

Weekly Economic Update

Has inflation disappeared?

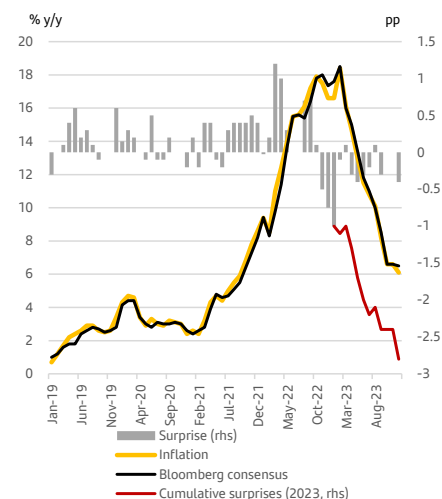
Economy next week

- Inflation is falling faster than expected. Annual price growth slowed to 6.1% (0.1% m/m)** in December from 6.6% in November, surprising downwards and falling well below the expected 6.5%. Over the whole past year, downward surprises were far more common than upwards ones, with the former being recorded 8 times and the later only twice. **The sum of the surprises in the last twelve months reached as much as -2.8 percentage points.** The reasons why inflation prints were coming below expectations varied. In December, the source of the surprise were food prices, which rose by only 0.2% m/m. The impact of the drought on fruit and vegetable prices is relatively small, but the correlation of food prices with the lagged FAO price index, which has been declining for a long time, is apparent.
- In our view, inflation will pick up again after a deep decline in 1Q24** and may start to surprise to the upside. Following December's reading, we have lowered our forecast of CPI growth to around 2.5-3% y/y in March. This is mainly the effect of the extension of the reduced VAT rate on food and of the frozen electricity prices. Unfreezing them later will ultimately lead to higher CPI readings, reaching 6-7% y/y, especially as simultaneous support for disposable household income in 1Q may delay the decline in core inflation (our estimate for December is 6.8% y/y). **We assume that the dynamics of core price changes may remain elevated for a few more quarters** supported by, among other factors, the economic recovery (our forecast for 2024-25 is at 4.5-5% y/y i.e. an average of around 0.3-0.4% m/m). In addition, base effects will gradually decrease the space for further declines in food inflation, as well as in fuel prices growth. With this in mind, **our inflation forecast for the end of next year (6.5%-7 y/y) remains above the market consensus** and we assume that the moment when inflation reaches the target is still beyond the horizon of the last NBP inflation projection and possibly also next one.
- Despite lower inflation, we do not expect a significant acceleration of interest rate cuts.** At the very least, we do not assume that the MPC could make any move before the next projection in March. Therefore, we expect no change in rates at the next meeting. In our baseline scenario we assume that the first cut will happen in 4Q24. **In the coming week, the tone of the NBP governor will of course be important in the context of the latest CPI data.**
- This week we will also see the balance of payments data. We expect them to show a relatively low current account surplus (around EUR500mn).
- From abroad** we will get new data on inflation in the US and in the region. Those could show a **further rapid decline in inflation in Hungary, encouraging the MNB to cut rates further, and a slight deceleration in core inflation in the US.** Also of interest will certainly be industrial production data from Germany and economic sentiment indicators for the euro area.

Markets next week

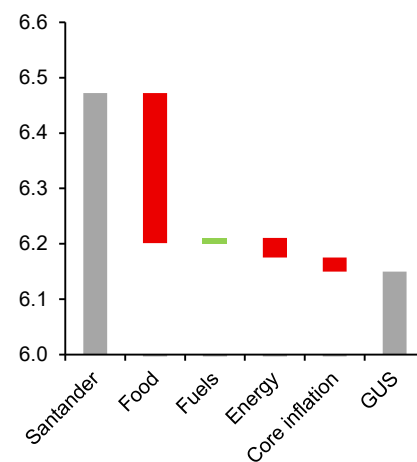
- The first week of the year brought a slight depreciation of the zloty, which gradually recovered in the second part of the week. **We assume that in the perspective of subsequent weeks, but also of the entire six months of the year, there is potential for further slight strengthening of the zloty.** A drop in inflation in the USA or weak production data in the euro area will have opposite effects on the EURUSD exchange rate, and we assume a relative stabilisation of this currency pair in the short term and an increase in the longer term, which may also favour the zloty.
- After several days of rising market rates in the country, the end of the week brought a slight decline. This may have been supported by the lower CPI reading. However, a **correction has started in the core markets**, supported by, among others, a higher inflation reading from Germany or better-than-forecast data from the US labour market. In our view, it may take some time, probably at least until Thursday's US inflation data. **This could keep domestic yields at relatively high levels.** However, the high demand at the recent bond auction suggests that there is no problem with debt placement, which in turn, with the market's attention being redirected to the **fall in inflation to very low levels in 1Q24, could steer yields downwards over the next month.**

Inflation and its surprises, % y/y, pp



Source: Bloomberg, GUS, Santander

Santander inflation forecast vs. realization, % y/y, PP

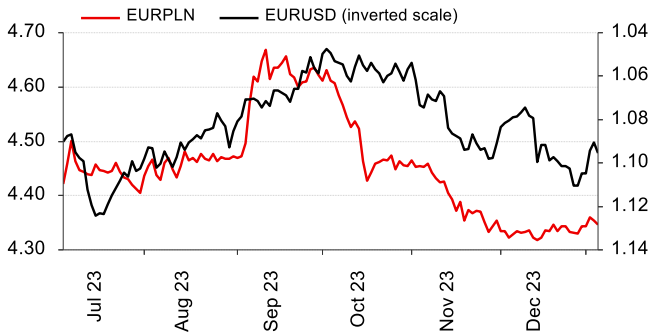


Source: Bloomberg, GUS, Santander

Economic Analysis Department:

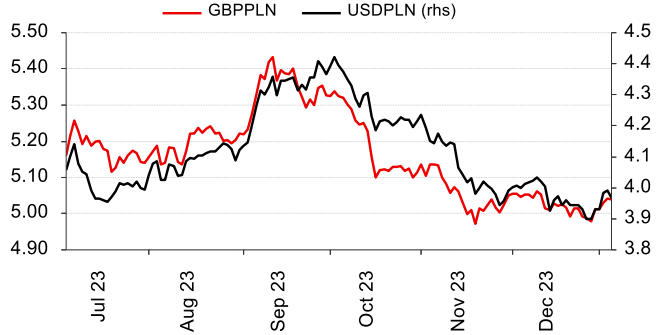
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EURPLN and EURUSD



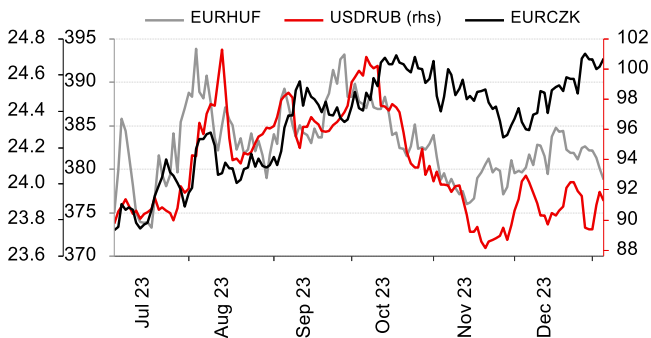
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



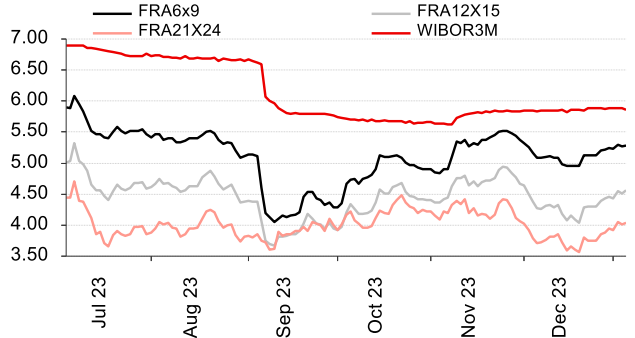
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



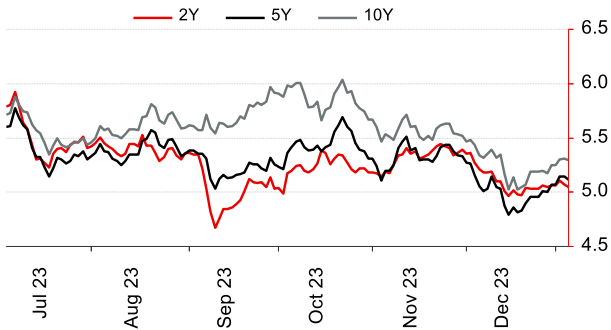
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



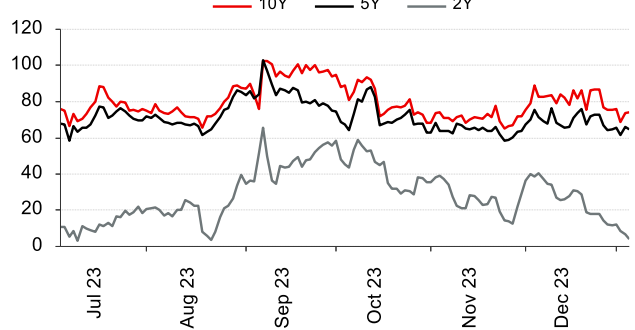
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



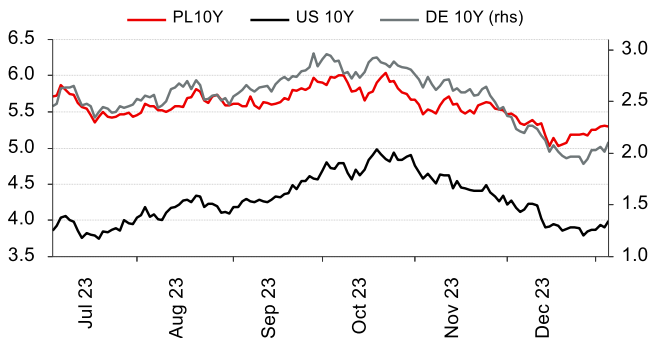
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



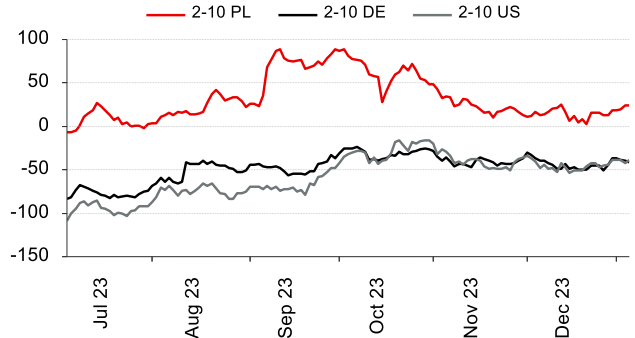
Source: LSEG Datastream, Santander Bank Polska

10Y bond yields



Source: LSEG Datastream, Santander

Steepness of yield curves



Source: LSEG Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (8 January)							
08:00	DE	Exports SA	Nov	% m/m	-	-	-0.1
08:00	DE	Factory Orders	Nov	% m/m	1.0	-	-3.7
09:00	CZ	Industrial Production	Nov	% y/y	-1.5	-	8.0
11:00	EZ	Retail Sales	Nov	% m/m	0.3	-	0.1
11:00	EZ	ESI	Dec	pct.	-	-	93.8
TUESDAY (9 January)							
	PL	MPC decision	Jan	%	5.75	5.75	5.75
08:00	DE	Industrial Production SA	Nov	% m/m	0.0	-	-0.4
08:30	HU	Industrial Production SA	Nov	% y/y	-	-	-2.8
11:00	EZ	Unemployment Rate	Nov	%	6.6	-	6.5
WEDNESDAY (10 January)							
No data releases							
THURSDAY (11 January)							
09:00	CZ	CPI	Dec	% y/y	7.2	-	7.3
14:30	US	CPI	Dec	% m/m	0.2	-	0.1
14:30	US	Initial Jobless Claims		k	216	-	202
FRIDAY (12 January)							
08:30	HU	CPI	Dec	% y/y	5.9	-	7.9
14:00	PL	Current Account Balance	Nov	€mn	1 571	494	2 036
14:00	PL	Trade Balance	Nov	€mn	927	850	1 324
14:00	PL	Exports	Nov	€mn	30 391	30 097	29 705
14:00	PL	Imports	Nov	€mn	29 034	29 247	28 381

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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