

Eyeopener

Core inflation not losing momentum

Today market holiday in the USA, speeches of C.Lagarde and J.Bullard
 Core inflation rose to new record 8.5% y/y in May
 Polish recovery and resilience plan approved by the EU member states
 EURPLN retreating from Thursday's peak
 Bond yields and swaps keep rising in anticipation of interest rate hikes

Today is market holiday in the USA, which means lower global market activity. There are no important data releases planned for today, but the calendar includes speeches by ECB president Christine Lagarde and Fed member James Bullard, which will be followed by investors in search of hints about further steps to be taken by major central banks. Later this week many important data from Poland will be out.

Eurozone **HICP inflation** rose to 8.1% y/y in May, in line with the flash estimate, from 7.4% a month earlier. Core inflation amounted to 3.8% vs. 3.5% in April. In Poland, HICP inflation amounted to 12.8% y/y in May vs 11.4% in April.

All four NBP's measures of **core inflation** in Poland surged in May to their record-high levels, with the main index (CPI ex food and energy) reaching 8.5% y/y, in line with estimates. The data confirm that the underlying inflationary momentum is super-strong, as all four measures saw the m/m change of at least 1.0% (or higher) for the third straight month, which is an unprecedented event. The highest measure – CPI ex administered prices surged to 14.0% y/y, two others (CPI ex most volatile prices and 15% trimmed mean) jumped above 10% y/y. This is yet another argument that monetary policy tightening in Poland will continue and bringing inflation to a halt may require bigger interest rate hikes than expected, especially in the environment of accelerated global policy tightening, which may exert further pressure on the zloty.

EU member states **approved Poland's national recovery plan**. The Netherlands abstained, while Belgium, Sweden, Denmark and the Netherlands filed a declaration on the need for a thorough assessment of fulfilment of the commitments Poland has made on milestones related to changes in the judicial system.

The European Commission recommended **granting Ukraine the status of an EU candidate country**. Moldova was also granted candidate status, while in the case of Georgia, the EC recommended granting candidate status once it meets certain conditions. EU leaders are scheduled to discuss the matter at a summit in Brussels on 23-24 June.

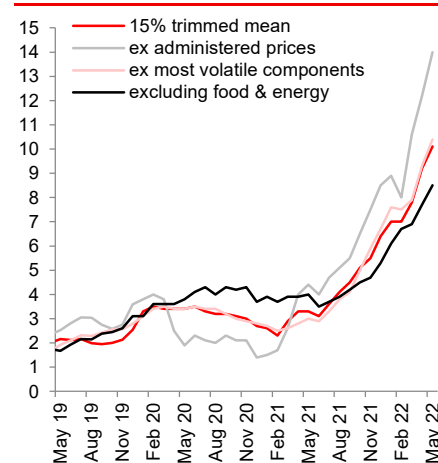
EURUSD gradually erased on Friday the previous day's strong upward move (from 1.038 to 1.06) that had occurred after the Fed, SNB and BoE meetings. The dollar recovered despite weaker-than-forecast US industrial production data, helped by fears of a global recession and an environment of generally elevated risk aversion. The week ended for EURUSD near 1.045, but this morning the exchange rate returned above 1.05.

EURPLN finished Friday close to 4.69 versus 4.74 on Thursday. Today morning EURPLN is close to 4.67 and in coming days it may approach 4.65 which should be supported by increased currency selling by the exporters. The contrast between rhetoric of the NBP (nearing end of a rate hikes cycle) and major central banks (beginning of an aggressive tightening), however, is not supporting PLN appreciation. It could change if we see new hawkish comments from the MPC.

Other CEE currencies lost slightly on dollar appreciation: EURHUF went up from 398 to 400, EURCZK from 24.68 to 24.75.

Debt market: growing expectations of NBP interest rate hikes pushed up the short end of domestic curves on Friday (2L bond yields +5bp, 2L IRS +12bp), while anchoring the long end amid slowdown/recession concerns. The repricing of Polish debt continues, ignoring temporary yield declines in core markets. As long as the market remains unclear about the peak interest rate level (which is drifting higher and higher), it is hard to expect a change of this trend. This week's domestic data releases are more likely to escalate concerns about a larger scale of NBP rate hikes.

Core inflation, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Jarosław Kosaty +48 887 842 480
 Marcin Luzziński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

FX market

| Today's opening | | | |
|-----------------|--------|---------|--------|
| EURPLN | 4.6772 | CZKPLN | 0.1887 |
| USDPLN | 4.4384 | HUFPLN* | 1.1595 |
| EURUSD | 1.0536 | RUBPLN | 0.0786 |
| CHFPLN | 4.5994 | NOKPLN | 0.4463 |
| GBPPLN | 5.4305 | DKKPLN | 0.6284 |
| USDCNY | 6.6791 | SEKPLN | 0.4379 |

*for 100HUF

| Last session in the FX market | | | | | | 17/06/2022 |
|-------------------------------|-------|-------|-------|-------|--------|------------|
| | min | max | open | close | fixing | |
| EURPLN | 4.683 | 4.718 | 4.717 | 4.690 | 4.695 | |
| USDPLN | 4.453 | 4.490 | 4.480 | 4.477 | 4.463 | |
| EURUSD | 1.044 | 1.054 | 1.053 | 1.047 | - | |

Interest rate market 17/06/2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| DS1023 (2Y) | 8.00 | 16 |
| DS0726 (5Y) | 8.29 | 17 |
| DS0432 (10Y) | 7.97 | 8 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 8.26 | 15 | 3.39 | 2 | 1.02 | -8 |
| 2L | 8.25 | 16 | 3.59 | 5 | 1.78 | -7 |
| 3L | 8.01 | 12 | 3.52 | 6 | 1.99 | -8 |
| 4L | 7.82 | 9 | 3.43 | 6 | 2.12 | -7 |
| 5L | 7.70 | 5 | 3.37 | 6 | 2.20 | -8 |
| 8L | 7.49 | 0 | 3.27 | 3 | 2.34 | -8 |
| 10L | 7.43 | -1 | 3.27 | 4 | 2.44 | -6 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 5.76 | -17 |
| T/N | 6.05 | -3 |
| SW | 6.12 | 1 |
| 2W | 6.16 | 3 |
| 1M | 6.32 | 0 |
| 3M | 6.88 | 4 |
| 6M | 7.14 | 3 |
| 1Y | 7.31 | 3 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 7.71 | 14 |
| 3x6 | 8.31 | 20 |
| 6x9 | 8.46 | 20 |
| 9x12 | 8.46 | 22 |
| 3x9 | 8.57 | 22 |
| 6x12 | 8.69 | 19 |

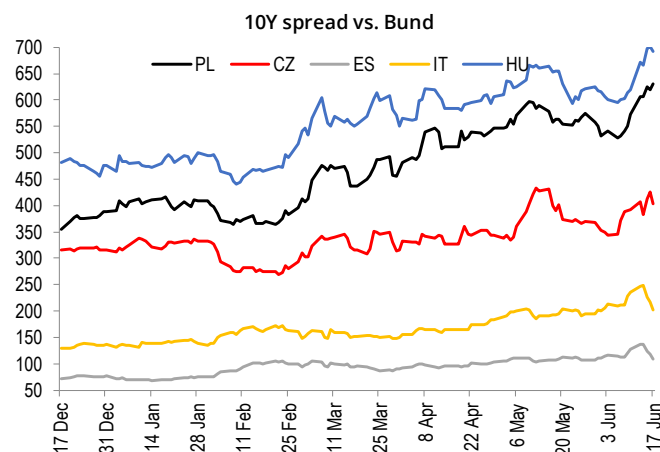
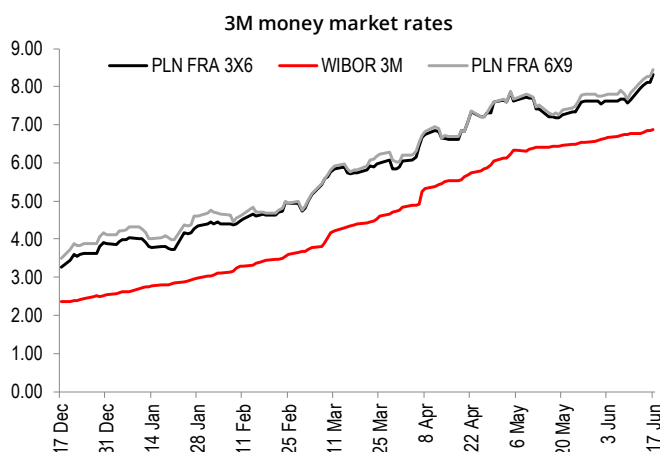
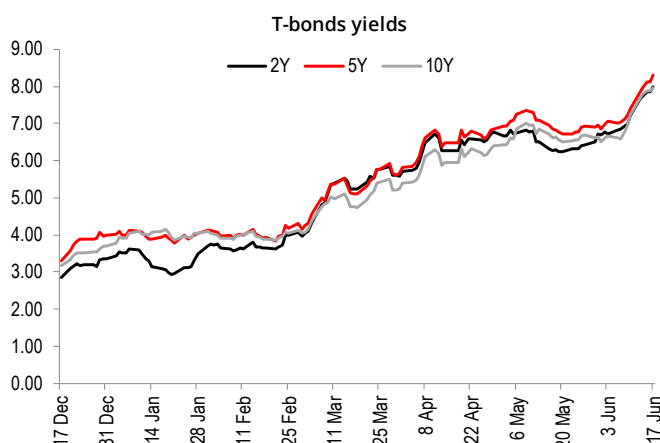
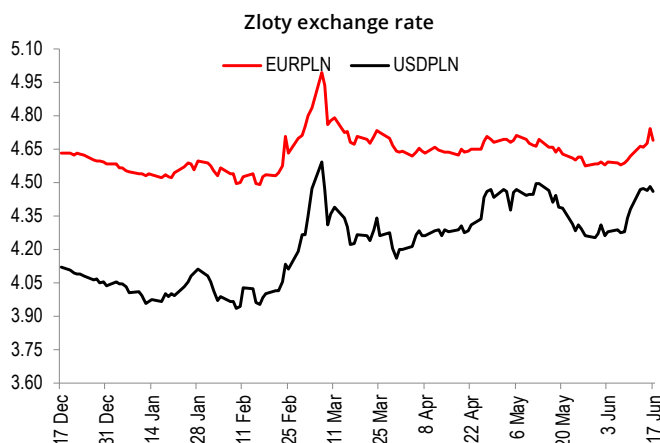
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 110 | 0 | 630 | 11 |
| France | 10 | 0 | 55 | -1 |
| Hungary | 152 | 0 | 693 | -9 |
| Spain | 58 | -8 | 110 | -9 |
| Italy | 60 | -3 | 201 | -15 |
| Portugal | 45 | -5 | 105 | -9 |
| Ireland | 13 | -1 | 66 | 4 |
| 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 (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 | 8.5 | |
| 15:15 | US | Industrial Production | May | % m/m | 0.4 | - | 0.2 | |
| MONDAY (20 Jun) | | | | | | | | |
| | US | Market holiday | | | | | | |
| TUESDAY (21 Jun) | | | | | | | | |
| 10:00 | PL | Employment in corporate sector | May | % y/y | 2.6 | 2.6 | 2.8 | |
| 10:00 | PL | Sold Industrial Output | May | % y/y | 16.7 | 17.3 | 13 | |
| 10:00 | PL | PPI | May | % y/y | 24.7 | 24.8 | 23.3 | |
| 10:00 | PL | Average Gross Wages | May | % y/y | 15.0 | 14.5 | 14.1 | |
| 16:00 | US | Existing Home Sales | May | % m/m | -3.7 | - | -2.43 | |
| WEDNESDAY (22 Jun) | | | | | | | | |
| 10:00 | PL | Construction Output | May | % y/y | 8.0 | 8.6 | 9.3 | |
| 10:00 | PL | Retail Sales Real | May | % y/y | 8.8 | 9.1 | 19 | |
| 14:30 | CZ | Central Bank Rate Decision | | % | 6.88 | - | 5.75 | |
| THURSDAY (23 Jun) | | | | | | | | |
| 09:30 | DE | Flash Manufacturing PMI | Jun | pts | 54.0 | - | 54.8 | |
| 09:30 | DE | Flash Services PMI | Jun | pts | 54.5 | - | 55 | |
| 10:00 | EZ | Flash Manufacturing PMI | Jun | pts | 53.8 | - | 54.6 | |
| 10:00 | EZ | Flash Services PMI | Jun | pts | 55.5 | - | 56.1 | |
| 14:00 | PL | Money Supply M3 | May | % y/y | 8.2 | 7.8 | 8.2 | |
| FRIDAY (24 Jun) | | | | | | | | |
| 10:00 | DE | Ifo Business Climate | Jun | pts | 92.7 | - | 93 | |
| 10:00 | PL | Unemployment Rate | May | % | 5.1 | 5.1 | 5.2 | |
| 16:00 | US | New Home Sales | May | % m/m | 0.7 | - | -16.6 | |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.