

Weekly Economic Update

We are awaiting +75bp but MPC likes to surprise

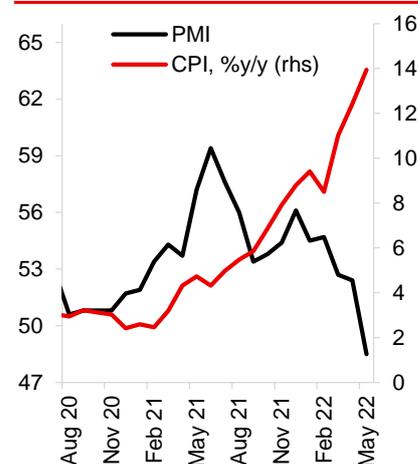
Economy next week

- The **MPC meeting** is scheduled for this week (decision on Wednesday). The Council will have a difficult task to translate the latest signals from the economy into a decision on interest rates. And the signals were ambiguous: CPI this time did not exceed expectations (it was even a notch below our estimate), but this was a matter of high forecasts rather than a calming of the inflation trend. Moreover, core inflation played a bigger role in further acceleration of inflation than we had anticipated (and, according to our estimates, set another all-time high), which suggests that fighting the very high CPI dynamics will be even more difficult and may require a stronger monetary policy tightening. Add the strong wage growth (in April they exceeded 14% y/y and for the third time in a row beat expectations by more than a percentage point). On the other hand, the details of Q1 GDP growth, which was otherwise very high, showed an exceptionally high share of inventory changes and a second consecutive disappointment in the growth rate of private consumption - which, in turn, looks like a signal that the demand cliff, which can halt the inflation pressure, is already quite close. Most of the monthly data showed still solid economic activity, but the PMI collapsed in May (the biggest drop ever excluding the two worst months of the pandemic). **In our view, the MPC will raise rates again by 75 bps.** The market has internalised Adam Glapiński's words that the rate hikes will continue until the MPC becomes convinced that inflation will fall, and seeing the strength of the CPI uptrend, the accumulation of risks on the higher side, and rebounding oil prices, it has started to see the end of rate hikes higher and later (roughly in 6 months at the level of c. 7.5%). As in recent months, we expect a press conference of the NBP governor the day after the Council's decision, i.e. on 9 June.
- In the coming week, **the ECB** (which is not likely to raise rates, but will end its asset purchase program and suggest a rate hike in July, which the market already prices-in at ca. 30 bps) and the central bank of Australia (which applied the first rate hike in this cycle in May) will also decide on rates. Otherwise, the calendar of foreign events is rather light, but the most noteworthy, in our opinion, are CPI inflation in the US (perhaps already down y/y) and information from German industry in April (new orders on Tuesday, production on Wednesday) as well as details of 1Q22 GDP in the euro zone. There will also be Czech and Hungarian inflation for May.
- At the weekend, the Law and Justice party will hold its convention, and according to [media reports](#) is expected to announce i.a. an increase in the 500+ benefit to PLN700 per child (basically a pro-inflation measure), as well as an extension of the anti-inflation shields.

Markets next week

- The złoty has gained much recently and the dramatic decline of the Polish PMI seems a good reason for some correction of the move. The depreciation drift may hold until the MPC decision. Official MPC post-decision statements were not revealing much in terms of the stance, so we think a directional signal for the local currency may rather come from the NBP governor's press conference (unless the scale of the rate hike is once again different from what the market expects). **If global conditions are favourable, EURPLN can return to around 4.55, in our view.**
- **Rising yields on core markets are making it hard for Polish government bonds to show some strengthening.** Even a potentially more dovish tone from the MPC would not have to lead to a decline of the local yield curve, because the market may read it as a reason to price an extended period of high inflation. Main central banks are still at an early stage of monetary tightening and global slowdown worries are still present - this setup should further flatten the core yield curves and the Polish curve may see an even more negative slope.

Manufacturing PMI and inflation in Poland

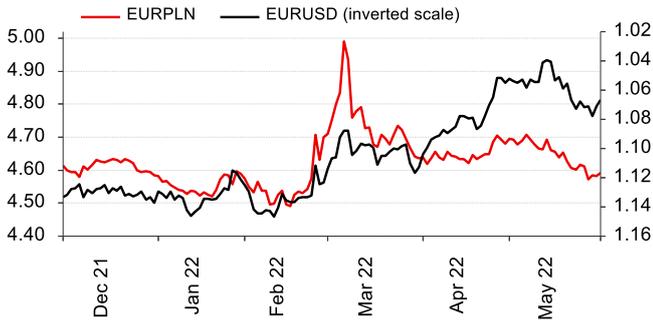


Source: GUS, Markit, Santander

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EURPLN and EURUSD



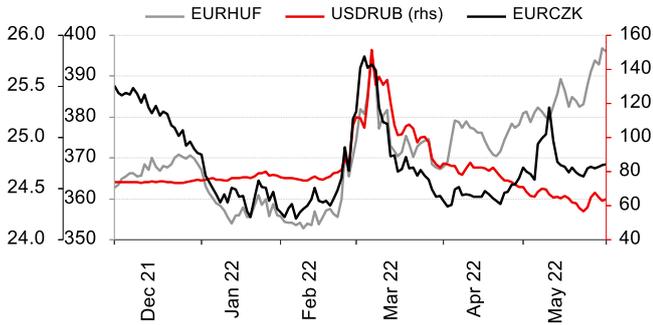
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



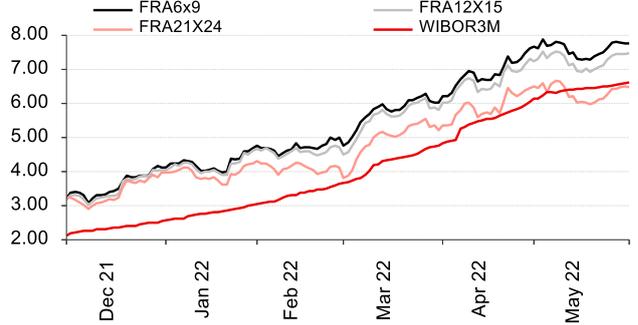
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



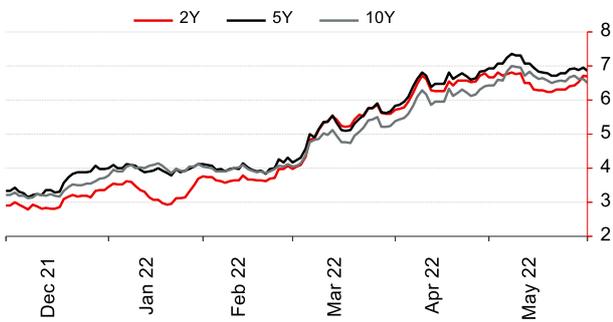
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



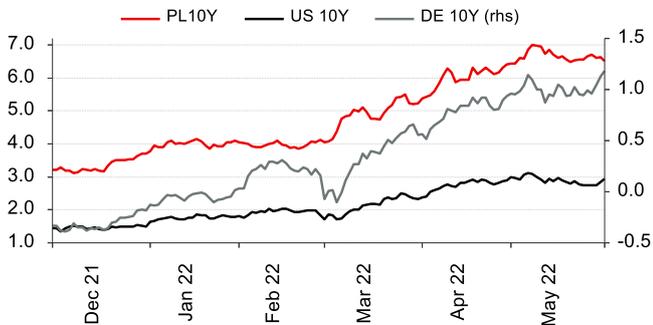
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



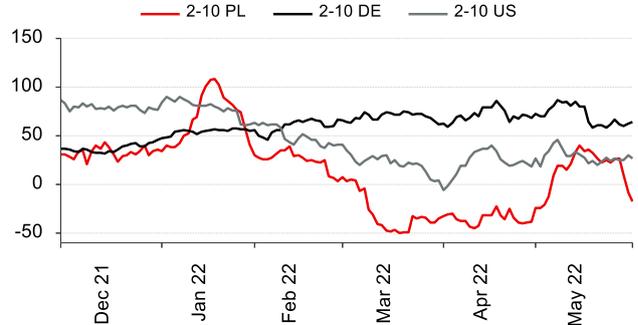
Source: Refinitiv Datastream, Santander Bank Polska

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		LAST VALUE	
				MARKET	SANTANDER		
FRIDAY (3 Jun)							
08:00	DE	Export	Apr	% m/m	1.0	-	-3.0
09:55	DE	Services PMI	May	pts	56.3	-	57.6
10:00	EZ	Services PMI	May	pts	56.3	-	57.7
11:00	EZ	Retail sales	Apr	% m/m	0.3	-	-0.4
14:30	US	Non-farm payrolls	May	k	325	-	428
14:30	US	Unemployment rate	May	pts	3.5	-	3.6
16:00	US	ISM Services	May	pts	56,5	-	57.1
MONDAY (6 Jun)							
03:45	CN	Services PMI	May	pts	46.0	-	36.2
09:00	CZ	Services PMI	Apr	% y/y	-	-	0.3
TUESDAY (7 Jun)							
	AU	RBA rate decision		%	0.68	-	0.35
08:00	DE	Factory orders	Apr	% m/m	0.0	-	-4.7
WEDNESDAY (8 Jun)							
	PL	NBP rate decision		%	6	6	5.25
08:00	DE	Industrial output	Apr	% m/m	1.2	-	-3.9
09:00	HU	Industrial output	Apr	% y/y	-	-	4.2
09:00	HU	CPI	Apr	% y/y	-	-	9.5
11:00	EZ	GDP	1Q	% q/q	0.3	-	0.3
THURSDAY (9 Jun)							
13:45	EZ	ECB rate decision		%	0.0	-	0.0
14:30	US	Initial jobless claims	week	k	210	-	210
FRIDAY (10 Jun)							
09:00	CZ	CPI	May	% y/y	-	-	14.2
14:30	US	CPI	May	% m/m	0.7	-	0.3
16:00	US	Michigan consumer confidence	Jun	pts	59.0	-	58.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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