

1 July 2024

# Eyeopener

## Slow rise of Polish inflation

Today Polish manufacturing PMI, steady in m/m terms  
CPI inflation rose in June to 2.6% y/y  
Current account balance for 1Q24 revised upwards  
CEE currencies a bit stronger, rise of bond yields

**Today**, we will see June manufacturing PMI readings from many countries. The index for Poland is already out, unchanged month-over-month at 45.0 pts vs. our and market expectations for a marginal decline. Data on business climate in the manufacturing sector will also flow in from the US, where the June reading of the manufacturing ISM will be published. In addition, we will also see June HICP inflation data for Germany.

In the **first round of the French parliamentary elections**, the far-right National Rally won 33.2% of the votes, followed by the left-wing New Popular Front with 28% and President Emmanuel Macron's centrist Renaissance in third place. The two-stage election procedure (second round on 7 July) makes it difficult to predict what the final distribution of seats will be. What we got to know is that the National Rally candidates won the most votes in more than half of the districts in the first round.

**According to the stats office's flash estimate, CPI inflation rose from 2.5% y/y in May to 2.6% in June** due to a 0.1% monthly increase in the overall price level. The increase in the annual inflation rate was in line with the market consensus and slightly above our forecast of 2.5% y/y, and therefore, has broken its 6-month streak of downside surprises. The minor difference between the CPI rate and our forecast stemmed mainly from food prices, which rose 0.7% m/m, i.e. 0.5 pp more than we estimated. However, greater contribution of food price growth to the overall inflation rate was counterbalanced by a deeper decline in fuel prices, by 2.8% m/m, i.e. 0.6 pp below our forecast. The change in energy prices was close to our estimates and equalled -0.1% m/m. The flash data suggest the June core inflation rate may be a bit lower than we thought before the release and – according to our revised estimate was 3.7% y/y.

Following the **Energy Regulatory Office's approval of new gas and energy tariffs**, we estimate that CPI inflation could reach 4.2% y/y in July. According to the Ministry of Climate and Environment's spokesman, there will be a further unfreezing of energy prices in 2025, provided that the market situation is stable. However, we are currently assuming a stabilisation of prices in 2025, as in our view price increases may be politically difficult to deliver before the presidential elections. By the end of the year, CPI is likely to rise above 5% y/y. Core inflation should remain in the range of 3.5-4.0% y/y until the end of 2025.

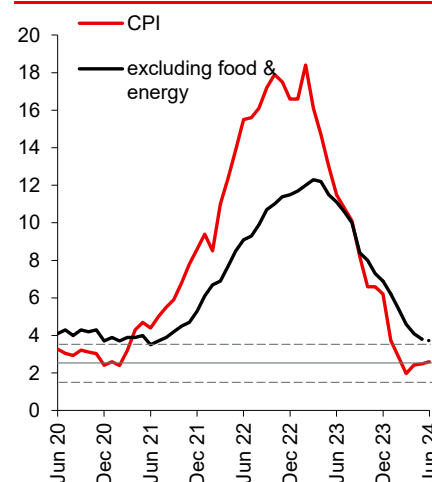
**According to the NBP, mortgage loans worth PLN5.7bn were originated in May.** This is the lowest value this year, with the decrease in demand for loans mainly due to the depletion of funds from the "Safe Loan 2%" program. We estimate that in the later part of the year the demand for credit will remain at a similar level, which will slightly cool down the situation on the housing market. Sales of consumer loans amounted to PLN8.8bn in May, and PLN40.8bn in total since the beginning of the year, compared to PLN7.6bn in May 2023 and PLN33.0bn in January-May 2023. We estimate that the rebounding private consumption will be conducive to high activity in this market.

**Revision of the balance of payments data for 4Q23 and 1Q24** showed a clear improvement in the current account balance in 1Q24 (by EUR2.1bn). The revision was mainly caused by lower estimates of primary income outflows (down EUR2.3bn). Due to the revision, the 12-month rolling estimate of the current account balance to GDP changed from +1.6% to +1.8% of GDP in May.

**Zloty little changed.** Friday's session was marked by subdued sentiment in equity markets in Europe, and in the US later in the day. The euro strengthened against the dollar (EURUSD went up to around 1.07), helped by slowing PCE inflation, despite better-than-forecast Chicago PMI and Michigan index. The CEE currencies strengthened slightly, especially the forint. The first reaction to the outcome of the French elections is quite positive for the euro (EURUSD reached the vicinity of 1.077 this morning), although uncertainty over the political situation in France and Europe may persist for a long time.

**Yields went up.** FRA rates rose by a few basis points especially at the longer tenors. IRS rates rose by 1-3 bps and bond yields moved in a similar range following the core markets. The weak PMI reading at the start of the week can hold domestic swap rates at depressed levels. However, the prospect of a not-so-dovish NBP projection and communication from the NBP president should contribute to an upward movement in rates later in the week. Toward the end of the week, weaker non-farm employment data from the US could provide support for the debt market. The relatively high level of bond yields and credit spreads may encourage foreign investors to increase their exposure to domestic Treasury debt (the latest MF data for May indicated increase of their holdings), but the French elections remains an important determinant for the risk appetite (so far the market response was a decline of French yields on Sunday vote results). India has been added to global EM bond indices with the start of the month which means a lower weight of Poland, however we assume that local bonds were already underweighted and expect some adjustment in this respect rather than a capital outflow.

CPI inflation in Poland, % y/y



Source: GUS, NBP, Santander

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## FX market

### Today's opening

EURPLN	4.3035	CZKPLN	0.1715
USDPLN	3.9965	HUFPLN*	1.0930
EURUSD	1.0769	RUBPLN	0.0471
CHFPLN	4.4464	NOKPLN	0.3758
GBPPLN	5.0853	DKKPLN	0.5765
USDCNY	7.2677	SEKPLN	0.3784

\*for 100HUF

### Last session in the FX market

28.06.2024

	min	max	open	close	fixing
EURPLN	4.3046	4.3161	4.3121	4.3094	4.313
USDPLN	4.0148	4.0369	4.0361	4.0225	4.032
EURUSD	1.0684	1.0721	1.0686	1.0709	

## Interest rate market

28.06.2024

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

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5.15	2
WS0429 (5Y)	5.60	1
DS1033 (10Y)	5.77	1

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	5.77	5.33	3.47
2L	5.38	4.89	3.21
3L	5.13	4.62	3.04
4L	5.02	4.47	2.94
5L	4.99	4.38	2.88
8L	5.04	4.26	2.82
10L	5.12	4.25	2.83

## WIRON rate

Term	%	Change (bps)
WIRON	5.38	-7

## WIBOR rates

Term	%	Change (bps)
O/N	4.97	-62
T/N	5.78	-1
SW	5.83	-1
1M	5.84	2
3M	5.85	0
6M	5.86	0
1Y	5.86	0

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

Term	%	Change (bps)
1x4	5.83	1
3x6	5.78	2
6x9	5.64	4
9x12	5.33	5
3x9	5.77	2
6x12	5.61	4

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

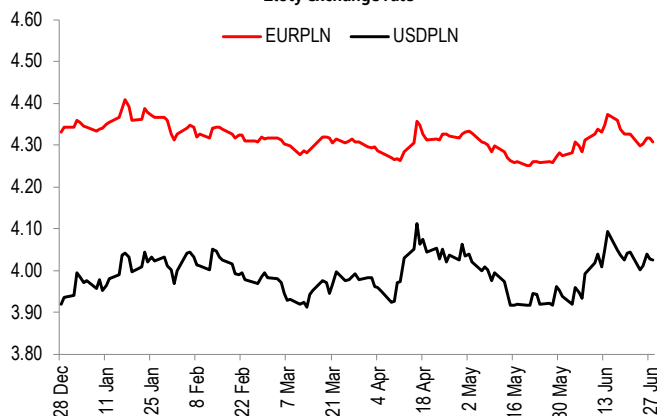
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	68	328
France	21	80
Hungary	120	439
Spain	40	93
Italy	34	158
Portugal	28	75
Ireland	14	46
Germany	7	-

\* 10Y treasury bonds over 10Y Bunds

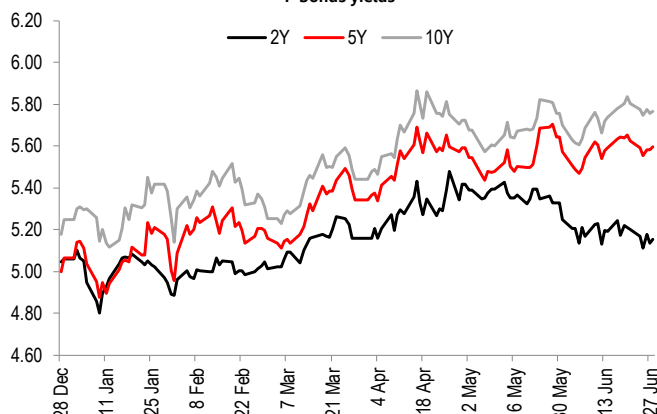
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

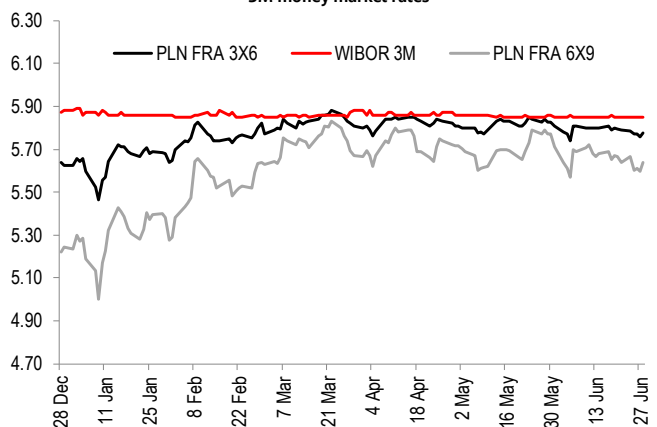
## Zloty exchange rate



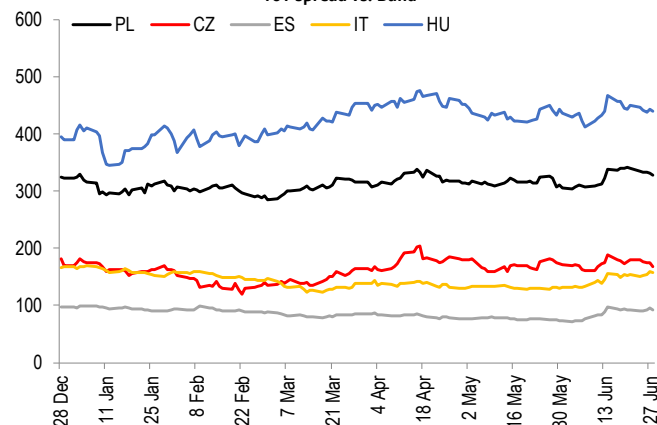
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (28 June)								
09:00	CZ	GDP SA	1Q	% y/y	0.2	-	0.3	0.2
10:00	PL	CPI	Jun	% y/y	2.6	2.5	2.6	2.5
14:30	US	Personal Spending	May	% m/m	0.3	-	0.2	0.1
14:30	US	Personal Income	May	% m/m	0.4	-	0.5	0.3
14:30	US	PCE Deflator SA	May	% m/m	0.0	-	0.0	0.3
16:00	US	Michigan index	Jun	pts	66.0	-	68.2	65.6
MONDAY (1 July)								
09:00	PL	Poland Manufacturing PMI	Jun	pts	44.9	44.8	45.0	45.0
09:55	DE	Germany Manufacturing PMI	Jun	pts	43.4	-	-	43.4
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	45.6	-	-	45.6
14:00	DE	HICP	Jun	% m/m	0.1	-	-	0.2
16:00	US	ISM manufacturing	Jun	pts	49.0	-	-	48.7
TUESDAY (2 July)								
11:00	EZ	Flash HICP	Jun	% y/y	2.5	-	-	2.6
11:00	EZ	Unemployment Rate	May	%	6.5	-	-	6.4
WEDNESDAY (3 July)								
	PL	MPC decision	Jul	%	5.75	5.75	-	5.75
03:45	CN	Caixin China PMI Services	Jun	pts	-	-	-	54.0
09:55	DE	Markit Germany Services PMI	Jun	pts	53.5	-	-	53.5
10:00	EZ	Eurozone Services PMI	Jun	pts	52.6	-	-	52.6
14:15	US	ADP report	Jun	k	160	-	-	152
14:30	US	Durable Goods Orders		% m/m	-0.5	-	-	0.1
14:30	US	Initial Jobless Claims		k	235	-	-	233
16:00	US	ISM services	Jun	pts	52.0	-	-	53.8
16:00	US	Factory Orders	May	% m/m	0.3	-	-	0.7
20:00	US	FOMC Meeting Minutes	Jun			-		
THURSDAY (4 July)								
08:00	DE	Factory Orders	May	% m/m	1.0	-	-	-0.2
FRIDAY (5 July)								
08:00	DE	Industrial Production SA	May	% m/m	0.3	-	-	-0.1
08:30	HU	Industrial Production SA	May	% y/y	-1.9	-	-	-2.4
11:00	EZ	Retail Sales	May	% m/m	0.5	-	-	-0.5
14:30	US	Change in Nonfarm Payrolls	Jun	k	185	-	-	272
14:30	US	Unemployment Rate	Jun	%	4.0	-	-	4.0

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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