

## Eyeopener

### Today Polish inflation and balance of payments

Today April CPI and March balance of payments are due in Poland  
Michigan index: sentiment down sharply, inflation expectations up  
Minor changes on FX and interest rate markets, a correction may occur this week

Important domestic releases **today**: full data on April inflation and March balance of payments. The preliminary CPI reading showed a fall to 14.7% y/y, mainly due to high base effects, lower fuel prices and a modest rise in food prices. However, it appears that price momentum in other categories remains strong, and the main measure of core inflation (CPI excluding food and energy) again rose by more than 1% m/m. However, its annual growth rate may have already slipped slightly (12.1% y/y), for the first time in almost two years. Abroad we will get to see euro zone industrial output. The European Commission is to release its new economic forecasts. The first round of presidential election in Turkey apparently did not produce a winner, so the second round will be held of 28 May. After partial count, the current president Erdogan is leading, contrary to recent polls.

The **PiS (ruling party) weekend convention** announced, among other things, an increase in the 500+ child benefit to PLN800, an extension of the free medicines programme and the abolition of tolls on state motorways. Out of these, only the latter is to be implemented before the autumn elections, so the effect will be negligible in the short term. The other two, according to us, cost about PLN27-28bn (0.7% of next year's expected GDP), and these are planned to be introduced in 2024, stimulating the domestic demand but also making it more difficult to fight inflation.

Michigan index of **US consumer sentiment** fell sharply in May to 57.7pts from 63.5pts a month earlier. In particular, the current index fell sharply, although the expectations index also declined. Inflation expectations fell less than forecast, and the long-term index even rose. The fall in the Michigan index could signal a weaker performance of private consumption in the US in the coming quarters.

**Joachim Nagel of the ECB** said that inflation in the euro area is still high and the ECB wants to be sure that the inflationary wave will die down. In his view, the recent rate hike in the euro area was not the last one. According to **Michelle Bowman of the Fed board**, the troubles of the US banking system are raising uncertainty about economic growth, but inflation remains too high and there is no convincing evidence that it has entered a downward path, so further rate hikes in the US are likely.

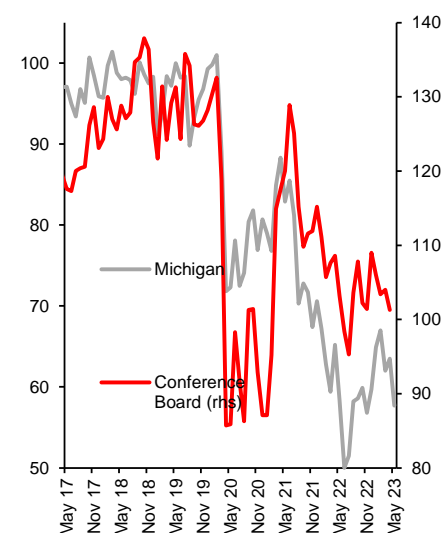
According to the **minutes from MPC's April meeting**, some members expressed view that the scale of rate increases so far had been insufficient (probably L. Kotecki, P. Litwiniuk, J. Tyrowicz). Some central bankers pointed to the greater-than-expected persistence of inflation. However, the majority of members assessed that price dynamics would continue to decline, supported by a weaker global economy, falling consumption and a decline in corporate inflation expectations. We expect interest rates to remain in place this year.

**EURUSD** The dollar gained slightly against the euro to 1.085 in the face of hawkish comments from the Fed, and possibly on the back of concerns about the US debt limit. This time market was less concerned about the drop in US consumer sentiment and reacted to a rise in their long-term inflation expectations, which may limit market's expectations for Fed rate cuts as soon as this year, which is also in line with our assumptions.

**CEE currencies**: After a weaker opening, the zloty gained ground and was once again the best-performing currency in the region at the end of the week with the forint and Czech koruna weakening to larger extent than PLN negatively impacted by the strengthening dollar. The koruna was also negatively affected by the decline in rate cuts expectations following a deeper fall in inflation and the prospect of fiscal consolidation (planned tax increases and subsidy cuts set to reduce fiscal deficit to 2% of GDP). Forint and the zloty have recently performed better as currencies with higher sensitivity to changing risk appetite. Consequently, this may reverse in case of materialization of risk triggers like breaching US debt limit deadline or locally for PLN in case of CJEU ruling on Swiss mortgage loans if the bill limiting bank losses signalled by the financial regulator is delayed.

**Interest rate market**: The end of the week was marked by increases in yields in the core markets, helped by, among other things, the inflationary elements of the Michigan report and statements by Fed members. Domestic curves remained almost unchanged. Bond yields remain close to this year's local minima. Their further declines may be counteracted for the time being by the not very dovish message from the conference of the NBP Governor or a correction in core markets, while a decline in core inflation and a lower GDP reading may not be enough to push yields much lower in the short term.

#### US leading indicators, pts



Source: Refinitiv, Santander

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**FX market**

**Today's opening**

EURPLN	4.5005	CZKPLN	0.1907
USDPLN	4.1404	HUFPLN*	1.2091
EURUSD	1.0872	RUBPLN	0.0529
CHFPLN	4.6249	NOKPLN	0.3889
GBPPLN	5.1786	DKKPLN	0.6053
USDCNY	6.9513	SEKPLN	0.3996

\*for 100HUF

**Last session in the FX market 12.05.2023**

	min	max	open	close	fixing
EURPLN	4.5142	4.5466	4.5390	4.5197	4.5444
USDPLN	4.1453	4.1694	4.1551	4.1632	4.1638
EURUSD	1.0853	1.0935	1.0924	1.0854	-

**Interest rate market 12.05.2023**

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.74	-10
WS0428 (5Y)	5.70	-2
DS1033 (10Y)	5.74	-2

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.74	1	4.96	7	3.66	3
2L	6.15	1	4.18	10	3.39	5
3L	5.63	2	3.79	9	3.14	5
4L	5.37	1	3.60	9	3.02	5
5L	5.24	2	3.51	8	2.96	5
8L	5.18	1	3.43	8	2.92	5
10L	5.21	0	3.45	8	2.94	4

**WIBOR rates**

Term	%	Change (bps)
O/N	6.79	-17
T/N	6.82	0
SW	6.84	0
2W	6.82	-3
1M	6.86	0
3M	6.90	0
6M	6.95	0
1Y	7.06	0

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	6.86	1
3x6	6.80	0
6x9	6.47	0
9x12	6.06	-4
3x9	6.82	1
6x12	6.45	0

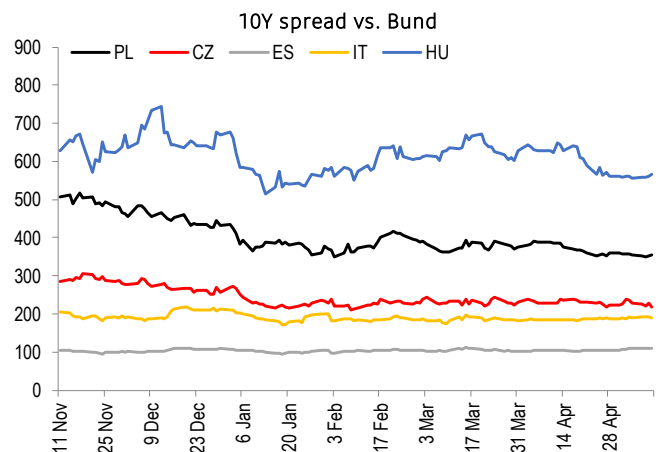
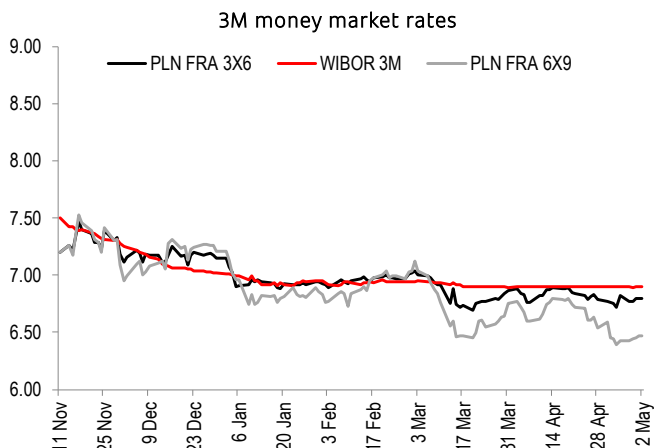
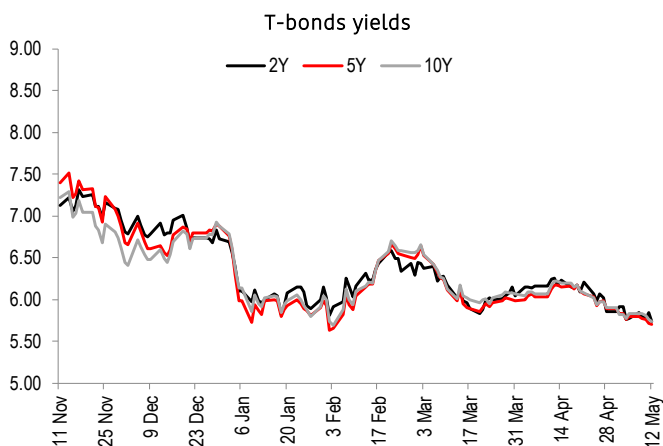
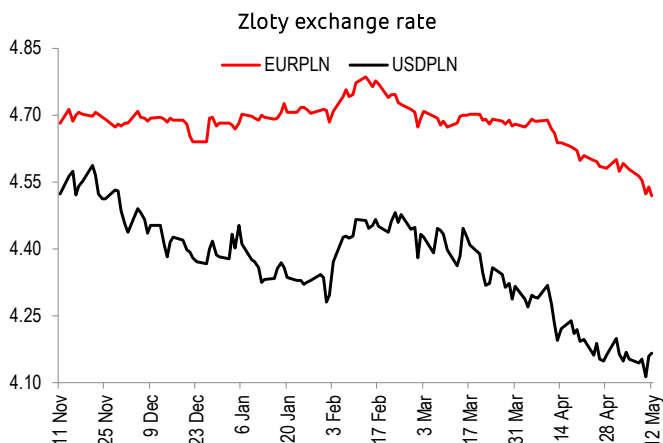
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	92	0	354	3
France	15	0	58	0
Hungary	172	0	566	4
Spain	54	0	109	0
Italy	49	0	190	-2
Portugal	41	0	84	-1
Ireland	20	0	47	1
Germany	11	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



## Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
<b>FRIDAY (12 May)</b>							
16:00	US	Michigan index	May	pts	63.0	57.7	63.5
<b>MONDAY (15 May)</b>							
10:00	PL	CPI	Apr	% y/y	14.7	14.7	-
11:00	EZ	Industrial Production SA	Mar	% m/m	-1.3	-	1.5
14:00	PL	Current Account Balance	Mar	€mn	2465	3014	-
14:00	PL	Trade Balance	Mar	€mn	1401	1407	-
14:00	PL	Exports	Mar	€mn	28595	28064	-
14:00	PL	Imports	Mar	€mn	27322	26657	-
<b>TUESDAY (16 May)</b>							
08:30	HU	GDP	1Q	% y/y	-1.1	-	0.4
10:00	PL	GDP	1Q	% y/y	-0.9	-1.5	2.0
11:00	EZ	GDP SA	1Q	% y/y	1.3	-	1.3
11:00	DE	ZEW Survey Current Situation	May	pts	-38.0	-	-32.5
14:00	PL	CPI Core	Apr	% y/y	12.2	12.1	-
14:30	US	Retail Sales Advance	Apr	% m/m	0.7	-	-0.6
15:15	US	Industrial Production	Apr	% m/m	0.0	-	0.4
<b>WEDNESDAY (17 May)</b>							
11:00	EZ	HICP	Apr	% y/y	7.0	-	7.0
14:30	US	Housing Starts	Apr	% m/m	-1.4	-	-0.8
<b>THURSDAY (18 May)</b>							
14:30	US	Initial Jobless Claims		k	245	-	264
16:00	US	Existing Home Sales	Apr	% m/m	-3.3	-	-2.4
<b>FRIDAY (19 May)</b>							
No major events and releases							

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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