

Weekly Economic Update

Will inflation surprise again?

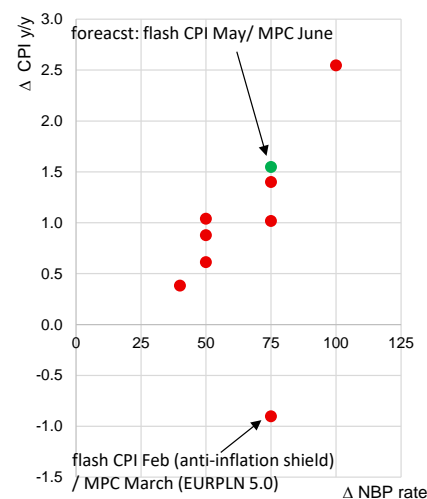
Economy next week

- Inflation will be in the spotlight again next week: on Tuesday the flash CPI data for May will be released, which may determine the size of the interest rate hike at the MPC meeting on 8 June. **Our CPI forecast is 14% y/y and 1.7% m/m**, which means another month of a solid price increase, fuelled not only by energy and food but also by the underlying price pressure (we estimate that core inflation could have exceeded 8% y/y).
- In the last few months the size of interest rate hikes was quite well correlated with the change of annual CPI inflation rate and if we assume this relation holds, **then our CPI forecast is consistent with another rate hike by 75bp**.
- In addition, there are two more important publications scheduled in the domestic calendar: **detailed GDP results for Q1 2022** (Tuesday) and **May manufacturing PMI** (Wednesday). In our view, the strong GDP growth of 8.5% y/y in Q1 was largely driven by strong private consumption (up by almost 10% y/y). Investments will look weaker - we expect negative y/y growth, but this is mainly due to the high base effect. However, the underlying trends will show a further recovery of corporate investment (a rise in q/q SA terms). In the following quarters, however, we are expecting a more pronounced slowdown in investment. PMI according to our forecast (51.9pts) fell slightly in May in response to weakening foreign demand and trade disruptions. This is a prelude to a greater deceleration later in the year.
- For Children's Day, Poland is to receive a **gift from the European Commission in the form of approval of the National Recovery Plan**, presumably in the hope that we will not be naughty anymore on the rule of law. On 2 June Ursula von der Leyen is to come to Poland to sign agreements on the so-called 'milestones' which will condition the payment of money from the Recovery Fund.
- Abroad, attention will be drawn to business cycle indices and preliminary inflation in the eurozone, and in the US to labour market data, consumer and business sentiment and the Fed's Beige Book.

Markets next week

- The zloty is strengthening further, supported by positive news concerning Recovery Fund approval perspective, resurgence of the interest rate hike expectations and weaker dollar. We assume the continuation of this trend, **EURPLN may slide to 4.55 – 4.56**.
- On the debt market we assume **further growth of IRS and yields** unless global debt markets become completely dominated by the worries about global recession that could overshadow announcements of monetary policy normalisation of the main central banks.

Interest rate hike vs change of CPI inflation rate (% y/y) vs previous month

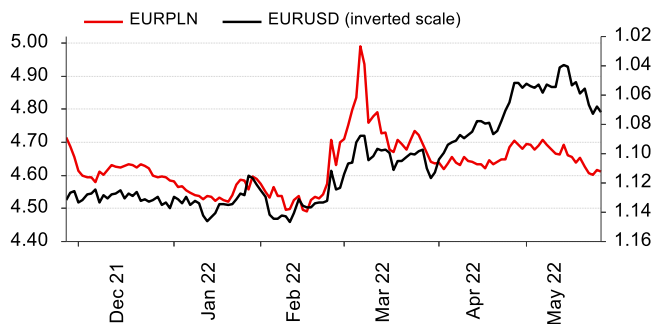


Source: NBP, GUS, Santander

Economic Analysis Department:

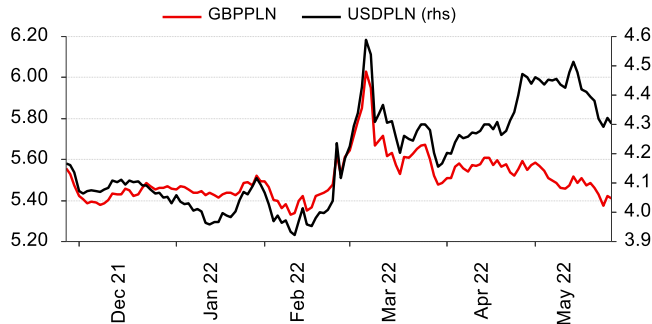
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EURPLN and EURUSD



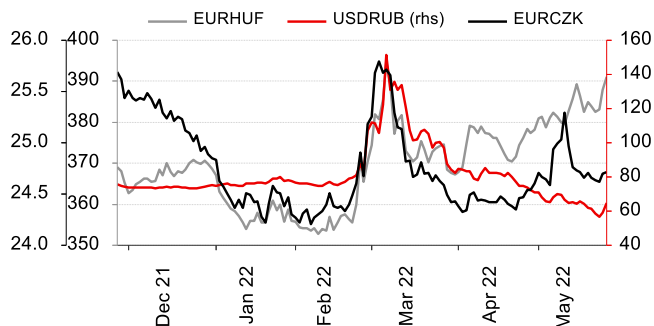
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



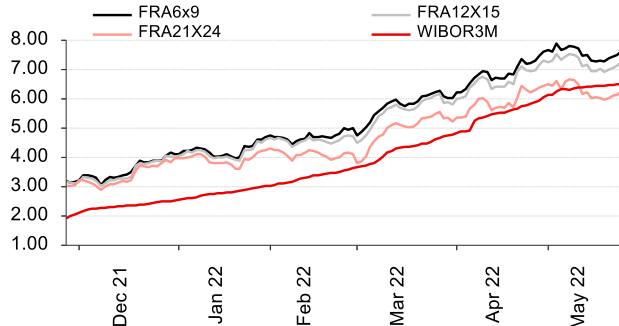
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



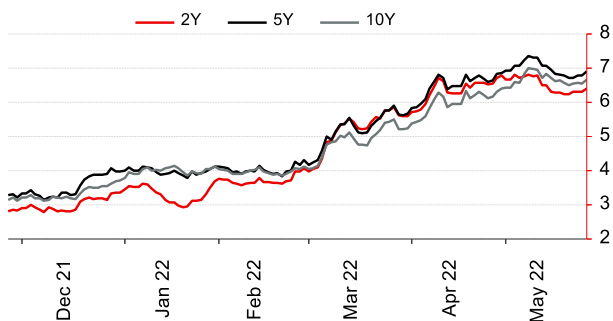
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



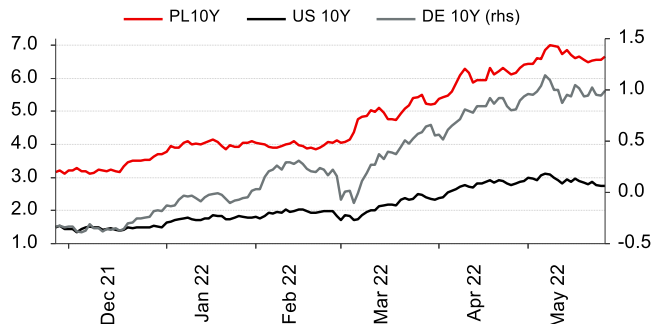
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



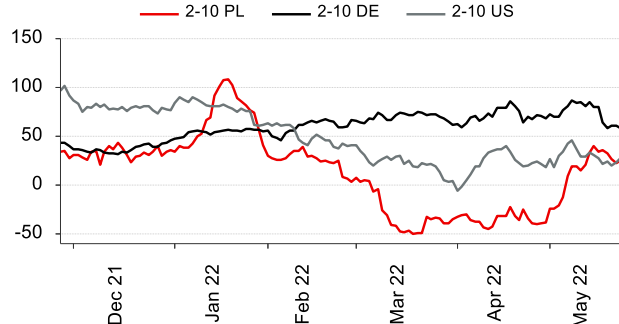
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (27 May)								
14:30	US	Personal Spending	IV	% m/m	0.6	-	0.9	1.4
14:30	US	Personal Income	IV	% m/m	0.5	-	0.4	0.5
14:30	US	PCE Deflator SA	IV	% m/m	0.2	-	0.2	0.9
16:00	US	Michigan index	V	Pts	59.1	-	58.4	59.1
MONDAY (30 May)								
11:00	EZ	ESI	V	Pts	104.9	-	-	105.0
14:00	DE	Flash HICP inflation	V	% m/m	0.5	-	-	0.7
TUESDAY (31 May)								
09:00	CZ	Flash GDP	1Q	% y/y	4.6	-	-	4.6
10:00	PL	Flash CPI	V	% y/y	13.5	14.0	-	12.4
10:00	PL	GDP	1Q	% y/y	8.5	8.5	-	7.6
11:00	EZ	Flash HICP inflation	V	% y/y	7.7	-	-	7.5
14:00	HU	NBH Policy rate		%		5.9	-	5.4
16:00	US	Consumer confidence	V	pts	103.9	-	-	107.3
WEDNESDAY (1 Jun)								
09:00	PL	Manufacturing PMI	V	pts	52.3	51.9	-	52.4
09:00	HU	GDP	1Q	% y/y	8.2	-	-	7.1
09:55	DE	Manufacturing PMI	V	pts	54.0	-	-	54.6
10:00	EZ	Manufacturing PMI	V	pts	54.7	-	-	55.5
11:00	EZ	Unemployment rate	IV	%	-	-	-	6.8
16:00	US	ISM Manufacturing	V	pts	55.0	-	-	55.4
THURSDAY (2 Jun)								
14:15	US	ADP Employment change	V	k	302.0	-	-	247.0
14:30	US	Initial Jobless Claims	1Q	k	215.0	-	-	210.0
16:00	US	Durable goods orders	V	% m/m	-	-	-	0.4
16:00	US	Factory orders	V	% m/m	0.8	-	-	1.8
FRIDAY (3 Jun)								
08:00	DE	Export	IV	% m/m	-	-	-	-3.0
09:55	DE	Services PMI	V	pts	57.1	-	-	57.6
10:00	EZ	Services PMI	V	pts	57.4	-	-	57.7
11:00	EZ	Retail sales	IV	% m/m	-	-	-	-0.4
14:30	US	Non-farm payrolls	V	k	-	-	-	428.0
14:30	US	Unemployment rate	V	pts	3.5	-	-	3.6
16:00	US	ISM Services	V	pts	-	-	-	57.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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