

Eyeopener

Inflation in Europe surprising both ways

Today US PCE inflation; German inflation below forecast, Spanish well above
 ESI for Poland lower for business sectors, but did not confirm clear deterioration of
 consumer confidence shown by GUS data
 Polish zloty and Hungarian forint stronger, yield curve lower

Today, the key release is the **US PCE inflation** for June. The market is expecting a small increase from the previous level of 6.3% y/y, but not even reaching the March peak of 6.6%, while core PCE inflation is expected to fall to 4.8% y/y - this would be its third consecutive decline after peaking at 5.3% in February. We'll also get another piece of the puzzle that makes up June Eurozone inflation - the preliminary estimate for France. The pieces of the puzzle we saw yesterday did not give a clear picture yet - a surprise significant drop in German inflation (HICP from 8.7% y/y to 8.2%, CPI from 7.9% y/y to 7.6%), but an unexpected large increase in Spanish CPI inflation (from 8.7% y/y to 10.2% - i.e. a break above the March peak of 9.8% coming at a time when market started hoping that the worst had been behind us).

China's June PMIs released tonight showed a rebound above the neutral 50 point threshold, with services improving much more than expected (to 54.7) and manufacturing going up slightly less than forecast (to 50.2). In contrast, **German retail sales** for May showed a 0.6 m/m increase, slightly above forecasts.

The Eurozone's ESI for June showed more optimism in industry and services, and an increase in pessimism among consumers and in the retail sector serving them. **ESI indicators for Poland** showed a decline in all business sectors, while the consumer sentiment indicator did not confirm the severe deterioration seen in the corresponding indices provided by GUS. According to the data presented by the EC, Polish consumers were somewhat less worried in June about their financial situation and the condition of the economy, and more open to large expenditures (the major purchases index is at its highest level since January). Consumer inflation expectations, as presented in the ESI, fell slightly for the third month in a row. What is also worth noting in the ESI dataset is the lowest level of employment expectations index in about two years in manufacturing and construction, and the accompanying drop of expectations about the scale of future business activity in these sectors.

According to **Fitch ratings**, in case the EU is cut off from Russian gas supply, Poland would still have fiscal room for additional measures limiting price growth, so the sovereign rating is unlikely to be affected.

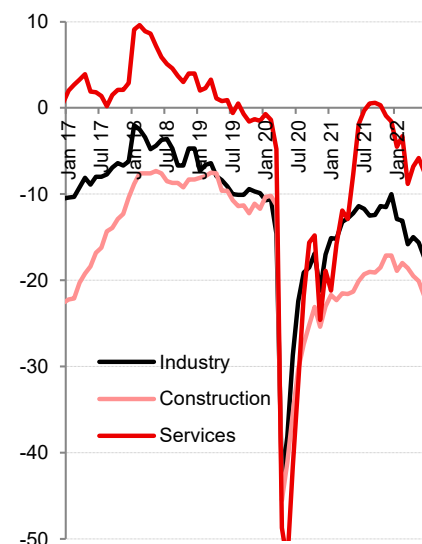
EURUSD fell below 1.05 level. The strength of the dollar was supported by weaker US data which fit into the narrative of growing stagflation risks. Final US GDP reading for 1Q proved weaker than the first releases and GDP deflator and core PCE turned higher. Common currency was also harmed by the rumours that the ECB is considering not only implementing restrictions for beneficiary countries of the new antifragmentation instrument, on which it is intensively working on, but additionally also plans implementing the limits of the maximum size of the bond purchase. The markets were afraid, that it could hinder more decisive monetary policy tightening in the Eurozone.

EURPLN fell to 4.67 from 4.69 yesterday, in line with the broader trend of strengthening emerging market currencies, despite the decline in EURUSD. The domestic market is starting to position itself for the expected high CPI reading for June to be released on Friday, betting that it may prompt the NBP to extend the rate hike cycle or its larger scale at the upcoming MPC meetings.

Other CEE currencies: EURCZK continued to stabilise near 24.73, while EURHUF dropped from around 396 to around 394. A hawkish turn in MNB policy and a surprisingly high rate hike at Tuesday's meeting pushed the forint away from its historical lows against the euro for the second day in a row. The forint appreciation was slowed down by weak global sentiment, which may at least partly reduce the effectiveness of the central bank's more aggressive policy impact on the exchange rate.

Debt market: After a few days of dynamic increases, the domestic yield curve again sought lower levels. Weaker ESI indices for business sectors, encouraged the market to at least temporarily strengthen domestic debt, especially as current NBP rate levels are clearly below both ends of the domestic curve and recessionary fears persist in global markets. If, once again, inflation surprises to the upside in June, then domestic debt could weaken again.

ESI, sectoral business sentiment indicators for Poland



Source: European Commission, Santander

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FX market

Today's opening			
EURPLN	4.6661	CZKPLN	0.1883
USDPLN	4.4582	HUFPLN*	1.1714
EURUSD	1.0460	RUBPLN	0.0844
CHFPLN	4.6714	NOKPLN	0.4505
GBPPLN	5.4202	DKKPLN	0.6270
USDCNY	6.6933	SEKPLN	0.4360

*for 100HUF

Last session in the FX market						29/06/2022
	min	max	open	close	fixing	
EURPLN	4.665	4.698	4.695	4.671	4.681	
USDPLN	4.441	4.479	4.468	4.460	4.453	
EURUSD	1.047	1.053	1.050	1.048	-	

Interest rate market 29/06/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.75	-8
DS0726 (5Y)	7.46	-12
DS0432 (10Y)	7.12	-17

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.18	-3	3.33	0	0.88	-5
2L	7.98	-5	3.37	-6	1.54	-8
3L	7.61	-8	3.26	-8	1.74	-10
4L	7.32	-11	3.20	-9	1.87	-10
5L	7.12	-12	3.17	-10	1.99	-10
8L	6.88	-10	3.14	-9	2.22	-8
10L	6.84	-11	3.16	-8	2.35	-6

WIBOR rates

Term	%	Change (bps)
O/N	6.03	27
T/N	6.09	5
SW	6.19	5
2W	6.42	6
1M	6.59	1
3M	7.05	2
6M	7.34	2
1Y	7.50	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.71	2
3x6	8.17	1
6x9	8.32	-3
9x12	8.25	-6
3x9	8.45	3
6x12	8.54	0

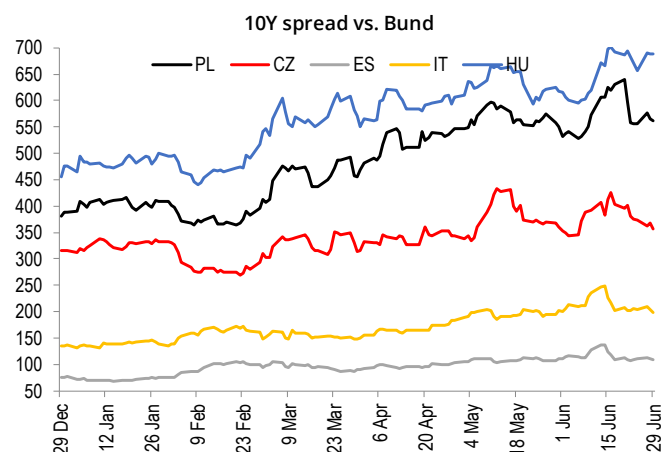
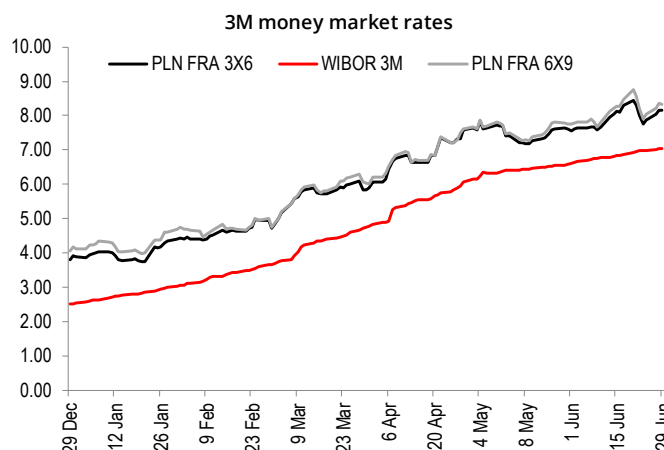
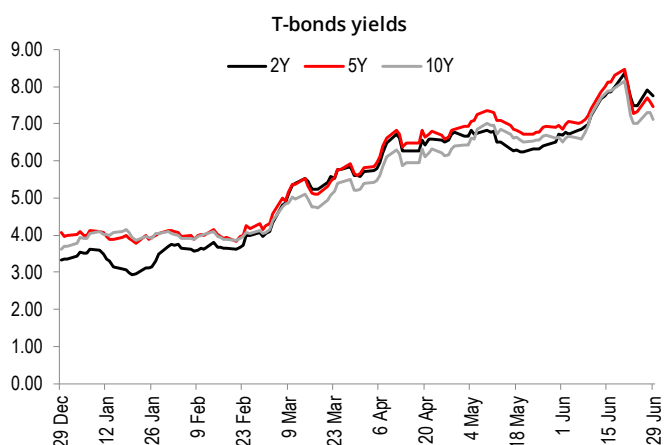
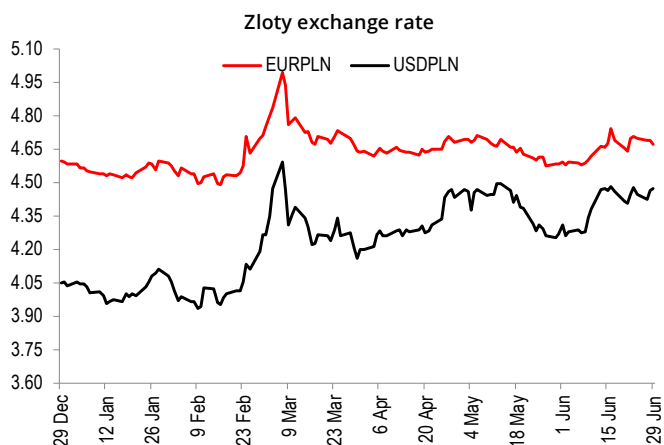
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	2	562	-4
France	12	0	55	0
Hungary	164	5	688	-1
Spain	55	0	108	-2
Italy	60	0	199	-4
Portugal	43	0	107	-1
Ireland	13	0	64	3
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	-	0.7	0.4
16:00	US	Pending Home Sales	May	% m/m	-3.5	-	0.7	-4.0
TUESDAY (28 June)								
14:00	HU	Central Bank Rate Decision	Jun.22	%	6.40	-	7.75	5.90
16:00	US	Consumer Conference Board	Jun	pts	100.0	-	98.7	106.4
WEDNESDAY (29 June)								
11:00	EZ	ESI	Jun	pct.	103.0	-	104.0	105.0
14:00	DE	HICP	Jun	% y/y	8.7	-	8.2	8.7
14:30	US	GDP Annualized	1Q	% Q/Q	-1.4	-	-1.6	-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	0.4	'	-	0.9
14:30	US	Personal Income	May	% m/m	0.5	'	-	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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