

Eyeopener

CPI inflation at 5%, core inflation likely above 4%

Today core CPI for October

October CPI inflation confirmed at 5.0% y/y, services prices up 6.7% y/y

Central budget deficit close to PLN130bn after October

PLN appreciation and stronger Polish bonds

Today, we will see Polish core inflation for October. Having examined the detailed CPI data on Friday, our estimate of inflation excluding food, fuel and energy still points to 4.1% y/y, which is slightly below the 4.3% y/y from September. However, the October decline should be caused mainly by a high base effect, and monthly price growth in core categories may have remained high (0.4% m/m), in our view.

CPI inflation in October was confirmed at 5.0% y/y, the level indicated by the flash estimate, after increase in prices by 0.3% m/m. There were no big surprises as regards the price growth in different categories. Prices rose slightly less than we have anticipated in leisure and recreation, household equipment and transport, but a bit more in education and "others" (the latter included insurance jumping 1.4% m/m after an unexpected September decline). Inflation in services slowed slightly to 6.7% y/y from 6.8% y/y, but still remained well above inflation in goods (4.3% y/y). According to our forecast CPI will slow in November to c.4.6% y/y, but then should reaccelerate again in the next couple of months. Even assuming no increase in energy prices since January, we predict CPI going above 5% in January and peaking in March slightly above 5.5% y/y. Core inflation will probably remain slightly above 4% y/y for the next three to four quarters.

The state budget deficit after October amounted to PLN129.8bn, i.e. 70.5% of the plan for this year before the amendment and 54% of the plan after the amendment. Revenue growth slowed down markedly to 3.3% y/y, which was driven by all major categories of tax revenues. VAT revenues increased by 4.7% y/y in October, below the average increase in January-September at c. 20% y/y. PIT and CIT revenues were lower than in the previous year by 4% and 0.6%, respectively. The increase in expenditure accelerated to 38% y/y. The weakness of tax revenues is partly the result of regulatory changes (increase in the share of PIT and CIT revenues allocated to local governments, extension of VAT, CIT, and PIT payment deadlines due to the flood), which makes it difficult to accurately assess how much the results were affected by a possible slowdown in consumer demand. Nevertheless, in our view, the tax data do not point to such a large slump in purchasing activity as the one shown in the September retail sales data.

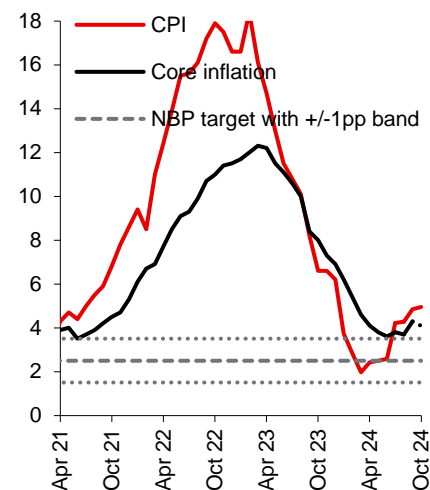
MPC member Gabriela Mastowska told PAP that she sees a good chance of a rate cut in 2025, but rather in its second half than in the second quarter. She added that the initial move should amount to 25bps and that generally, the easing of policy should be gradual. In an interview for Puls Biznesu, **Ludwik Kotecki** assessed that weaker GDP growth means lower inflationary pressure and increases the likelihood of interest rate cuts next year. According to him, the discussion on cuts will be undertaken no earlier than in March, but it is difficult to determine whether the policy will be loosened when the Council sees the March projection showing that the inflationary target will be reached in 2025 or 2026.

US retail sales data for October showed an increase of 0.4% m/m, which was mainly caused by car sales. Retail sales excluding cars rose only by 0.1% m/m. In recent months, the sales results have been unstable and alternately show solid growth m/m and its complete disappearance. The quarterly averages so far show a gradual slowdown in consumption, one which in our opinion does not call for an acceleration in the pace of rate cuts. On the other hand, the US industry recorded a second month of decline in output, by 0.3%, which, however, can still be blamed on the impact of hurricanes and strikes in the aviation industry and does not necessarily determine that the next readings will be still negative. There was also a spectacular, over 40-point rebound in the sentiment index calculated by the New York Fed, based on a sharp increase in the scale of orders on the wave of fear sparked by potential protectionist policies of the new administration.

On Friday, the zloty continued to strengthen against the euro and closed the day below 4.32. In the case of USDPLN, there was an unsuccessful attempt to reduce the weekly loss of the zloty amounting 0.06PLN, but the exchange rate went up again after reaching Wednesday's low. The dollar gained after release of the US data. The Czech koruna ended the week flat vs. the euro despite 0.6% loss after Tuesday. The Friday's session was not positive for the forint - it lost about 0.4% against the euro. We assume that the pressure on the CEE currencies may return even in case of the euro rebound if the new administration in Washington starts to implement its electoral promises and US yields remain high, weakening demand for emerging market assets

Domestic debt stronger at the end of the week. On the core markets, changes were minor: a decrease in yields in Germany and increases in the USA. Fed Chairman J. Powell said on Thursday that the US central bank does not have to rush to cut rates. In the US, despite the amplitude of intraday fluctuations reaching 10bps, the yield on 10-year bonds has hardly changed and the yield on 2-year bonds has fallen by 5bps. On the domestic market, 10-year bonds were stable at 5.70%, which is slightly below the previous days. In anticipation of Thursday's auction and in response to the budget, bond prices may be under slight pressure, especially in the context of positive supply planned for the last weeks of the year, but also high supply in 1Q25 and upward pressure from rising yields in the US. An increase in yields could be supported by an upward rebound in swap rates after significant declines in the last 2 weeks.

Polish inflation, % y/y



Source: GUS, NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski +48 691 393 119

Bartosz Biatas +48 517 881 807

Cezary Chrapek +48 887 842 480

Marcin Luźniński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

FX market

Today's opening			
EURPLN	4.3206	CZKPLN	0.1713
USDPLN	4.0986	HUFPLN*	1.0481
EURUSD	1.0544	RUBPLN	0.0409
CHFPLN	4.6084	NOKPLN	0.3691
GBPPLN	5.1643	DKKPLN	0.5835
USDCNY	7.2442	SEKPLN	0.3727

*for 100HUF

Last session in the FX market					15.11.2024
	min	max	open	close	fixing
EURPLN	4.3127	4.3288	4.3210	4.3171	4.3198
USDPLN	4.0768	4.1079	4.0998	4.0932	4.0898
EURUSD	1.0523	1.0592	1.0539	1.0551	

Interest rate market

15.11.2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	4.99	-1
WS0429 (5Y)	5.38	-4
DS1033 (10Y)	5.70	-8

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.45	-3	4.56	-3	2.33	-2
2L	4.94	-4	4.38	-4	2.20	1
3L	4.72	-4	4.29	-5	2.18	1
4L	4.67	-4	4.24	-7	2.19	1
5L	4.68	-5	4.22	-3	2.21	1
8L	4.78	-5	4.17	-2	2.25	1
10L	4.86	-5	4.21	-2	2.28	0

WIBOR rates

Term	%	Change (bps)
O/N	5.72	2
T/N	5.79	-1
SW	5.80	-2
1M	5.83	-1
3M	5.85	0
6M	5.82	0
1Y	5.65	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.83	-1
3x6	5.68	-2
6x9	5.11	-5
9x12	4.76	-3
3x9	5.64	-2
6x12	5.07	-4

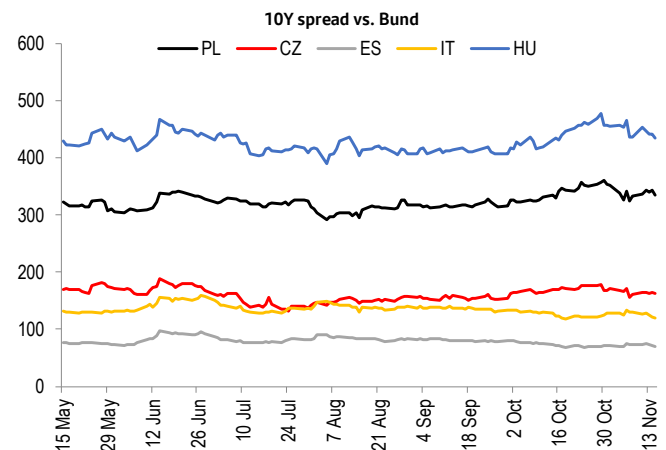
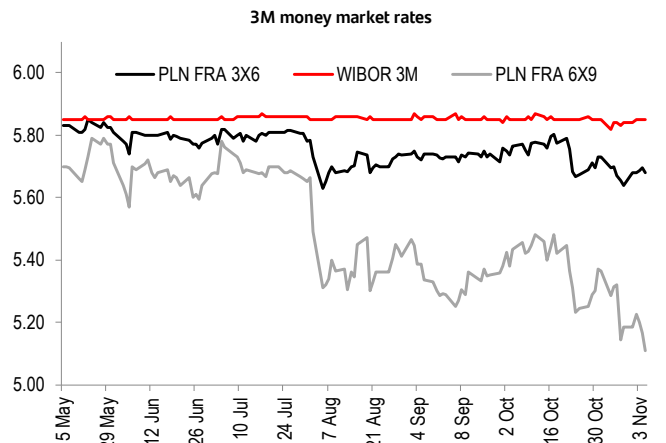
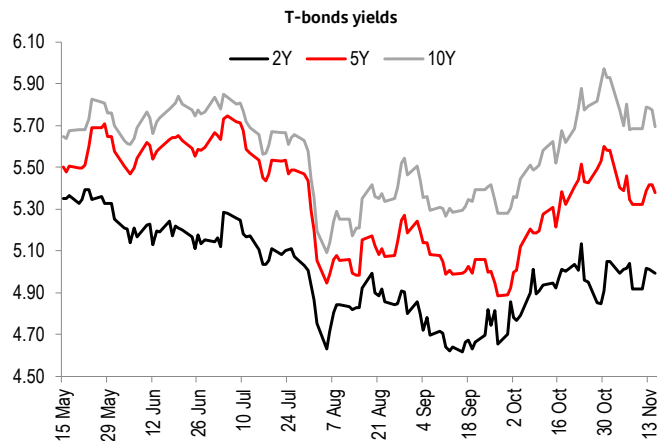
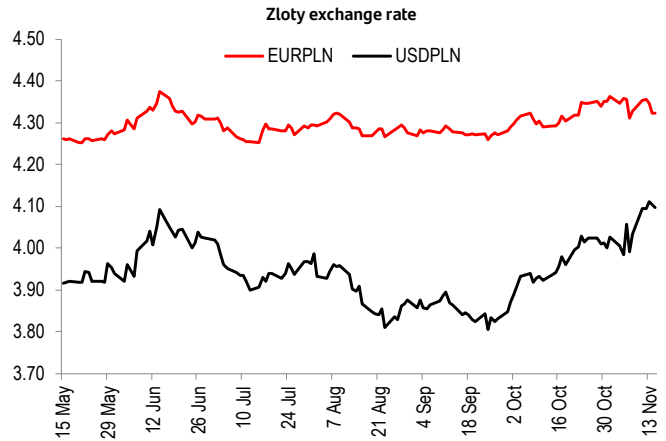
CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	66	2	335	-9
France	15	0	73	-1
Hungary	121	2	435	-7
Spain	29	0	70	-1
Italy	24	0	120	-1
Portugal	17	0	45	0
Ireland	11	0	32	0
Germany	5	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 (15 November)								
	PL	Central Budget Cumul.	Oct	PLN bn	-	-	-129.8	-107.3
10:00	PL	CPI	Oct	% y/y	5.0	5.0	5.0	4.9
14:30	US	Retail Sales Advance	Oct	% m/m	0.3	-	0.4	0.8
15:15	US	Industrial Production	Oct	% m/m	-0.3	-	-0.3	-0.5
MONDAY (18 November)								
14:00	PL	CPI Core	Oct	% y/y	-	4.1	-	4.3
TUESDAY (19 November)								
11:00	EZ	HICP	Oct	% y/y	-	-	-	2.0
14:00	HU	Central Bank Rate Decision	Nov	%	-	-	-	6.5
14:30	US	Housing Starts	Oct	% m/m	-1.0	-	-	-0.5
WEDNESDAY (20 November)								
No data releases								
THURSDAY (21 November)								
10:00	PL	Construction Output	Oct	% y/y	-	-6.4	-	-9.0
14:30	US	Initial Jobless Claims	weekly	k	220	-	-	221
16:00	US	Existing Home Sales	Oct	% m/m	1.0	-	-	-1.0
FRIDAY (22 November)								
08:00	DE	GDP WDA	3Q	% y/y	-	-	-	-0.2
09:30	DE	Germany Manufacturing PMI	Nov	pts	-	-	-	43.0
09:30	DE	Markit Germany Services PMI	Nov	pts	-	-	-	51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	-	-	-	46.0
10:00	EZ	Eurozone Services PMI	Nov	pts	-	-	-	51.6
16:00	US	Michigan index	Nov	pts	-	-	-	73.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>.