

27 June 2022

Eyeopener

Bond yields' freefall halted

Today ECB forum on central banking starts, some data releases in the USA
 US consumer inflation expectations declined, pricing of next Fed rate hikes lower
 Budget surplus widened to PLN12bn after May
 Debt market quite stable following sharp decline of yields in previous days

Today, we will get to see some US data, including durable goods orders. In the evening the ECB forum on central banking in Sintra starts, which will be the opportunity for numerous central bankers' remarks on how monetary policy should respond in the current environment. We expect the overall tone of the event to be hawkish, which on the one hand will fuel expectations for strong rate hikes in the coming months, and on the other hand may feed fears of a global recession.

The final version of the June University of Michigan survey of **US consumer sentiment** showed a slightly lower headline figure but also, which is crucial now, a retreat in 5-year inflation expectations from 3.3% to 3.1%. Meanwhile, the ECB's Mario Centeno argued that inflation expectations in the Eurozone are not de-anchoring.

The **registered unemployment rate** fell to 5.1% in May, in line with earlier estimate by the Labour Ministry. In our view, there is still some room for it to fall this year. There were 7.5% fewer job offers in May than a year earlier. The number of de-registrations from unemployment statistics due to taking up a job was also significantly lower than a year ago, by 10.6%.

Data on **new orders in Polish industry** showed total growth of 25.9% y/y with export orders up 23.2% y/y. This looks quite solid, but the data are in current prices, while the PPI inflation is now approaching 25% y/y. If we correct for the price changes then the readings looks more in line with signals from business surveys – GUS seasonally adjusted index of new orders in industry was -10.6 pts in May compared to around -6 pts in the final months before the pandemic, but in June dropped to -18.2, the lowest since July 2020.

Central budget recorded a surplus of PLN12bn after May vs. +PLN9.2bn after April. We assumed that the surplus would shrink by PLN2bn, but we were surprised by the pace of tax revenue growth. Indirect tax collection was +22.2% y/y (including VAT probably rising c.26% y/y), CIT revenues were +57.8% y/y and PIT +19.8% y/y. The liquidity cushion of the government (deposit plus current accounts) rose in May to PLN78.8bn from PLN70.1bn but in January it was PLN92.7bn. In June the government finances will be supported by the transfer of 2021 NBP profit.

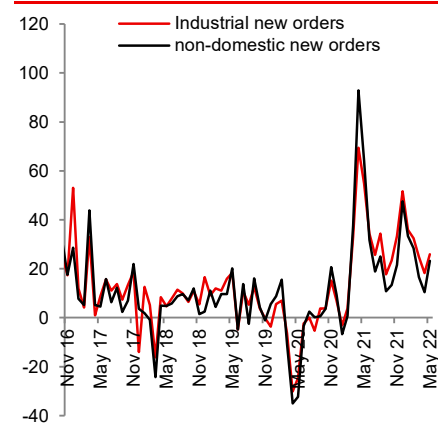
EURUSD stayed on Friday above 1.05 with a minor upward tendency, which fitted the rebound on stock markets and the rising doubts of investors about the Fed's next move: if it could hike rates in July by 50bp instead of the 75bp communicated so far.

EURPLN at the end of the week managed to fall to 4.69, being supported by weaker demand for the dollar. The scope for the PLN strengthening is, in our opinion, limited due to the contrast between NBP rhetoric and the main central banks intentions. The market close significantly below 4.70 is a positive sign for the zloty, however, we predict that the exchange rate will remain close to this level, and may even try to break higher in case of deepening of global risk aversion.

Other CEE currencies: The strengthening at the end of the day, which we saw on the PLN also took place on the CZK. EURCZK remains relatively stable despite personal changes in the CNB board, which at the beginning on July will likely lead to softening of the CNB monetary policy stance. EURHUF moved from 400 to 401 without the signs of an appreciation correction, which occurred on PLN and CZK.

Debt market: sharp declines in yields and swaps from previous sessions came to a sudden halt on Friday. The Polish bond curve shifted by 1-3bp, while the weekly change ranged from about -50 bps in the 2Y segment to nearly -100 bps in 5Y and 10Y. Core markets also calmed down. After such a large correction, we believe it is quite possible to resume the upward trend this week, especially if it is supported by the hawkish tone of the Sintra conference and higher inflation data in Europe in the following days.

Value of new orders in Polish industry, %/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.6779	CZKPLN	0.1888
USDPLN	4.4306	HUFPLN*	1.1664
EURUSD	1.0558	RUBPLN	0.0828
CHFPLN	4.6236	NOKPLN	0.4494
GBPPLN	5.4342	DKKPLN	0.6284
USDCNY	6.6867	SEKPLN	0.4374

*for 100HUF

Last session in the FX market						24/06/2022
	min	max	open	close	fixing	
EURPLN	4.686	4.716	4.699	4.689	4.709	
USDPLN	4.437	4.482	4.458	4.450	4.466	
EURUSD	1.051	1.057	1.054	1.054	-	

Interest rate market 24/06/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.48	1
DS0726 (5Y)	7.33	6
DS0432 (10Y)	7.01	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.96	13	3.28	-1	0.84	-6
2L	7.77	16	3.39	2	1.48	-5
3L	7.44	18	3.31	5	1.67	-2
4L	7.18	21	3.24	4	1.81	-2
5L	7.02	22	3.21	5	1.91	-1
8L	6.81	21	3.18	4	2.11	0
10L	6.77	18	3.20	5	2.24	1

WIBOR rates

Term	%	Change (bps)
O/N	5.85	12
T/N	6.00	0
SW	6.12	-1
2W	6.29	4
1M	6.53	4
3M	6.98	0
6M	7.28	2
1Y	7.46	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.55	12
3x6	7.88	13
6x9	8.04	14
9x12	7.99	15
3x9	8.14	18
6x12	8.23	17

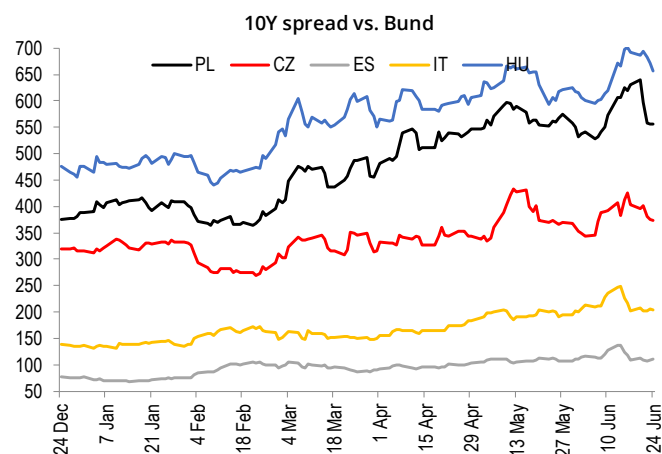
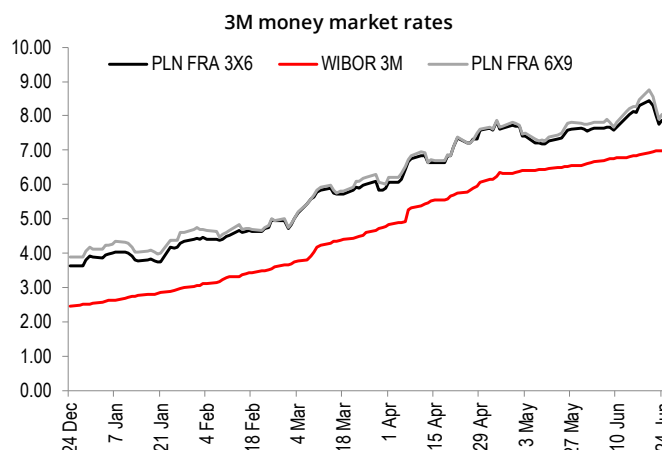
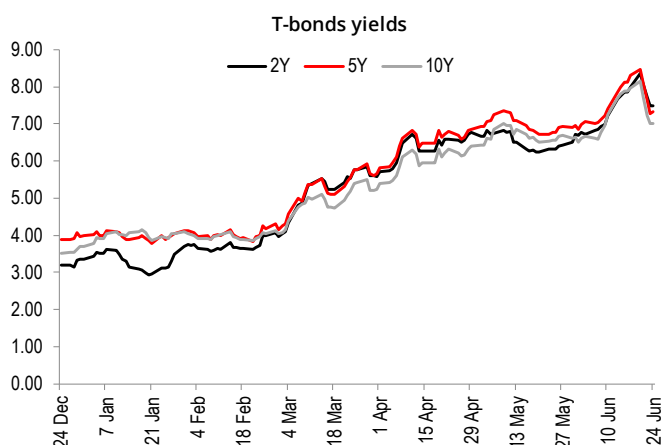
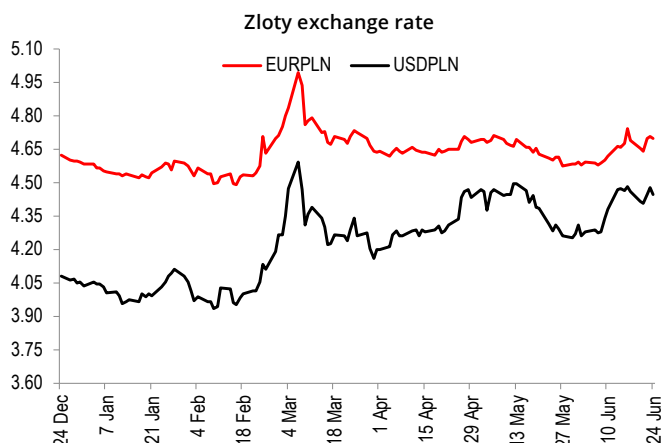
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	-2	557	1
France	12	-1	54	-1
Hungary	159	0	656	-16
Spain	58	0	111	3
Italy	65	2	204	-1
Portugal	45	0	108	2
Ireland	13	0	64	0
Germany	10	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 (24 June)								
10:00	DE	IFO Business Climate	Jun	pts	92.75	-	92.9	93.0
10:00	PL	Unemployment Rate	May	%	5.1	5.1	5.1	5.2
16:00	US	Michigan index	Jun	pts	50.2	-	50.0	50.2
16:00	US	New Home Sales	May	% m/m	-0.2	-	10.7	-12.0
MONDAY (27 June)								
14:30	US	Durable Goods Orders	May	% m/m	0.1	-	-	0.5
16:00	US	Pending Home Sales	May	% m/m	-3.5	-	-	-3.9
TUESDAY (28 June)								
14:00	HU	Central Bank Rate Decision	Jun.22	%	-	-	-	5.9
16:00	US	Consumer Conference Board	Jun	pts	100.0	-	-	106.4
WEDNESDAY (29 June)								
11:00	EZ	ESI	Jun	pct.	103.0	-	-	105.0
14:00	DE	HICP	Jun	% y/y	8.7	-	-	8.7
14:30	US	GDP Annualized	1Q	% Q/Q	-1.4	-	-	-1.5
THURSDAY (30 June)								
09:00	CZ	GDP SA	1Q	% y/y	4.8	-	-	4.8
11:00	EZ	Unemployment Rate	May	%	6.8	-	-	6.8
14:30	US	Initial Jobless Claims		k	226.0	-	-	229.0
14:30	US	Personal Spending	May	% m/m	-	-	-	0.9
14:30	US	Personal Income	May	% m/m	-	-	-	0.4
14:30	US	PCE Deflator SA	May	% m/m	0.7	-	-	0.2
FRIDAY (1 July)								
09:00	PL	Poland Manufacturing PMI	Jun	pts	48.5	47.0	-	48.5
09:30	DE	Germany Manufacturing PMI		pts	52.0	-	-	52.0
10:00	EZ	Eurozone Manufacturing PMI		pts	52.0	-	-	52.0
10:00	PL	CPI	Jun	% y/y	15.6	15.5	-	13.9
11:00	EZ	Flash HICP	Jun	% y/y	8.3	-	-	8.1
16:00	US	ISM manufacturing	Jun	pts	55.4	-	-	56.1

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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