

Eyeopener

Strong decline of Polish PMI, yields followed suit

Today the local calendar is empty, holiday in the USA, German foreign trade data Polish PMI collapsed in June to 44.4 pts, flash print of CPI inflation up to 15.6% y/y EURPLN attempt to break above 4.72 after poor PMI, domestic yields fell sharply

Today's publication calendar is empty and there is a holiday in the USA. The only important publication has already been released: German exports disappointed and imports surprised to the upside. As a result, Germany recorded its first monthly trade deficit since the early 1990s. The MPC's decision on interest rates and a conference by NBP President Adam Glapiński are the main events of the week. The market will eye them in order to find clues as to the further fate of the ongoing rate hike cycle. A dovish message in the face of ever-increasing inflation, global risk aversion and a hawkish tone from banks abroad could undermine the zloty.

Euro zone HICP inflation surprised upwards again in June. The preliminary reading of the growth rate of the consumer price index rose from 8.1% y/y to 8.6% against market expectations of 8.4%. Core inflation rose to 4.6% y/y against expectations of 4.5% and vs. 4.4% previously. The rising inflation in the euro zone has been the reason for a faster end to the quantitative easing and for signals of a higher path for interest rate increases by the ECB. The Friday reading, increases the likelihood of more monetary tightening in September (for July, ECB chief Christine Lagarde has already pretty much announced a 25bp rate hike).

In June Polish CPI inflation climbed to 15.6% y/y from 13.9%, roughly in line with expectations. We estimate core inflation at 9.3-9.4% y/y. We think that CPI inflation is close to its peak, but much depends on how GUS treats the new price policies about fuel and coal. Meanwhile, core inflation is likely to climb further. The June CPI reading supports a rate hike by 75bp in July, in our view. The rate hike may be delivered in spite of the poor PMI print (a drop much below forecasts). Read more in our [Economic comment](#).

PMI slumped to 44.4pts in June from 48.5pts in May, and markedly below forecasts (market: 48.0pts, Santander: 47.0pts – the lowest forecast in the pool collected by Bloomberg). In the previous month the index also escaped much below forecasts and its decline was also at c.4pts. The index fell to the lowest level in two years. New orders and output were the main culprits behind this decline, registering almost the largest drop in the survey's history. This PMI indicator is suggesting a very strong downturn in the economic activity and we are indeed expecting the economic growth to slow down strongly in 2H22 when it comes to the y/y growth. In q/q SA terms we see a risk that already in Q2 the GDP growth could turn negative.

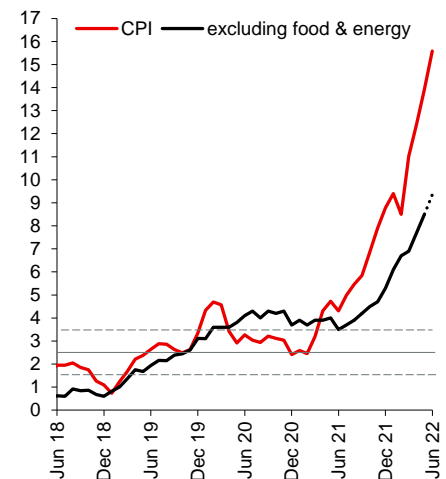
EURUSD, after a temporary upward rebound, again attempted to descend below 1.04. Everything points to the risk of a further decline in the face of the Fed's determination to lower inflation and the increasing likelihood of a series of limitations in the ECB's prepared anti-fragmentation monetary policy instrument. This does not imply a positive outlook for the zloty.

EURPLN tried to attack the 4.72 level from below after a sharp drop of the domestic manufacturing PMI. By the end of the day, the rate slipped to 4.69 (below the opening level). Despite the fall in EURUSD, the zloty's depreciation was held back by expectations of a further move by the NBP. Markets assume that in the face of steadily rising inflation and a high current account deficit, the MPC will support the zloty with an appropriate rate hike.

Other CEE currencies: EURCZK continues to fluctuate in the 24.73 - 24.75 zone. EURHUF has risen from 395 to around 400. Despite the MNB's decisive rate hike a few days ago, the forint is again heading towards its historic low. In the face of weak domestic fundamentals, more significant rate hikes are apparently needed to stabilise the Hungarian currency.

Debt market: Domestic yields and IRS rates fell sharply after a surprisingly weak domestic PMI reading. Both curves moved down by around 40bp. Rate expectations on the FRA market fell at a similar scale. The market is start to think that the NBP's priced target rate level of 8% or higher was probably too high in the face of clear signs of a slowing economy. However, elevated inflation remains a potential anchor against a stronger strengthening of the Polish debt.

CPI inflation in Poland, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening			
EURPLN	4.6860	CZKPLN	0.1891
USDPLN	4.4920	HUFPLN*	1.1632
EURUSD	1.0431	RUBPLN	0.0827
CHFPLN	4.6831	NOKPLN	0.4519
GBPPLN	5.4310	DKKPLN	0.6298
USDCNY	6.6927	SEKPLN	0.4356

*for 100HUF

Last session in the FX market						01.07.2022
	min	max	open	close	fixing	
EURPLN	4.695	4.723	4.704	4.700	4.718	
USDPLN	4.490	4.538	4.499	4.516	4.511	
EURUSD	1.037	1.047	1.045	1.041	-	

Interest rate market 01.07.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.33	-33
DS0726 (5Y)	6.92	-44
DS0432 (10Y)	6.54	-40

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.93	-21	3.20	-7	0.69	-10
2L	7.55	-30	3.09	-17	1.22	-14
3L	7.10	-34	2.93	-20	1.40	-15
4L	6.75	-36	2.88	-19	1.54	-17
5L	6.52	-39	2.89	-16	1.66	-12
8L	6.28	-37	2.92	-13	1.91	-11
10L	6.26	-37	2.94	-13	2.05	-11

WIBOR rates

Term	%	Change (bps)
O/N	6.40	43
T/N	6.42	21
SW	6.48	22
2W	6.56	11
1M	6.59	0
3M	7.05	0
6M	7.37	2
1Y	7.52	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.59	-13
3x6	7.91	-22
6x9	8.00	-26
9x12	7.84	-32
3x9	8.17	-21
6x12	8.19	-27

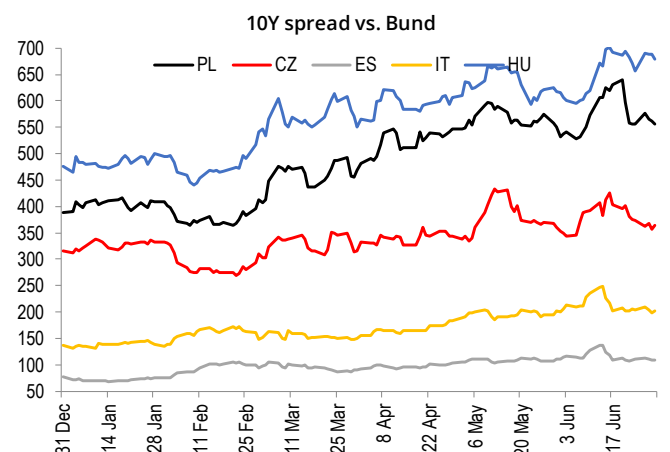
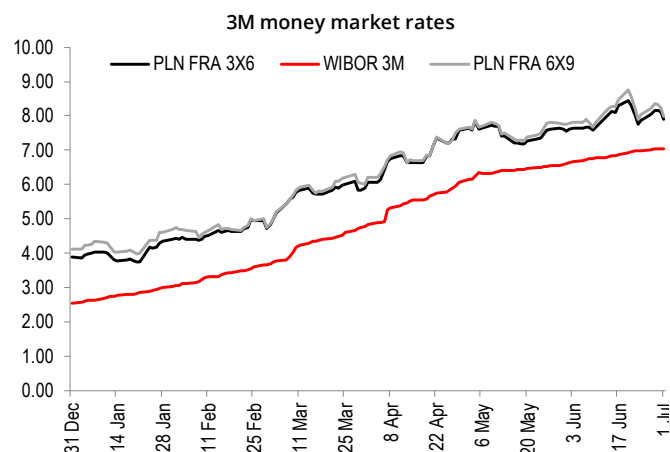
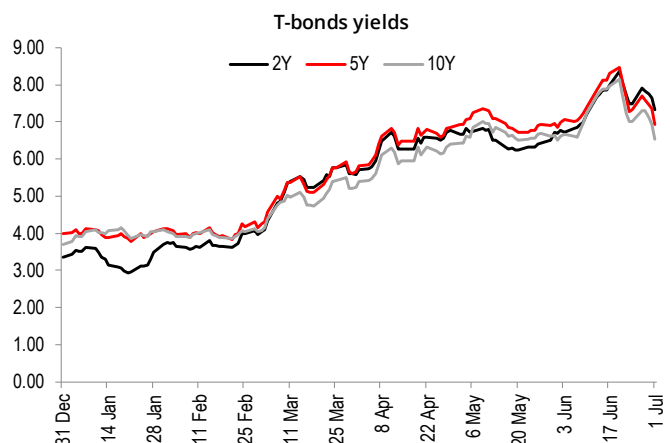
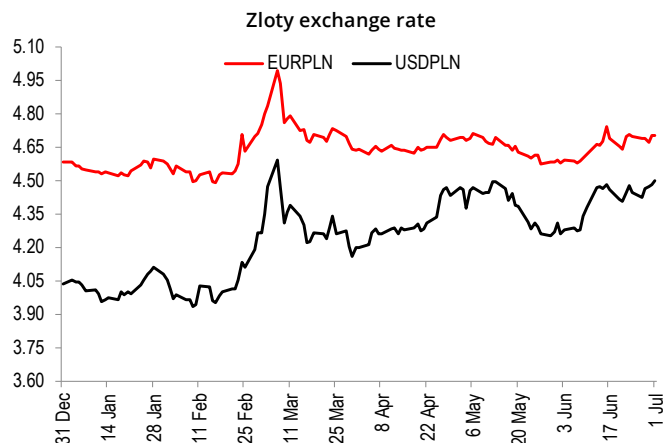
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	112	0	557	-5
France	12	0	59	4
Hungary	167	-2	679	-9
Spain	56	0	109	1
Italy	60	-2	203	4
Portugal	43	0	109	2
Ireland	13	1	64	-1
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 (1 July)								
09:00	PL	Poland Manufacturing PMI	Jun	pts	48.0	47.0	44.4	48.5
09:55	DE	Germany Manufacturing PMI	Jun	pts	52.0	-	52.0	54.8
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	52.0	-	52.1	54.6
10:00	PL	CPI	Jun	% y/y	15.5	-	15.6	13.9
11:00	EZ	Flash HICP	Jun	% y/y	8.5	-	8.6	8.1
16:00	US	ISM manufacturing	Jun	pts	54.5	-	-	56.1
MONDAY (4 July)								
08:00	DE	Exports SA	May	% m/m	0.7	-	-0.5	4.4
TUESDAY (5 July)								
03:45	CN	Caixin China PMI Services	Jun	pts	49.0	-	-	41.4
09:55	DE	Markit Germany Services PMI	Jun	pts	52.4	-	-	55.0
10:00	EZ	Eurozone Services PMI	Jun	pts	52.8	-	-	56.1
16:00	US	Durable Goods Orders	May	% m/m	0.7	-	-	0.4
16:00	US	Factory Orders	May	% m/m	0.5	-	-	0.3
WEDNESDAY (6 July)								
08:00	DE	Factory Orders	May	% m/m	-0.5	-	-	-2.7
09:00	HU	Industrial Production SA	May	% y/y	2.6	-	-	4.7
11:00	EZ	Retail Sales	May	% m/m	0.4	-	-	-1.3
16:00	US	ISM services	Jun	pts	54.5	-	-	55.9
20:00	US	FOMC Meeting Minutes	Jun.22					
THURSDAY (7 July)								
	PL	MPC decision		%	6.75	6.75	-	6.00
08:00	DE	Industrial Production SA	May	% m/m	0.3	-	-	0.7
09:00	CZ	Industrial Production	May	% y/y	2.5	-	-	-6.4
14:30	US	Initial Jobless Claims		k	230	-	-	231
FRIDAY (8 July)								
09:00	HU	CPI	Jun	% y/y	11.6	-	-	10.7
14:30	US	Change in Nonfarm Payrolls	Jun	k	275	-	-	390
14:30	US	Unemployment Rate	Jun	%	3.6	-	-	3.6

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

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