

16 January 2024

Eyeopener

Low inflation in December, without impact on MPC

Today, core inflation for December
 December CPI inflation rate was revised upwards to 6.2% y/y
 Zloty slightly weaker, Polish bond yield curve upwards
 D. Trump's win in the Iowa primary

Today, the December core inflation rate will be published. According to our estimates, it should be on the edge of 6.8% y/y and 6.9% y/y, the lowest level since March 2022. We will also see the January reading of the ZEW index of economic sentiment in Germany. The market consensus indicates that the index should rise by 1.1 pts to -76.0 pts. D. Trump's victory in Monday's primary elections in Iowa (around 52% of the vote) brings him closer to securing the Republican nomination as the presidential candidate (decision in July). In the morning, HICP inflation data for December was released in Germany, rising to 3.7% y/y (0.1% m/m) from 3.2% y/y.

CPI inflation in December reached 6.2% y/y (revised up from 6.1% flash estimate), amid 0.1% m/m price growth. Our estimate of core inflation ex food and energy is still on the verge of 6.8% and 6.9% y/y, i.e. at the lowest level since March 2022. Overall, the slight upward revision of the CPI numbers does not change the fact that December saw surprisingly strong easing of price pressure. Our forecast for the coming months sees CPI going down to below 3% y/y in March and then rebounding towards 7% y/y by the year-end, with core inflation descending to c.5% y/y in 1Q and then hovering near this level. Such trajectory is now anticipated by the central bank and – as suggested by comments of NBP president – will not be a trigger for policy easing unless we see some significant improvement in inflation outlook. Read more in our [Economic Comment](#).

In its opinion to the 2024 draft budget act, the NBP stated that it does not expect that any profit payments will be made to the state budget. This is a reference to the PLN6bn of income from the central bank's profit, which was included in the draft budget. The NBP also added that its 2023 financial results will not be known until after 1Q24 when the NBP's annual financial statement will have been assessed by an external auditor. The central bank also estimated that the public finance sector deficit this year could be little different from the 5.6% of GDP recorded in 2023, i.e. about 0.5 pp higher than assumed in the 2024 draft budget act. The budget act will be the subject of today's meeting of the Sejm.

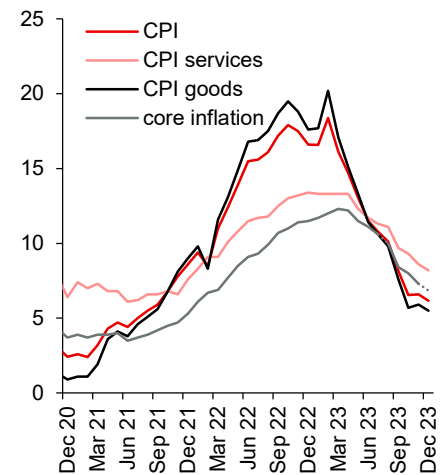
Eurozone industrial production fell by 0.3% m/m in November, following a 0.7% m/m decline in October, in line with market expectations. On an annual basis, this represents a further weakening of production growth, from -6.6% y/y in October to -6.8% y/y in November. The reduction in the overall production was the result of a 2.0% m/m cut in the production of durable consumer goods, 0.8% m/m reduction in capital goods and 0.6% m/m reduction in intermediate goods, and a 1.2% m/m increase in the production of non-durable consumer goods and 0.9% m/m increase in energy.

ECB Governing Council member Robert Holzmann said in comments for Bloomberg and CNBC that interest rate cuts in the euro area should not be expected in 2024. Holzmann pointed to growing geopolitical risks as a reason, including Houthi attacks, which he believes could negatively affect supply chains and increase prices in energy markets. The head of the Austrian central bank is regarded as one of the most hawkish members of the ECB's decision-making body.

Slight weakening of the zloty. The zloty lost slightly against the euro to around 4.37 from around 4.356, which went hand in hand with the weakening of the Czech koruna, with a slight strengthening of the forint. The EURUSD settled near 1.095 on Martin Luther King Day despite Holzmann's opinion on the likely absence of a eurozone interest rate cut in 2024. The British pound and the Chinese yuan lost ground yesterday with the latter impacted by the absence of an expected interest rate cut by the Chinese central bank. Risk appetite may be negatively affected by the tense geopolitical situation in the Middle East, although despite further Houthi attacks on ships in the Red Sea oil prices remain relatively stable just below USD80 per barrel. The zloty is somewhat negatively affected by the local political turmoil, but the extent of the zloty's weakening from recent sessions has been quite limited.

Further increases in market rates. In the domestic interest rate market, rate rises continued. FRA rates rose by 5-20bp, including to a greater extent for the 7x10, 8x11 tenors, IRS rates rose by 7-9bp and bond yields by about 6-10bp, which went hand in hand with the rise in yields on the German market in the face of hawkish statements by ECB's Holzmann. The rise in domestic rates is also an aftermath of the MPC's hawkish rhetoric (Friday comment by MPC's Ireneusz Dąbrowski). The rise in domestic rates may continue for some time yet. MPC member Ludwik Kotecki said in an interview with Business Insider that the idea of the NBP selling government bonds, in a situation of single-digit and falling inflation, is completely incomprehensible and inconsistent with the MPC's decisions of September and October last year (100bp rate cuts). At the same time, he added that one has to be very careful with interest rate cuts, and they should not fall at the rate expected by the consensus of economists. In our view, it is difficult to say at the moment whether the NBP will decide to sell bonds, but with the escalation of tensions between the NBP and the government, this is not out of the question and one could then expect local yields to be higher.

CPI inflation in Poland and main categories, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening			
EURPLN	4.3558	CZKPLN	0.1763
USDPLN	3.9750	HUFPLN*	1.1383
EURUSD	1.0956	RUBPLN	0.0453
CHFPLN	4.6538	NOKPLN	0.3849
GBPPLN	5.0746	DKKPLN	0.5840
USDCNY	7.1741	SEKPLN	0.3857

*for 100HUF

Last session in the FX market					15/01/2024
	min	max	open	close	fixing
EURPLN	4.3538	4.3771	4.3559	4.3688	4.3748
USDPLN	3.9692	4.0017	3.9741	3.9916	3.9963
EURUSD	1.0932	1.0966	1.0962	1.0945	

Interest rate market

15/01/2024

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS0725 (2Y)	5.04	7
WS0428 (5Y)	5.01	6
DS1033 (10Y)	5.15	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.63	8	4.95	2	3.42	5
2L	5.06	9	4.27	-1	2.92	4
3L	4.71	10	4.00	1	2.69	4
4L	4.53	9	3.88	6	2.61	4
5L	4.46	8	3.82	0	2.58	4
8L	4.45	8	3.79	-1	2.59	4
10L	4.51	7	3.79	-4	2.62	3

WIRON rate

Term	%	Change (bps)
WIRON	4.96	38

WIBOR rates

Term	%	Change (bps)
O/N	5.54	3
T/N	5.73	-4
SW	5.82	3
1M	5.86	0
3M	5.86	0
6M	5.84	1
1Y	5.82	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.83	-1
3x6	5.72	8
6x9	5.43	11
9x12	5.04	12
3x9	5.63	8
6x12	5.35	11

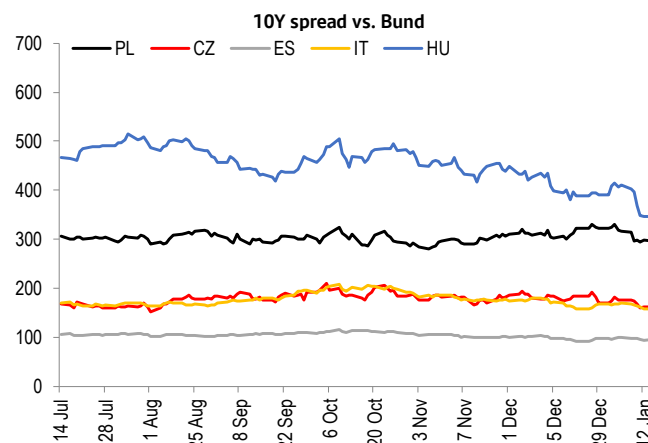
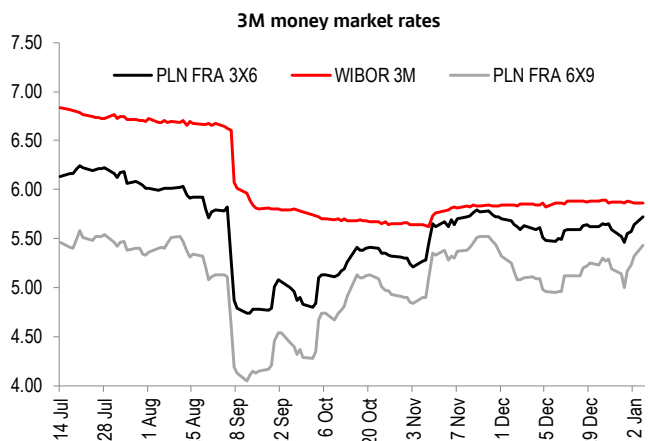
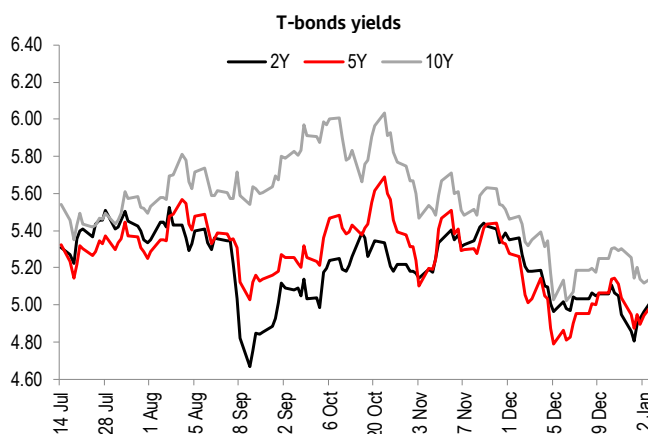
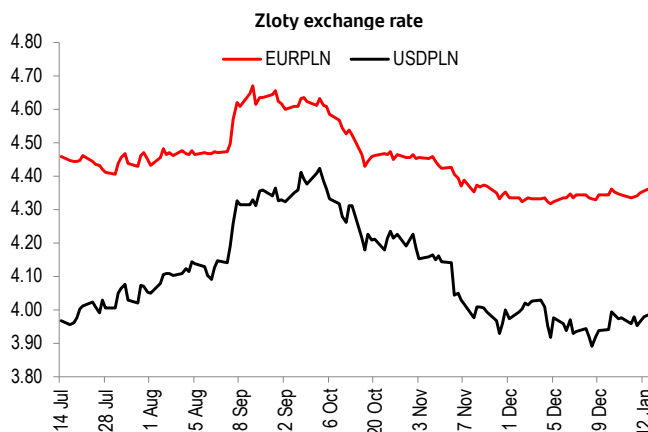
CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	63	0	295	-2
France	12	0	53	0
Hungary	132	-1	347	2
Spain	43	0	95	1
Italy	30	-1	159	0
Portugal	32	0	74	0
Ireland	17	0	33	0
Germany	12	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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (12 January)								
08:30	HU	CPI	Dec	% y/y	5.8	-	5.5	7.9
14:00	PL	Current Account Balance	Nov	€mn	1 440	494	1 325	2 119
14:00	PL	Trade Balance	Nov	€mn	990	850	230	1 287
14:00	PL	Exports	Nov	€mn	30 550	30 097	29 748	29 886
14:00	PL	Imports	Nov	€mn	29 250	29 247	29 518	28 599
MONDAY (15 January)								
10:00	PL	CPI	Dec	% y/y	6.1	6.1	6.2	6.6
11:00	EZ	Industrial Production SA	Nov	% m/m	-0.3	-	-0.3	-0.7
TUESDAY (16 January)								
08:00	DE	HICP	Dec	% m/m	0.2	-	0.1	0.2
11:00	DE	ZEW Survey Current Situation	Jan	pts	-76.0	-	-	-77.1
14:00	PL	CPI Core	Dec	% y/y	6.9	6.8	-	7.3
WEDNESDAY (17 January)								
11:00	EZ	HICP	Dec	% y/y	2.9	-	-	2.9
14:30	US	Retail Sales Advance	Dec	% m/m	0.4	-	-	0.3
15:15	US	Industrial Production	Dec	% m/m	-0.1	-	-	0.2
THURSDAY (18 January)								
14:30	US	Initial Jobless Claims		k	210	-	-	202
14:30	US	Housing Starts	Dec	% m/m	-9.3	-	-	14.8
FRIDAY (19 January)								
10:00	PL	PPI	Dec	% y/y	-5.7	-5.9	-	-4.7
16:00	US	Michigan index	Jan	pts	68.0	-	-	69.7
16:00	US	Existing Home Sales	Dec	% m/m	0.5	-	-	0.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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