

Eyeopener

Recovery Plan approved

Today US factory orders and labour market data
 Polish Recovery Plan accepted by the European Commission
 Weak domestic PMI undermined the zloty and supported the longer debt

Today US data about factory orders and labour market situation will be released. Investors will seek guidance about the state of US economy and the outlook for Fed's interest rates.

ECB Board member Robert Holzmann, one of the key hawks in the ECB, said that "the recent record level of inflation in the euro zone is strengthening arguments for lifting interest rates in July by 0.5pp".

According to Ukrainian Grain Association, the **production of wheat** in Ukraine in the season 2022/23 will drop by 40% (from 33 to 19 million tonnes), and export will fall by 50% (from 20 to 10 million tonnes); **production of corn** will decline 30% (from 38 to 26 million tonnes) and its export by 45% (from 27.5 to 15 million). Lower grain export will imply pressure on their global prices and will keep boosting inflation.

European Commission approved **Poland's recovery and resilience plan**. The money transfers (EUR35bn in total, out of which EUR24bn in grants) will be conditional on meeting the milestones agreed with the European Commission.

MPC member Henryk Wnorowski said that fiscal policy is too expansive, which will have pro-inflationary effect and will require stronger monetary policy tightening.

Polish manufacturing PMI unexpectedly collapsed in May to 48.5 pts from 52.4 pts while the median forecast was 52.3. This is the first sub-50 reading since June 2020. There was a noticeable drop in new orders on weakening external demand, in particular from key EU trade partners, domestic orders were also going down – companies blamed market instability due to the war in Ukraine and the high inflation. Despite the growing backlog of work current production also saw a significant decline according to the PMI survey, which suggests that supply disruptions are not only boosting cost pressure but are already significantly affecting real output. What is more, the report mentions that some companies did not care to replace the leaving employees, and the index of expected output dropped to the lowest level in 19 months – this may be signs of directional change. We expect the Polish economy to slip to a technical recession in 2H22 and with the May PMI print the probability of this is only growing.

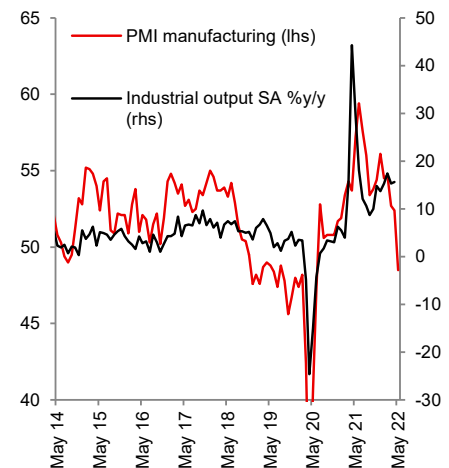
EURUSD eventually declined below 1.07 despite intraday attempts to rise to 1.08. The dollar appreciation was mainly caused by strong US data, PMI and JOLTS (job creation). The data triggered US investors' optimism leading to a rise of US interest rate expectations amid fears that the US economy is slowing down.

EURPLN rose to 4.59 from 4.58. The zloty weakened due to the May PMI coming clearly worse than had been expected, which was in contrast with the indexes for Germany and the Eurozone. The limited scale of depreciation despite the dollar appreciation was most likely caused by expectations for a quick approval of the Polish recovery plan.

Other CEE currencies: EURCZK rose to 24.73 from 24.70. The weakening of the Czech currency was caused by a growing probability of the end of rate hikes. Apart from the upcoming replacement of the CNB governor by a monetary policy dove, the current deputy governor Marek Mora spoke yesterday in a moderate tone about the outlook for rate hikes. He approved a 75bp rate hike but signalled that the current level of rates is already relatively high and the moment that further rate hikes will not be needed is close. According to Mora it may be that the moment will come in August. EURHUF stayed close to 396 despite a poor PMI reading for May (51.5 pts vs. 58.9 pts in April). The forint was supported by an announcement of a fiscal consolidation plan, which assumes a decrease of budget deficit to 4.9% GDP in 2022 and 3.5% in 2023. The Hungarian government also stated that the negotiations with the European Commission about the approval of Hungarian recovery plan have entered the final stretch.

Debt market: The domestic yield curve inverted after the weak Polish PMI reading. The shorter end of the curve rose, the longer end fell. The IRS curve went up as well. The growing inflationary pressure in the country and the lack of signs that it may expire soon means that further increases are necessary, which will put pressure on the further domestic yield curve. On the main markets, a downward correction driven by concerns about slowing economic growth gave way to a growing awareness of the need for further interest rate hikes to contain inflation. German 10-year yields rose to 1.18%, clearly breaking through the previous peak of 10 May, which initiated the downward correction several weeks ago. US 10-year yields have risen more than 20 bps since the correction's peak at the end of last week at 2.71%.

Manufacturing PMI and industrial output in Poland



Source: Markit, GUS, Santander

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FX market

Today's opening			
EURPLN	4.5853	CZKPLN	0.1851
USDPLN	4.2981	HUFPLN*	1.1551
EURUSD	1.0672	RUBPLN	0.0701
CHFPLN	4.4796	NOKPLN	0.4531
GBPPLN	5.3722	DKKPLN	0.6163
USDCNY	6.6805	SEKPLN	0.4373

*for 100HUF

Last session in the FX market						01/06/2022
	min	max	open	close	fixing	
EURPLN	4.577	4.596	4.582	4.590	4.589	
USDPLN	4.265	4.321	4.277	4.315	4.282	
EURUSD	1.063	1.074	1.071	1.064	-	

Interest rate market 01/06/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.68	-3
DS0726 (5Y)	6.86	-11
DS0432 (10Y)	6.51	-12

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.62	-4	2.67	6	0.51	4
2L	7.40	-3	2.99	11	1.14	6
3L	7.10	-3	2.99	10	1.37	7
4L	6.87	-1	2.95	9	1.49	6
5L	6.70	-1	2.94	9	1.58	6
8L	6.45	2	2.94	7	1.78	5
10L	6.38	3	2.97	6	1.90	5

WIBOR rates

Term	%	Change (bps)
O/N	5.67	31
T/N	5.58	19
SW	5.56	11
2W	5.73	4
1M	5.91	2
3M	6.61	2
6M	6.80	1
1Y	6.90	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.05	-5
3x6	7.56	-6
6x9	7.76	0
9x12	7.75	-2
3x9	7.74	-4
6x12	7.90	-4

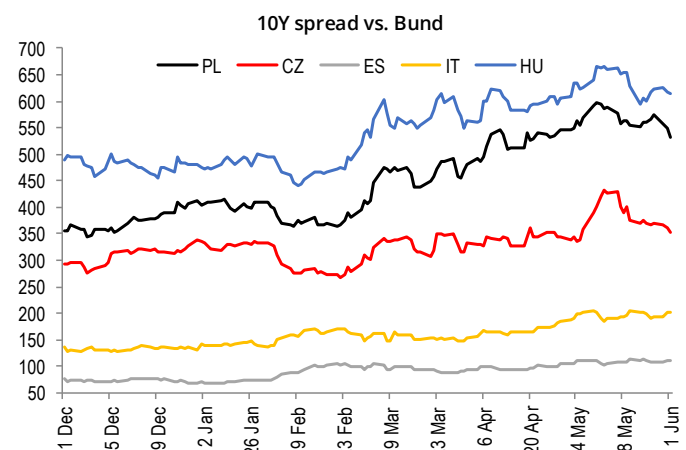
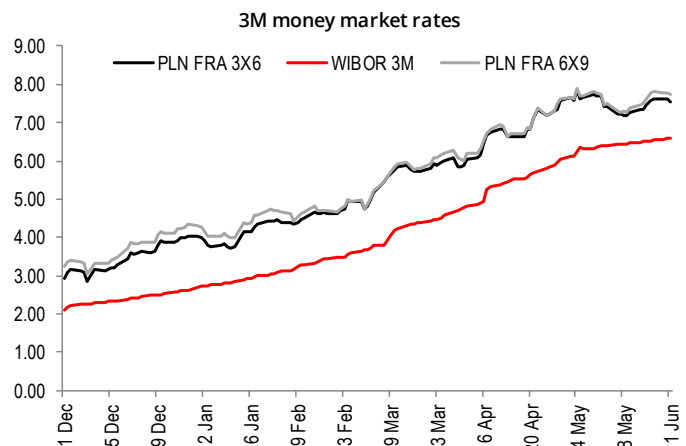
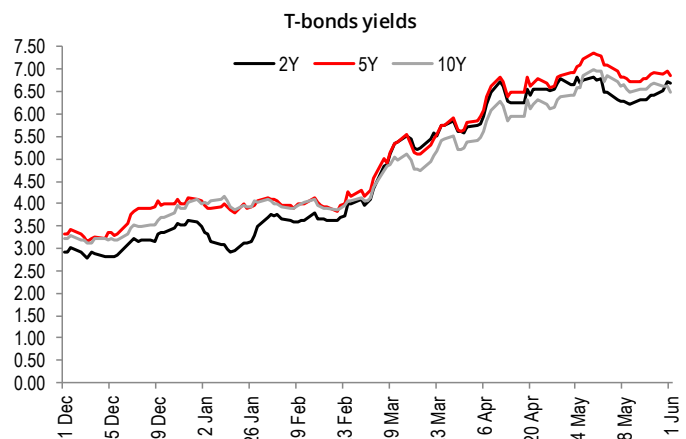
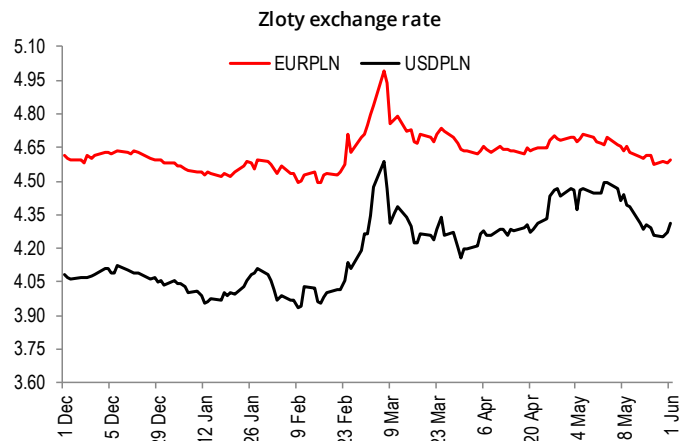
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	105	-3	533	-17
France	10	0	52	0
Hungary	130	0	615	-2
Spain	53	-2	111	0
Italy	63	0	200	-1
Portugal	43	0	115	0
Ireland	12	0	58	1
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	104.9
14:00	DE	Flash HICP inflation	V	% m/m	0.5	-	1.1	0.7
TUESDAY (31 V)								
09:00	CZ	Flash GDP	1Q	% y/y	4.6	-	4.8	4.6
10:00	PL	Flash CPI	V	% y/y	13.5	14.0	13.9	12.4
10:00	PL	GDP	1Q	% y/y	8.5	8.5	8.5	7.6
11:00	EZ	Flash HICP inflation	V	% y/y	7.7	-	8.1	7.5
14:00	HU	NBH Policy rate		%		5.9	5.9	5.4
16:00	US	Consumer confidence	V	pts	103.9	-	106.4	107.3
WEDNESDAY (1 Jun)								
09:00	PL	Manufacturing PMI	V	pts	52.3	51.9	48.5	52.4
09:00	HU	GDP	1Q	% y/y	8.2	-	8.2	7.1
09:55	DE	Manufacturing PMI	V	pts	54.0	-	54.8	54.6
10:00	EZ	Manufacturing PMI	V	pts	54.7	-	54.6	55.5
11:00	EZ	Unemployment rate	IV	%	-	-	6.8	6.8
16:00	US	ISM Manufacturing	V	pts	55.0	-	56.1	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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