

Eyeopener

PLN battered by the central banks

Today core inflation, HICP inflation, US industrial production
ECB to speed up work on "anti-fragmentation" tool
Fed raised rates by 75 bps, SNB by 50 bps, BoE by 25 bps
... which triggered a significant weakening of the zloty

Today core inflation for May will be released in Poland, we expect a new record at 8.5%. Also, final data on May HICP inflation in the EU and May industrial production in the US. The calendar also features comments by Fed Chairman Jerome Powell.

The emergency meeting of the **European Central Bank** convened on Wednesday in connection with the recent turmoil in the financial markets ended with a decision to redirect funds from maturing securities previously purchased under the PEPP (currently around EUR 1.7 trillion) to support the debt markets of southern eurozone countries. Moreover, the ECB Council decided to accelerate work on the new instrument preventing potential fragmentation of the euro area debt market. The presentation of only an ad hoc solution in the form of redirecting the funds returning to the PEPP, with no ready-made target solution addressing the growing debt market risks, clearly disappointed the markets. The **FOMC** on Wednesday evening decided to raise the federal funds rate by 75 bps, which was a departure from the previously outlined scenario of three 50-point rate hikes announced for May, June and July this year. The main reason for the acceleration of the rate hike in June was strongly rising inflation amid a strong labour market and growing supply problems caused by lockdowns in China and the war in Ukraine. The Fed stressed that it is "closely monitoring" inflation risks, and is determined to bring inflation down to target as part of meeting its mandate goals. It signalled further hikes in the range of 50-75 bps, with the aim of moving quickly to a neutral and then moderately restrictive monetary policy, which would occur with the key rate at levels between 3%-3.5%. The **Swiss National Bank** on Thursday morning raised interest rates by 50 bps, which came as quite a surprise to the markets. The release said the decision is aimed at preventing further inflation increase and did not rule out further rate hikes and/or FX interventions. The **Bank of England** on Thursday raised rates by 25 bps, in line with expectations. The **Bank of Japan** kept rates unchanged, in line with expectations.

According to the Central Statistical Office (GUS) **data on foreign trade in goods**, in April the annual growth of exports fell from 14.8% y/y to 11.3% with imports remaining above 30% y/y. Exports and imports from the eurozone fell sharply by 5pps (to 11.1% and 16.3% y/y respectively). The foreign trade balance was still influenced mainly by a large deficit in trade with non-EU countries. The import growth was significantly lowered by Russia, by ca. 2 p.p. This, however, was covered by a greater inflow of goods from e.g. USA, Qatar, Australia. Exports to Ukraine, which had been growing at a 30% y/y pace before the war and fell by more than 40% y/y in March, rebounded to +2% y/y in April (and imports from Ukraine reached +80% y/y). Exports to Russia, meanwhile, rebounded to -69% y/y in April after falling 49% y/y in March.

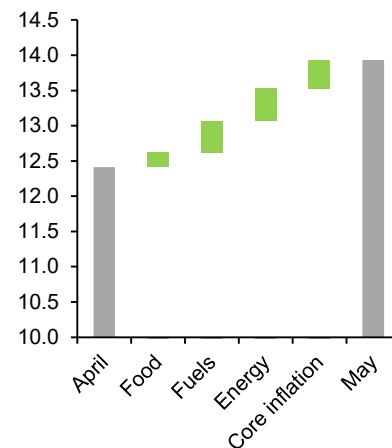
May CPI inflation was confirmed at 13.9% y/y. Prices of goods increased by 14.9% (13.1% in April) and services by 10.8% (10.1% in April). The faster inflation growth was driven by all major components, including energy (fuel prices up 14% m/m), fuels (up 5% m/m), core inflation (up 8.5% from 7.7%) and food. In our view, inflation will enter the 15-16% range in the coming months and stay there for some time before slowly falling and dropping below 10% in Q2 2023. We wrote more on this topic in the [Economic Comment](#).

EURUSD fluctuated between 1.035 and 1.05 on Wednesday, rebounded strongly to 1.06 on Thursday, and is falling slightly again today, nearing 1.05 again. The market remains jittery with volatile sentiment, with the dollar supported by global uncertainty and risk aversion on the one hand, and hurt by US recession fears and the prospect of a more hawkish ECB policy on the other.

EURPLN weakened before the FOMC decision, but temporarily rebounded afterwards as global sentiment improved. On Thursday, the SNB rate hike triggered a strong depreciation of the zloty: EURPLN jumped to 4.74, USDPLN to 4.54, CHFPLN to 4.66. Today a gradual strengthening is visible from the morning (EURPLN already below 4.70). **Other CEE currencies** reacted much better than the PLN to big central banks' decisions: EURCZK fell to 24.69, EURHUF went down to 398.5.

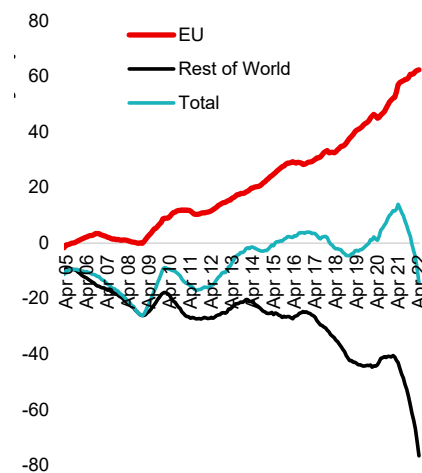
Debt market: The domestic yield curve rose by about 10 bps on Wednesday, the IRS rate curve rose by about half as much. The Polish market grew under the influence of fears that the NBP rate hike cycle will end too soon, which was reflected in a sharp increase in expectations for rate hikes on the FRA market for 10-11 months ahead. Today, domestic yields remain close to local peaks, despite the clear strengthening of the debt on core markets.

Breakdown of CPI inflation, % y/y



Source: GUS, Santander

12M cumulated balance of Poland's foreign trade in goods with the EU and the rest of the world, €bn



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.6932	CZKPLN	0.1898
USDPLN	4.4579	HUFPLN*	1.1770
EURUSD	1.0524	RUBPLN	0.0789
CHFPLN	4.6112	NOKPLN	0.4487
GBPPLN	5.4907	DKKPLN	0.6310
USDCNY	6.7004	SEKPLN	0.4389

*for 100HUF

Last session in the FX market 16/06/2022

	min	max	open	close	fixing
EURPLN	4.660	4.743	4.660	4.728	4.695
USDPLN	4.462	4.543	4.467	4.490	4.446
EURUSD	1.038	1.053	1.044	1.053	-

Interest rate market 16/06/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.84	0
DS0726 (5Y)	8.12	0
DS0432 (10Y)	7.89	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.10	0	3.37	-2	1.10	12
2L	8.09	0	3.54	-5	1.85	17
3L	7.89	0	3.45	-6	2.07	9
4L	7.74	0	3.37	-7	2.19	17
5L	7.65	0	3.31	-9	2.28	19
8L	7.49	0	3.25	-9	2.42	7
10L	7.44	0	3.23	-10	2.50	5

WIBOR rates

Term	%	Change (bps)
O/N	5.93	13
T/N	6.08	9
SW	6.11	1
2W	6.13	0
1M	6.32	5
3M	6.84	3
6M	7.11	3
1Y	7.28	5

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.56	0
3x6	8.11	-1
6x9	8.26	-1
9x12	8.24	0
3x9	8.35	1
6x12	8.50	2

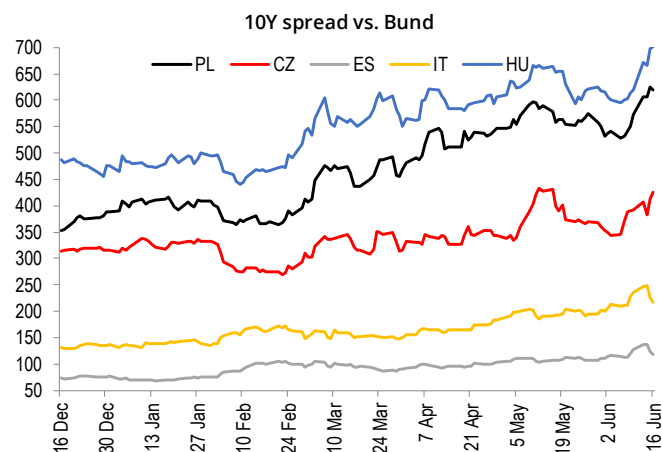
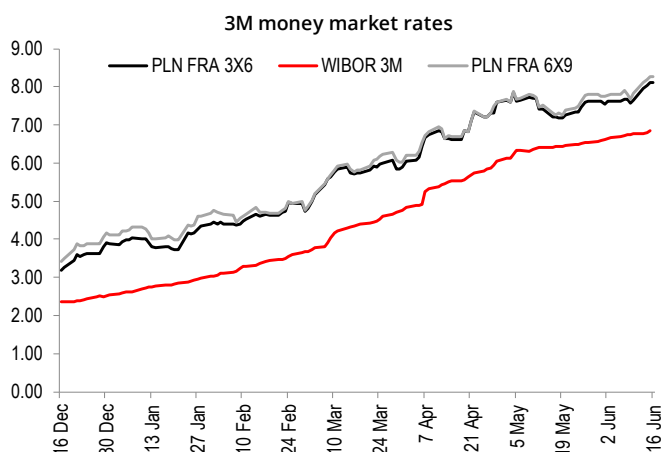
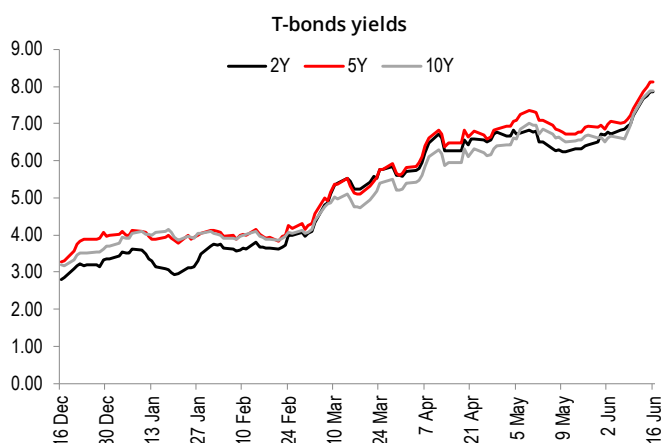
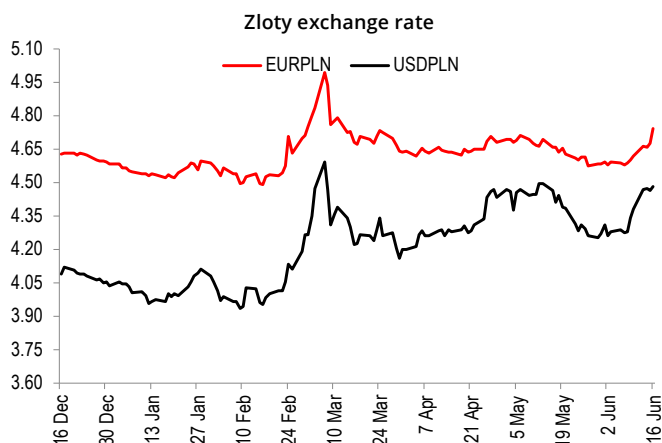
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	2	619	-5
France	10	0	57	-1
Hungary	152	0	701	4
Spain	65	-3	119	-5
Italy	63	-8	216	-10
Portugal	50	0	114	-7
Ireland	13	0	62	-5
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 (10 Jun)								
09:00	CZ	CPI	May	% y/y	15.5	-	16.0	14.2
14:30	US	CPI	May	% m/m	0.7	-	1.0	0.3
16:00	US	Michigan index	Jun	pts	58.2	-	50.2	59.1
MONDAY (13 Jun)								
14:00	PL	Current Account Balance	Apr	€mn	-3100	-2397	-3924	-2972
14:00	PL	Trade Balance	Apr	€mn	-2795	-2795	-2466	-3253
14:00	PL	Exports	Apr	€mn	27100	28165	26559	25831
14:00	PL	Imports	Apr	€mn	30250	30960	29025	29084
TUESDAY (14 Jun)								
08:00	DE	HICP	May	% m/m	1.1	-	1.1	1.1
11:00	DE	ZEW Survey Current Situation	Jun	pts	0	-	-28.0	-34.3
WEDNESDAY (15 Jun)								
10:00	PL	CPI	May	% y/y	13.9	14.0	13.9	12.4
11:00	EZ	Industrial Production SA	Apr	% m/m	0.7	-	0.4	-1.4
14:30	US	Retail Sales Advance	May	% m/m	0.2	-	-0.3	0.9
20:00	US	FOMC decision		%	1.5	-		1.0
THURSDAY (16 Jun)								
	PL	Corpus Christi						
09:30	CH	SNB decision		%	-	-		-0.75
14:30	US	Initial Jobless Claims	week	k	206	-		229
14:30	US	Housing Starts	May	% m/m	-0.58	-		-0.2
FRIDAY (17 Jun)								
11:00	EZ	HICP	May	% y/y	8.1	-		8.1
14:00	PL	CPI Core	May	% y/y	8.5	8.5		7.7
15:15	US	Industrial Production	May	% m/m	0.4	-		1.08

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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