

Eyeopener

Polish core inflation sets new records

Today the flash release of Polish 1Q GDP data
European Commission cut growth forecasts
All four measures of Polish core CPI beat the all-time high they had set a month ago

Today in Poland flash GDP data for 1Q22 will be released. In our view the year started with a solid economic growth, above 8% y/y. GDP data will be released also in other EU states, and in the US retail sales and industrial production will be out. ECB and Fed governors' speeches are also on the agenda.

The **European Commission revised down EU's GDP growth forecasts** from 4.0% to 2.7%, on rising energy and commodities prices and supply chain disruptions related to Russian aggression on Ukraine and the pandemic restrictions in China. Inflation was revised up, for 2022 from 3.5% to 6.1%. EC expects further improvement in the labour market and declining fiscal deficits in the EU. GDP forecast for Poland was revised more significantly, from 5.5% to 3.7%. EC predicts higher fiscal deficits in 2022 and 2023 (4.0% and 4.4% of GDP, respectively). According to Commission, Poland will have the 4th highest HICP inflation in 2022 and the highest in 2023.

In April all y/y Polish **core inflation** measures rose significantly and set new all-time highs. The main one, CPI ex food, fuel and energy prices rose to 7.7% y/y from 6.9% in March, in line with our estimate, and may head above 8% in the coming months. We believe that the core inflation path may be flat in 2H22 or even gently declining, yielding to the slowdown we expect to appear in the economy by that time. Core inflation ex administered prices went to 12.2% y/y from 10.6% in March and compared to 12.4% headline April inflation, inflation ex most volatile prices reached 9.3% y/y, up from 7.9% and 15-percent trimmed mean was at 9.2% y/y vs 7.8% y/y a month earlier. All these measures have also set new records when it comes to m/m growth in April (dataset since 2001).

MPC's Ludwik Kotecki said that the interest rates should go up, as they are still way below the inflation rate, but he is not sure what steps to use. According to Kotecki CPI is likely to go up, but not more than 3pp from the current 12.4%. He also noted that the government has been fuelling inflation rise and that the MPC does not know what the government's plan about "anti-inflation shields" is. **Deputy finance minister Artur Soboń** said that the shields will be prolonged for short periods, e.g. for quarters, not for entire year and their effectiveness will be analysed on a current basis. He also said that the government plans to collect over PLN50bn from retail bonds this year (as compared to PLN44bn in 2021) and issuances of eurobonds will be important.

EURUSD was close to 1.04 yesterday. The downward pressure was temporarily stopped by weaker data from the US (May NY Fed Manufacturing declined to -11.6pts versus expected fall to +17 from +24.6pts) and verbal intervention of ECB's F. Villeroy, who said that the weak euro can undermine inflation's return to the target.

EURPLN declined to 4.66 from 4.67. The zloty was supported by calmer situation on the main markets, including EURUSD. We think that declining expectations for rate hikes in Poland occurring despite rising inflation and geopolitical tensions, are not supportive for PLN. We feel that today's GDP data for 1Q22 have only a limited potential to support the zloty.

Other CEE currencies: EURCZK started to stabilise around 24.74 after CNB interventions over the last days. Given the dovish stance of the new CNB president, the higher-than-expected PPI inflation in April did not fuel higher interest rate expectations in Czechia. Thus, the koruna is likely to weaken again. EURHUF continued to go up. On Monday it climbed to 391 from 385. PM Orban said that the inflation struggle will include "cautious steps" to regulate prices. Today Hungarian GDP surprised to the upside, but did not trigger HUF appreciation. EURHUF trend may continue, probably going for a test of the last peak at 399.

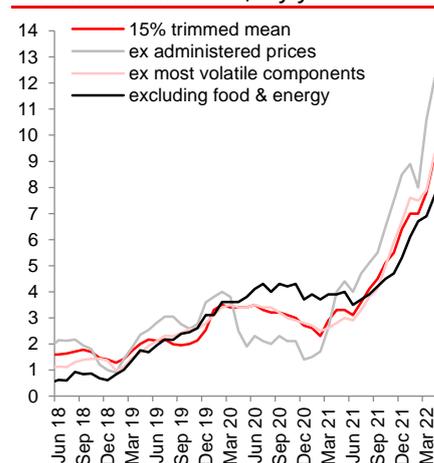
Debt market: Polish yields returned on Monday to the continuation of a downward correction, which had started in the middle of the last week after, weaker than the month before, inflationary data from the US. It seems, however, that amid constantly rising inflation in the country and the region, the market has not started to doubt in the continuation of its increase but rather in the further enthusiasm of the central banks to fight it by fast rate increases. As a result, despite the fall of the whole local curve by 10bp, the slope almost has not changed. This suggests that the market still believes that less rate hikes in the short term means higher inflation in the long term. Today's GDP data may, at least in the limited scope, support the renewed increase of the domestic curve. German curve did not change substantially, probably due to Villeroy's remarks. Decreases of the US curve were probably supported by weaker than expected manufacturing data from the NY area. In our opinion today's US retail sales and production data will decide on further trend on the fixed income core markets.

European Commission's GDP forecasts

	2022	2023
EU	2.7 (-1.3)	2.3 (-0.5)
Euro zone	2.7 (-1.3)	2.3 (-0.4)
Germany	1.6 (-2.0)	2.4 (-0.2)
France	3.1 (-0.5)	1.8 (-0.3)
Italy	2.4 (-1.7)	1.9 (-0.4)
Spain	4.0 (-1.6)	3.4 (-1.0)
Netherlands	3.3 (+0.3)	1.6 (-1.1)
Poland	3.7 (-1.8)	3.0 (-1.2)
Sweden	2.3 (-1.5)	1.4 (-0.6)
Czechia	1.9 (-2.5)	2.7 (-1.2)
Hungary	3.6 (-1.4)	2.6 (-0.6)
Romania	2.6 (-1.6)	3.6 (-0.9)

Change versus February 2022 in brackets
Source: European Commission, Santander

Core inflation measures, % y/y



Source: 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
Jarosław Kosaty +48 887 842 480
Marcin Luzziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening			
EURPLN	4.6487	CZKPLN	0.1877
USDPLN	4.4507	HUFPLN*	1.1906
EURUSD	1.0449	RUBPLN	0.0700
CHFPLN	4.4439	NOKPLN	0.4574
GBPPLN	5.4994	DKKPLN	0.6246
USDCNY	6.7654	SEKPLN	0.4434

*for 100HUF

Last session in the FX market						16.05.2022
	min	max	open	close	fixing	
EURPLN	4.647	4.683	4.678	4.661	4.672	
USDPLN	4.461	4.503	4.498	4.473	4.479	
EURUSD	1.039	1.044	1.040	1.042	-	

Interest rate market 16.05.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.32	-19
DS0726 (5Y)	6.95	-14
DS0432 (10Y)	6.71	-13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.28	-11	2.49	1	0.26	5
2L	7.03	-14	2.85	-2	0.83	3
3L	6.74	-17	2.85	-3	1.05	2
4L	6.52	-18	2.86	-4	1.20	0
5L	6.38	-20	2.86	-4	1.31	-1
8L	6.18	-16	2.90	-5	1.55	-2
10L	6.12	-14	2.94	-4	1.68	-3

WIBOR rates

Term	%	Change (bps)
O/N	5.05	-2
T/N	5.21	-4
SW	5.34	0
2W	5.39	0
1M	5.55	6
3M	6.42	1
6M	6.66	1
1Y	6.80	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.85	-11
3x6	7.23	-20
6x9	7.32	-19
9x12	7.28	-21
3x9	7.46	-18
6x12	7.52	-18

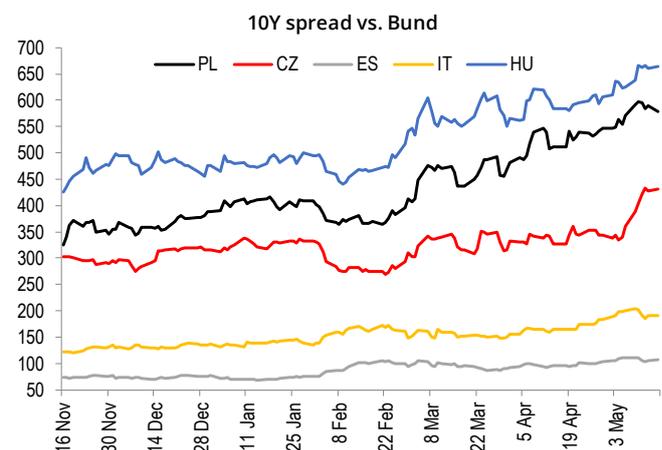
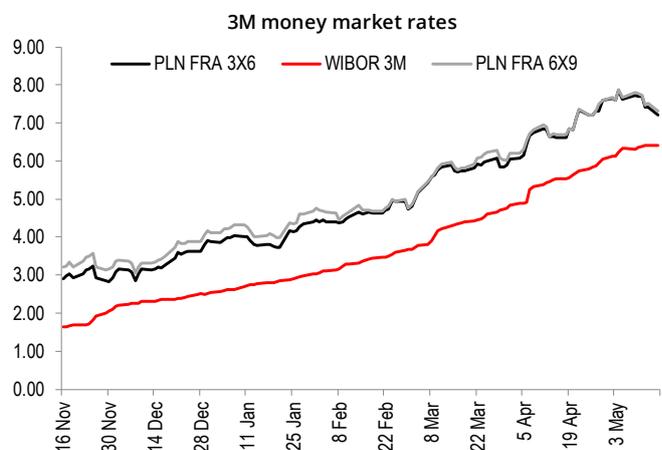
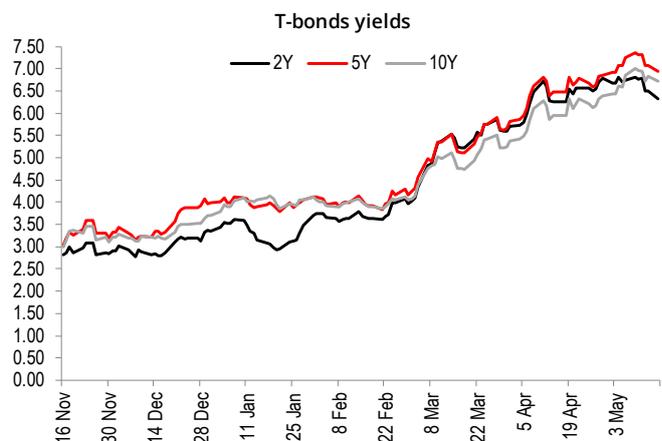
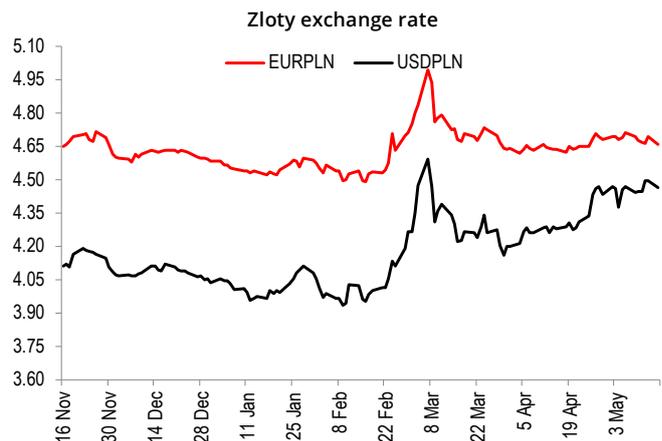
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	10	578	-11
France	12	0	51	0
Hungary	125	5	664	3
Spain	53	0	107	2
Italy	60	0	191	1
Portugal	40	0	113	0
Ireland	13	0	62	-2
Germany	9	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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (13 May)								
10:00	PL	CPI	Apr	% y/y	12.3	12.3	12.4	11.0
11:00	EZ	Industrial Production SA	Mar	% m/m	-0.7	-	-1.8	0.5
14:00	PL	Current Account Balance	Mar	€mn	-2935	-2478	-2972	-2663
14:00	PL	Trade Balance	Mar	€mn	-2194	-1836	-3253	-1559
14:00	PL	Exports	Mar	€mn	26259	25950	25831	25141
14:00	PL	Imports	Mar	€mn	28919	28038	29084	26700
16:00	US	Michigan index	May	pts	63.7	-	59.1	65.2
MONDAY (16 May)								
14:00	PL	CPI Core	Apr	% y/y	7.5	7.7	7.7	6.9
TUESDAY (17 May)								
09:00	HU	GDP	1Q	% y/y	7.8	-	8.2	7.1
10:00	PL	GDP	1Q	% y/y	8.1	8.1	-	7.3
11:00	EZ	GDP SA	1Q	% y/y	5.0	-	-	5.0
14:30	US	Retail Sales Advance	Apr	% m/m	1.0	-	-	0.7
15:15	US	Industrial Production	Apr	% m/m	0.4	-	-	0.9
WEDNESDAY (18 May)								
11:00	EZ	HICP	Apr	% y/y	-	-	-	7.5
14:30	US	Housing Starts	Apr	% m/m	-1.7	-	-	0.3
THURSDAY (19 May)								
14:30	US	Initial Jobless Claims		k	193	-	-	203
14:30	US	Index Philly Fed	May		16.7	-	-	17.6
16:00	US	Existing Home Sales	Apr	% m/m	-2.1	-	-	-2.7
FRIDAY (20 May)								
10:00	PL	Employment in corporate sector	Apr	% y/y	2.7	2.8	-	2.4
10:00	PL	Sold Industrial Output	Apr	% y/y	14.5	12.3	-	17.3
10:00	PL	PPI	Apr	% y/y	20.3	20.5	-	20.0
10:00	PL	Average Gross Wages	Apr	% y/y	12.3	12.4	-	12.4

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.