808** |
| **14:00** | **PL** | **Imports** | **Jan** | **€mn** | **26 400** | **26 400** | **25 816** | **25 364** |
| 14:15 | US | Industrial Production | Feb | % m/m | 0.0 | - | 0.1 | -0.5 |
| 15:00 | US | Michigan index | Mar | pts | 77.1 | - | 76.5 | 76.9 |
| | | | **MONDAY (18 March)** | | | | | |
| 11:00 | EZ | HICP | Feb | % y/y | 2.6 | - | 2.6 | 2.6 |
| **14:00** | **PL** | **CPI Core** | **Feb** | **% y/y** | **5.4** | **5.4** | **5.4** | **6.9** |
| | | | **TUESDAY (19 March)** | | | | | |
| 11:00 | DE | ZEW Survey Current Situation | Mar | pts | -82.4 | - | | -81.7 |
| 13:30 | US | Housing Starts | Feb | % m/m | 7.4 | - | | -14.8 |
| | | | **WEDNESDAY (20 March)** | | | | | |
| **10:00** | **PL** | **Average Gross Wages** | **Feb** | **% y/y** | **11.5** | **12.0** | | **12.8** |
| **10:00** | **PL** | **Employment in corporate sector** | **Feb** | **% y/y** | **-0.2** | **-0.2** | | **-0.2** |
| **10:00** | **PL** | **Sold Industrial Output** | **Feb** | **% y/y** | **2.6** | **1.7** | | **1.6** |
| **10:00** | **PL** | **PPI** | **Feb** | **% y/y** | **-8.7** | **-8.7** | | **-9.0** |
| 14:30 | CZ | Central Bank Rate Decision | Mar | % | 5.75 | 5.75 | | 6.25 |
| 19:00 | US | FOMC decision | Mar | % | 5.50 | - | | 5.50 |
| | | | **THURSDAY (21 March)** | | | | | |
| 09:30 | DE | Germany Manufacturing PMI | Mar | pts | 43.5 | - | | 42.5 |
| 09:30 | DE | Markit Germany Services PMI | Mar | pts | 48.8 | - | | 48.3 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Mar | pts | 47.0 | - | | 46.5 |
| 10:00 | EZ | Eurozone Services PMI | Mar | pts | 50.5 | - | | 50.2 |
| **10:00** | **PL** | **Construction Output** | **Feb** | **% y/y** | **-0.3** | **-0.8** | | **-6.1** |
| **10:00** | **PL** | **Retail Sales Real** | **Feb** | **% y/y** | **5.1** | **4.3** | | **3.0** |
| 13:30 | US | Initial Jobless Claims | | k | 218 | - | | 209 |
| 15:00 | US | Existing Home Sales | Feb | % m/m | -2.0 | - | | 3.1 |
| | | | **FRIDAY (22 March)** | | | | | |
| 10:00 | DE | IFO Business Climate | Mar | pts | 86.0 | - | | 85.5 |
| **14:00** | **PL** | **Money Supply M3** | **Feb** | **% y/y** | **7.1** | **6.6** | | **7.7** |

*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.*