

7 July 2025

Eyeopener

NBP projection helped in interest rate cut decision

Today, retail sales in euro zone, industrial output in Germany and Czechia
Next MPC members mentioning possible further rate cuts this year
Unexpected, atypical rise in unemployment in June, acceleration in services production in May
Calm financial markets amid US holiday, local rates keep falling

Today, we will see May data on retail sales in the euro area and industrial output in Czechia. Germany's May industrial output data, published in the morning, were much better than expected, showing an increase of 1.0% y/y, vs median forecast of -0.3% and the previous reading of -1.8% y/y.

In our view **the new NBP projection seems supportive for further rate cuts**. The CPI path enters the 1.5-3.5% y/y range of acceptable deviations from the inflation target in 3Q25 and stays there for the rest of the projection (with the exception of 4Q25, where it goes back above the range only due to an assumption about electricity prices that seems unlikely to happen). The downward trajectory in the final quarters of the projection, reaching levels below the inflation target may serve as a rationale for gradual adjustment of interest rates by the MPC going forward. Also, core inflation is shown lower than in the March projection: by 0.6pp in 2025, 0.4pp in 2026 and 0.2pp in 2027. The new projection includes a slightly weaker outlook for the labour market than in March (higher unemployment rate, slightly lower labour participation rate, wage growth decreased by 0.6pp to 6.3% in 2026). We expect the policy rates to be cut by 25bp twice more this year and twice in 2026. However, the room for monetary policy easing provided by the July projection may be limited by the risks factors named in the July MPC statement, related to loose fiscal policy, an improving economy, high wage growth and volatility in energy prices.

MPC Member Henryk Wnorowski said in an interview for PAP Business that he did not rule out another interest rate adjustment in September, and that he expected 'the first digit of the reference rate to be four' at the end of 2025. However, Wnorowski stressed the need for caution in monetary policy, particularly in view of loose fiscal policy. **MPC's Ireneusz Dąbrowski** told Bloomberg that it was too early to talk about starting a rate cuts cycle, but it could begin in October or November. He also said he saw room for 50 bp of cuts this year and expected that the NBP rate could go down to 3.5% next year. He added that he was against a rate cut in September, as he preferred to wait for developments related to the energy price cap and wage growth. He justified the July rate cut on the basis of the projection's showing inflation enter the band around the target more quickly and persistently.

According to the Ministry of Labour and Social Policy, the registered unemployment rate in June increased from 5.0% to 5.1%, with an unusual increase in the number of unemployed people for this month by 14.1 thousand m/m. We and the market expected the unemployment rate to drop to 4.9%. The number of vacancies reported to offices was exceptionally low (-68% y/y). The unusual changes are most likely the effect of the entry into force of the new act on the labour market and employment services. It introduces, among other things, the possibility of registering farmers as unemployed, and also makes registration at the office independent of the place of residence, which naturally increases the potential group of the unemployed. The act also provides for new rules for public institutions in the field of reporting job offers - so the large decrease in recorded vacancies may not actually fully reflect the change in labour market situation.

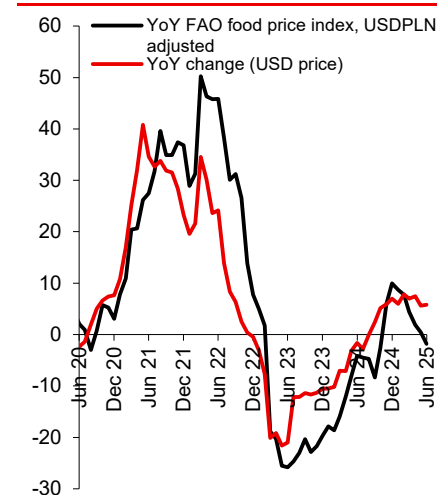
According to Eurostat data, service production increased by 3.9% y/y in April after a 2.6% increase in March. The improvement in the main indicator resulted primarily from a smaller decline in real estate services (-5.6% y/y vs. -15.9% y/y), although transport, information services, and administrative and support services also contributed positively. We assume that services will contribute positively to GDP growth this year, but we do not expect a significant acceleration.

The FAO World Food Price Index rose in June by 0.7 points to 128.0, which translated into an acceleration of its growth to 5.8% y/y from 5.6% y/y in May. Faster food price growth resulted from the increase in prices of meat and cereals, and occurred despite the slowdown of dairy, oils and sugar prices. The growth of the FAO index expressed in PLN (i.e. adjusted for changes in the USDPLN exchange rate) fell from 0.5% y/y to -1.8% y/y, which supports expectations of further disinflation.

EURPLN fluctuated only minimally on Friday and ended the week near 4.24, less than 0.2% above Monday's opening. There was also negligible change in the EURHUF and EURCZK rates on Friday and over the whole of last week they changed by +0.1% and -0.3% respectively. The EURUSD exchange rate registered an increase of around 0.3% on Friday and thus corrected most of the decline it had suffered on Thursday following the better-than-expected US labour market data. Over last week, EURUSD rose by around 0.5%. Generally, activity in the markets was subdued due to the US holiday.

On Friday, domestic money market rates saw further slight declines, equal to 2-3 bp for IRS rates and 0-5 bp for FRA rates. As a result, on a weekly basis, IRS rates fell by 19-25 bp, more strongly at the short end of the curve, and FRA rates fell by 23-31 bp, most strongly in the middle of the curve. Domestic bond yields fell by 1-4bp on Friday and by 16-22bp over the week with the curve steepening by 6bp. German yields also fell on Friday, by 2-3 bp. Due to a holiday in the US, the market there was closed.

FAO global food price index, % y/y



Source: FAO, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4,2464 | CZKPLN | 0,1716 |
| USDPLN | 3,6128 | HUFPLN* | 1,0539 |
| EURUSD | 1,1753 | RONPLN | 0,8394 |
| CHFPLN | 4,5303 | NOKPLN | 0,3562 |
| GBPPLN | 4,9089 | DKKPLN | 0,5680 |
| USDCNY | 7,1727 | SEKPLN | 0,3760 |

*for 100HUF

Last session in the FX market

06.07.2025

| | min | max | open | close | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4,2381 | 4,2518 | 4,2397 | 4,2407 | 4,2515 |
| USDPLN | 3,5957 | 3,6114 | 3,5985 | 3,6005 | 3,6108 |
| EURUSD | 1,1763 | 1,1787 | 1,1778 | 1,1778 | |

Interest rate market

06.07.2025

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| PS0527 (2L) | 4,32 | -8 |
| PS0730 (5L) | 4,82 | -3 |
| DS1034 (10L) | 5,31 | -3 |

IRS on the interbank market**

| Term | PL | US | EZ |
|------|--------------|--------------|--------------|
| | % | % | % |
| | Change (bps) | Change (bps) | Change (bps) |
| 1L | 4,46 | 4,14 | 1,96 |
| 2L | 4,06 | 3,90 | 1,96 |
| 3L | 3,95 | 3,81 | 2,06 |
| 4L | 3,95 | 3,80 | 2,15 |
| 5L | 4,00 | 3,82 | 2,23 |
| 8L | 4,21 | 3,97 | 2,46 |
| 10L | 4,37 | 4,07 | 2,57 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 5,05 | -1 |
| T/N | 5,09 | -1 |
| SW | 5,10 | -6 |
| 1M | 5,15 | -5 |
| 3M | 5,07 | -2 |
| 6M | 4,91 | -1 |
| 1Y | 4,69 | -3 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 4,91 | 0 |
| 3x6 | 4,60 | -3 |
| 6x9 | 4,12 | -5 |
| 9x12 | 3,78 | -5 |
| 3x9 | 4,46 | -3 |
| 6x12 | 4,01 | -5 |

CDS rates and 10Y yield spread vs. German Bund

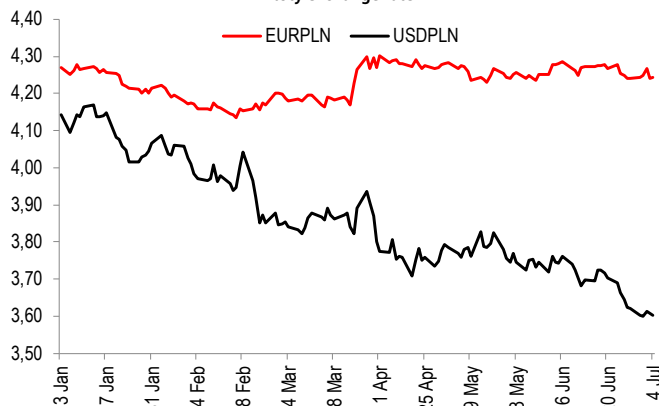
| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------|--------------|
| | Level | Level |
| | Change (bps) | Change (bps) |
| Poland | 68 | 274 |
| France | 17 | 71 |
| Hungary | 124 | 447 |
| Spain | 30 | 65 |
| Italy | 19 | 90 |
| Portugal | 16 | 48 |
| Ireland | 12 | 31 |
| Germany | 6 | - |

* 10Y treasury bonds over 10Y Bunds

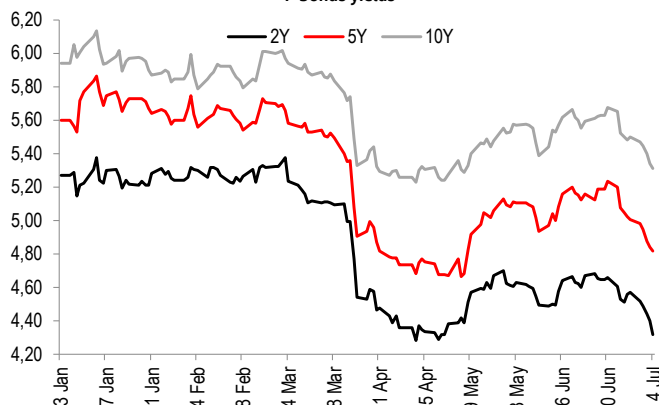
**Information shows bid levels on the interbank market at the end of the trading day

Source: LSEG, Datastream

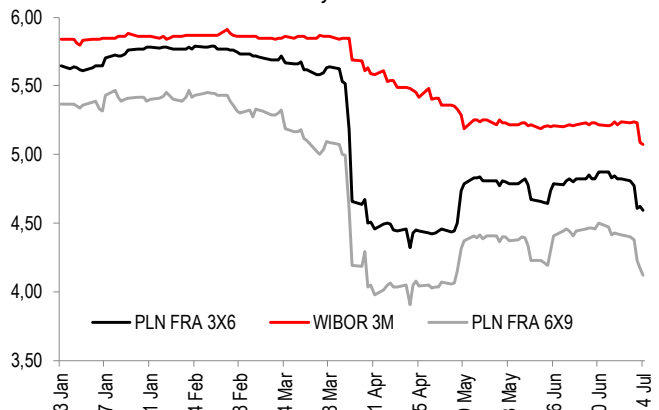
Zloty exchange rate



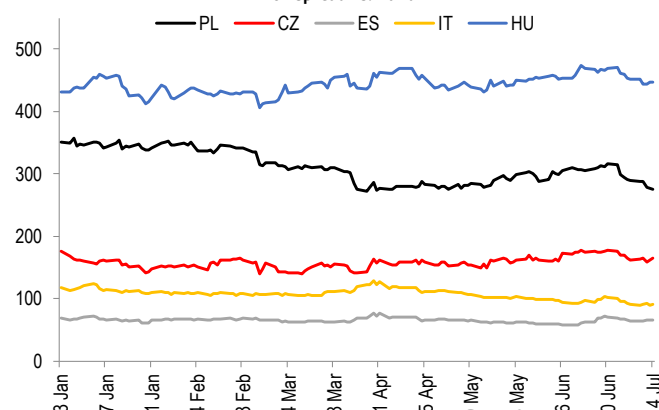
T-bonds yields



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 (4 July) | | | | | | | | |
| 08:00 | DE | Factory Orders | May | % m/m | -0.2 | - | -1.4 | 1.6 |
| 08:30 | HU | Industrial Production SA | May | % y/y | -1.5 | - | -2.6 | -2.3 |
| 09:00 | CZ | CPI | Jun | % y/y | 2.9 | - | 2.9 | 2.4 |
| MONDAY (7 July) | | | | | | | | |
| 08:00 | DE | Industrial Production SA | May | % m/m | -0.2 | - | 1,2 | -1.4 |
| 09:00 | CZ | Industrial Production | May | % y/y | 0.6 | - | - | -1.1 |
| 11:00 | EZ | Retail Sales | May | % m/m | -0.6 | - | - | 0.1 |
| TUESDAY (8 July) | | | | | | | | |
| 08:00 | DE | Exports SA | May | % m/m | -0.5 | - | - | -1.7 |
| 08:30 | HU | CPI | Jun | % y/y | 4.6 | - | - | 4.4 |
| WEDNESDAY (9 July) | | | | | | | | |
| 20:00 | US | FOMC Meeting Minutes | Jun | | | | | |
| THURSDAY (10 July) | | | | | | | | |
| 08:00 | DE | HICP | Jun | % m/m | 0.1 | - | - | 0.1 |
| 14:30 | US | Initial Jobless Claims | weekly | k | 241 | - | - | 233 |
| FRIDAY (11 July) | | | | | | | | |
| No data releases | | | | | | | | |

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

* in the case of a revision the data is updated

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