

30 May 2022

Eyeopener

Today CPI in Germany, tomorrow in Poland

Today ESI indicators, German inflation, EU summit
Prolongation of the first anti-inflation shield
EURPLN broke below 4.60 dynamically, hikes pricing-in still going up

Today ESI business climate indicators will be released in the EU, including Poland. We will also see flash German inflation – the release may weigh on German bonds, which often set the direction for Polish debt market. The two-day EU summit starts today with the hope to finalise the sixth package of sanctions against Russia, including ban on oil imports. US markets are closed, celebrating Memorial Day.

President Andrzej Duda signed the amendment of VAT law, **extending the first anti-inflation shield** (lowering the excise tax on fuel) until 31 July. Extension by two months means that now it will expire at the same moment as the anti-inflation shield 2.0 lowering VAT for food. We think that both shields will be extended further, probably at least until the next general elections.

Final **Michigan index of US consumer confidence** fell to 58.4 in May (flash reading was at 59.1). Downward revision affected both current assessment (to 63.3 from 63.6) and expectations (55.2 from 56.3). Consumers expect lower inflation in the next 12 months (5.3% vs 5.4% in April). Five-years-ahead inflation expectations remained unchanged (3%). The data theoretically support Fed's opinion about the lack of need to accelerate rate hike cycle. On one hand they should not boost recession worries in the US, on the other hand they are not allowing to forget about such risk.

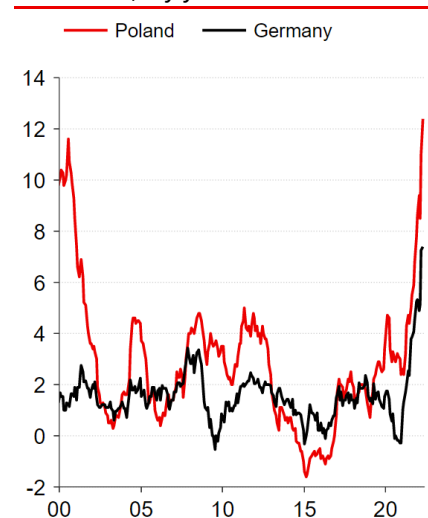
EURUSD stayed above 1.07. Weaker readings of PCE inflation for April and of Michigan consumer sentiment were weighing on the dollar. The market is taking into account that the pace of rate hikes in the USA may ease in autumn, while the ECB is only starting the rate hike cycle in July and is potentially not excluding a faster move to positive main policy rate, leading to higher market expectations.

EURPLN dropped to 4.57 from 4.60. The zloty is carried by a wave of positive news about the Polish recovery plan approval within days and the rising rate hike expectations. The data released early last week showed a growing wage and price pressure in the economy, so this week the CPI data (due Tuesday) will be in focus. A high reading would support further PLN appreciation, on higher expected rate hikes by the NBP. In our view EURPLN may decline to 4.55-4.56 this week.

Other CEE currencies: EURHUF rose on Friday to 394 from 391 seen at the opening. The announcement of new taxes has definitely been received negatively by the markets. On Tuesday the MNB will decide on interest rates. Given the remarks last week by deputy governor Barnabas Virag about reduction of the rate hike pace from 100bp (the last two decisions) by half, the market expects a 60bp move to round the main rate to 6% from 5.40%. This does not help the forint reverse its depreciation trend. EURCZK keeps stable around 24.7.

Debt market: Domestic yields and IRS continued rising. Polish 10Y yield was at 6.70% on Friday while at the beginning of the last week it was around 6.50%. Given the growing inflation pressure in the industry and on the labour market, the market forecasts high CPI readings for May which should support expectations for further rate hikes and domestic curve rises. We assume further IRS and yields curves increases this week unless global debt markets will not become fully dominated by global inflation worries overshadowing the announcements of monetary policy normalisation of the main central banks.

CPI inflation, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5613	CZKPLN	0.1848
USDPLN	4.2400	HUFPLN*	1.1582
EURUSD	1.0762	RUBPLN	0.0647
CHFPLN	4.4374	NOKPLN	0.4502
GBPPLN	5.3643	DKKPLN	0.6141
USDCNY	6.6504	SEKPLN	0.4335

*for 100HUF

Last session in the FX market					27/05/2022
	min	max	open	close	fixing
EURPLN	4.563	4.612	4.597	4.563	4.610
USDPLN	4.251	4.301	4.274	4.263	4.297
EURUSD	1.070	1.076	1.075	1.071	-

Interest rate market 27/05/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.43	3
DS0726 (5Y)	6.93	4
DS0432 (10Y)	6.70	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.64	3	2.51	1	0.41	3
2L	7.39	3	2.79	1	0.94	1
3L	7.06	4	2.80	2	1.14	0
4L	6.79	6	2.77	1	1.27	-1
5L	6.60	6	2.76	1	1.36	-2
8L	6.31	7	2.77	2	1.58	-4
10L	6.24	7	2.80	-1	1.71	-4

WIBOR rates

Term	%	Change (bps)
O/N	5.10	-32
T/N	5.33	1
SW	5.40	2
2W	5.57	6
1M	5.83	4
3M	6.54	1
6M	6.76	1
1Y	6.85	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.11	4
3x6	7.62	3
6x9	7.81	2
9x12	7.77	0
3x9	7.83	4
6x12	7.95	0

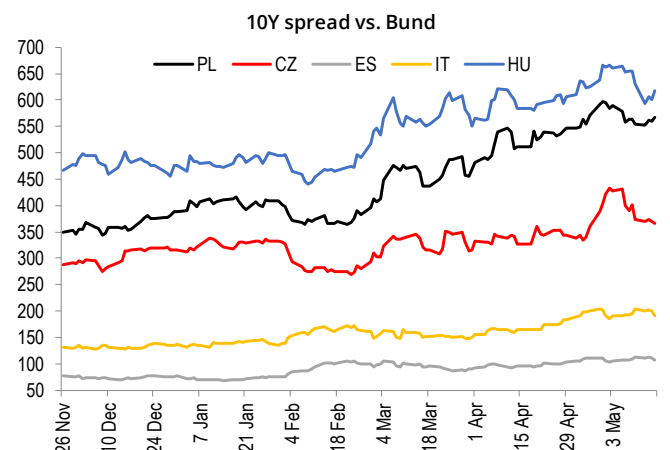
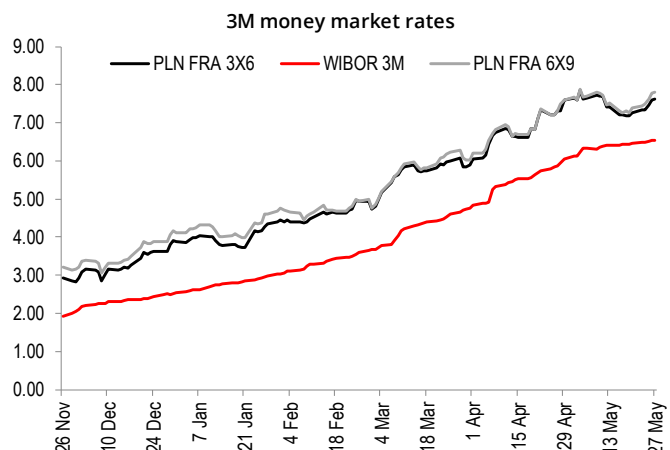
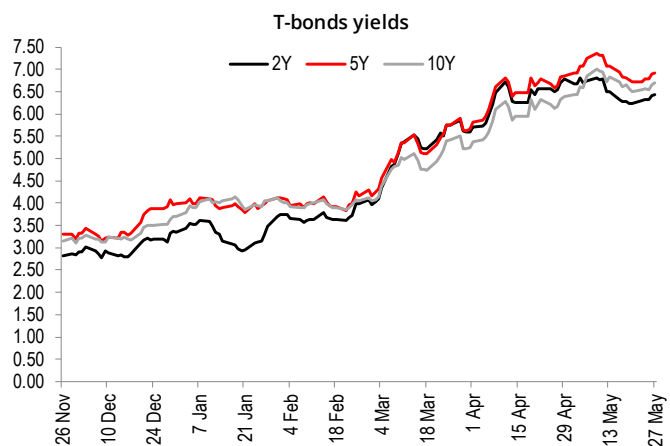
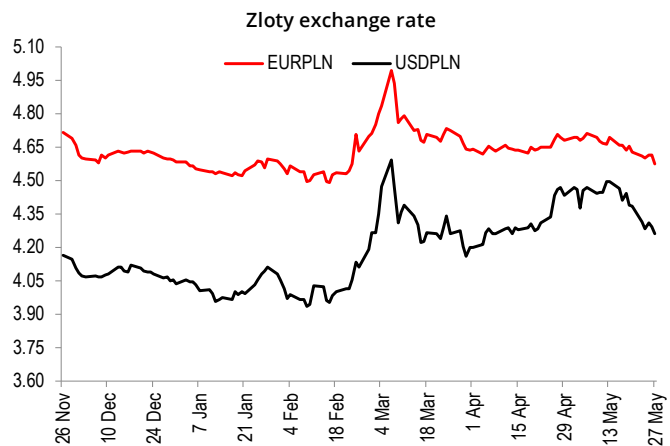
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	116	0	567	7
France	10	0	52	-1
Hungary	132	0	618	17
Spain	52	0	107	-4
Italy	60	-2	192	-8
Portugal	42	-1	113	-3
Ireland	13	0	60	-2
Germany	8	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 (27 V)								
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 V)								
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 V)								
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, Bloomberg, Parkiet
* in the case of a revision the data is updated

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