

Eyeopener

Recovery fund payments after meeting conditions

Today US labour market data – ADP report lowered expectations
 Fed keeps sending hawkish signals
 Weaker dollar made room for CEE FX appreciation yesterday evening

Today in Europe services PMIs will be released. Final May prints of the manufacturing indexes were slightly lower than the flash estimates. For this reason consensus on services PMIs is below the flash readings. In the USA the key labour market data are due today, including the employment change, unemployment rate, wage growth. The ADP report released yesterday (m/m employment rise by less than 130k instead of the expected c.300k and there was a significant downward revision of the previous print) cooled down market expectations ahead of today's non-farm payrolls.

Ursula von der Leyen arrived to Poland after the EC had approved the **local recovery and resilience plan** on Wednesday. At the press conference with president Andrzej Duda and PM Mateusz Morawiecki, the EC president stressed that the first tranche of recovery funds can only be transferred after Poland delivers the required legal changes on independence of judges and said that Poland is not at the end of the road when it comes to the rule of law.

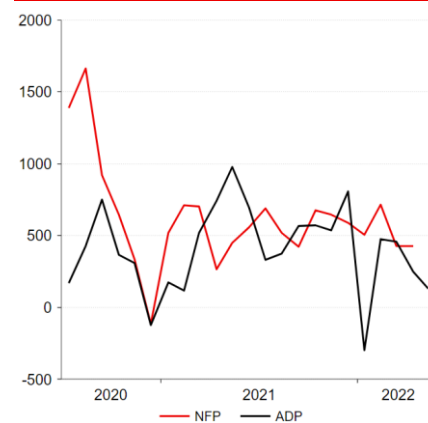
EURUSD did not change much day-to-day, but during the session set a lower low than the minimum seen last week. ECB's Francois Villeroy said inflation is too high and too broad but has to be tackled with policy normalisation rather than tightening and the next two years may be under the spell of poor growth if not outright stagnation. Fed speakers signalled that the market is right to price in 50bp rate hikes at the next two meetings and in their view there will be no reason for a pause in September. Lael Brainard thinks the current tightening pace might be maintained in September if there is no weakening of inflation and no cooling down of demand by that time. Loretta Mester went a step farther and considered a higher tightening pace if inflation remained stubbornly high by September. In her view only after several months of declining inflation the Fed might change its stance. The fate of EURUSD seems to depend today to a large extent on the data from the Eurozone and the USA – the yesterday weak ADP print, offering a preview of today's labour report, made the dollar give back the daily gain.

EURPLN pulled back below the level seen before the disturbingly low May manufacturing PMI release. The decline was supported by further formal elements of the Polish recovery plan approval and the evening rebound of the dollar. We think that a further appreciation of the zloty may be difficult because USDPLN has already fallen quite close to 4.25 where we expect more intense buying of dollars by importers.

Other CEE currencies: the Hungarian central bank did not let the forint slip more and strengthened it with a 1-week deposit rate hikes by 30bp to 6.75%. The bank also signalled that by the end of June the rate should already exceed 7%. The evening dollar loss was enough to send EURCZK below 27.4, making it reverse five days of gentle rise.

On the interest rate market there was a rise of the whole Polish yield curve by about 8bp. The German curve rose by less and especially on the long end. During the day there was a marginal rise of market expectations about rate hikes coming from the ECB and the Fed still in 2022. The news that OPEC+ agreed to boost monthly oil production by 50% in July and August stole about USD4 from the barrel price, but the effect was only seen for several hours. The problem seems to be the limited capacity of the cartel members to increase output by the declared amount. As a result the rise of yields could continue.

Measures of monthly US employment change (k)



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5739	CZKPLN	0.1849
USDPLN	4.2552	HUFPLN*	1.1580
EURUSD	1.0751	RUBPLN	0.0695
CHFPLN	4.4398	NOKPLN	0.4535
GBPPLN	5.3468	DKKPLN	0.6148
USDCNY	6.6596	SEKPLN	0.4382

*for 100HUF

Last session in the FX market						02/06/2022
	min	max	open	close	fixing	
EURPLN	4.570	4.600	4.586	4.571	4.588	
USDPLN	4.257	4.308	4.303	4.260	4.293	
EURUSD	1.065	1.074	1.066	1.073	-	

Interest rate market 02/06/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.76	8
DS0726 (5Y)	6.97	12
DS0432 (10Y)	6.61	10

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.65	2	2.67	0	0.53	3
2L	7.45	4	2.98	-1	1.20	6
3L	7.15	4	2.99	0	1.44	7
4L	6.91	4	2.95	0	1.56	7
5L	6.75	5	2.94	0	1.66	8
8L	6.49	4	2.94	0	1.84	6
10L	6.43	5	2.97	0	1.95	5

WIBOR rates

Term	%	Change (bps)
O/N	5.65	-2
T/N	5.63	5
SW	5.65	9
2W	5.81	8
1M	5.97	6
3M	6.64	3
6M	6.90	10
1Y	6.95	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.09	4
3x6	7.62	6
6x9	7.78	3
9x12	7.77	2
3x9	7.82	8
6x12	7.98	8

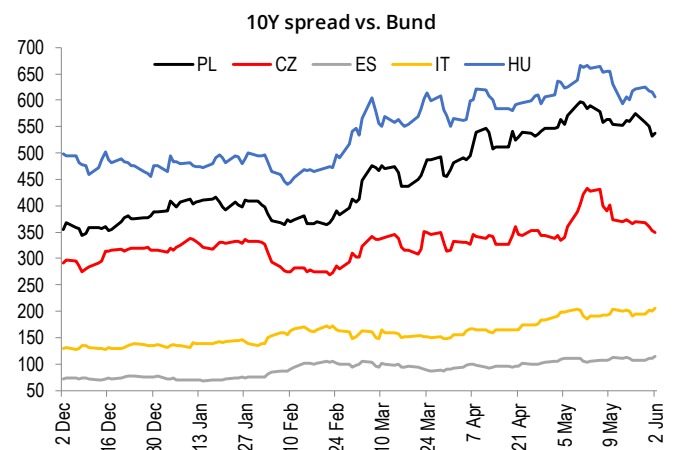
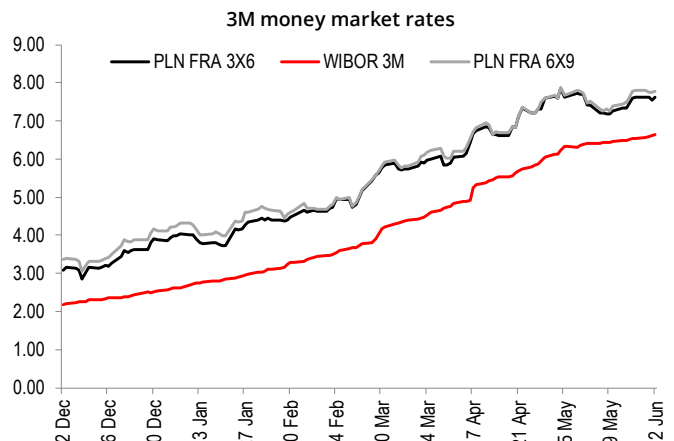
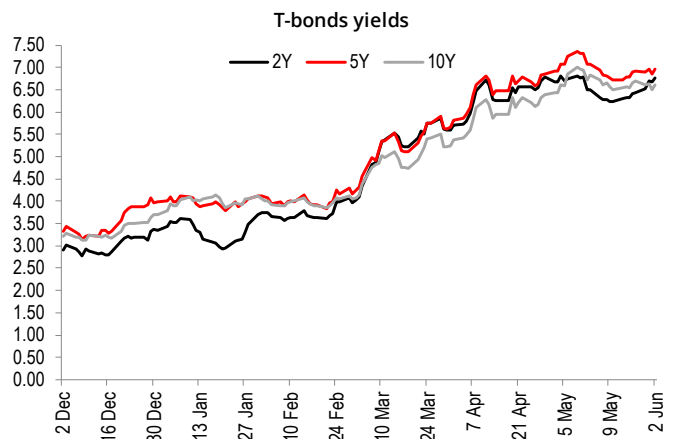
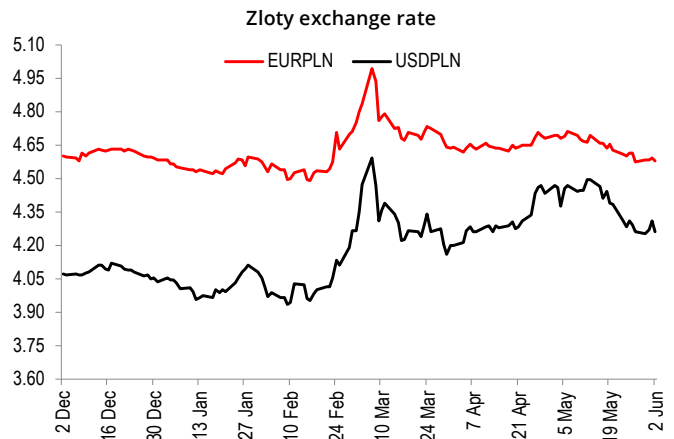
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	105	0	538	5
France	10	0	53	1
Hungary	130	0	606	-9
Spain	53	0	113	2
Italy	63	0	206	6
Portugal	43	0	119	4
Ireland	13	1	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	-	128	202
14:30	US	Initial Jobless Claims	1Q	k	215	-	210	211
16:00	US	Durable goods orders	V	% m/m	-	-	0.5	0.4
16:00	US	Factory orders	V	% m/m	0.8	-	0.3	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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