

29 May 2023

## Eyeopener

### Preliminary US debt limit deal

Today is holiday in the US and the UK  
 An agreement over US debt ceiling, strong US data, high PCE inflation  
 PLN weakness, EURUSD down  
 Polish bond yields up significantly

**Today's** publication calendar is empty, with the US and UK markets inactive due to the day off. Domestically, it remains to wait for the important data coming later this week: preliminary inflation for May, GDP details and the May PMI. The results of the election in Turkey, after counting almost all the votes, show a victory for the incumbent president, which has caused plenty of lira volatility (Erdogan's opponent was seen as pro-Western).

An agreement was reached to extend the US debt limit by USD1.5trn for 2 years. Also, the date when the current **US debt ceiling** could be reached moved to 5 June after recent securities issues, leaving a bit more time for formal approval of the deal. The House vote over the agreement is expected to take place on Wednesday and the Senate vote on Friday or over the weekend.

**NBP President Adam Glapiński** said that further decisions on interest rates will depend on inflation and the economic data. He hopes that the disinflation process will continue and very soon, in 4Q23, rate cuts will be possible, as soon as the Council gets confident that inflation is falling towards the target. **MPC's Gabriela Mastowska** sees chances of CPI below 10% y/y at the end of the year, but for the time being thinks it is too early to talk about a rate cut. We assume no conditions for rate cuts this year given the good GDP data for 1Q, our expected scenario of a gradual recovery in private consumption supported by improvements in real wages, a still good labour market situation and an improvement in the German economy, as well as the fiscal impulse related to the elections.

**Friday's data from the US** showed a higher-than-expected increase in consumer spending in April (0.8% m/m), a higher increase in the Michigan consumer sentiment index (59.2 points vs. 58 points expected) and a stronger increase in durable goods orders for April (1.1% m/m vs. -1% m/m expected). In contrast, Cleveland Fed head L. Mester said that anything is possible when it comes to the June meeting. Inflation remains stubbornly too high and the latest data suggests that the Fed should tighten monetary policy a little more. We maintain our view that the Fed will not choose to cut rates this year, and that a hike is possible at the upcoming meeting.

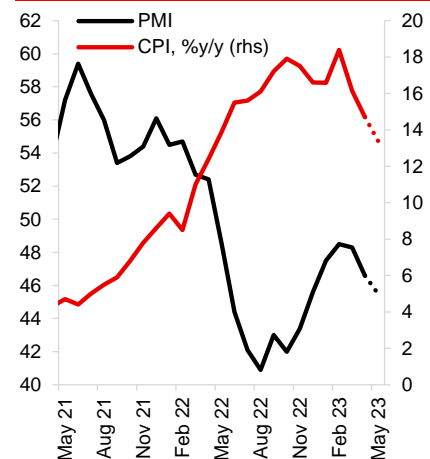
**ECB** Council member G. Makhlouf said he believed interest rates would be raised in June and would not be surprised if they were also raised in July. K. Knot warned that inflation would not go away, especially in the services sector. ECB chief economist P. Lane said that he expects a gradual decline in food inflation and that eventually the significant decline in energy prices will translate into a decline in core inflation, although the time horizon remains uncertain. In his view, there is still upside risk to nominal wage dynamics. In our view, interest rates may be raised at upcoming ECB meetings and are unlikely to fall until around 2H24.

**EURUSD** tested the 1.07 level again, in reaction to solid US data. We have been assuming a descent of EURUSD toward current levels and we do not rule out that the dollar may continue to strengthen further for some time, but in a 6-12M horizon the EURUSD should be already higher than now.

**CEE currencies:** the region's currencies depreciated slightly, with the zloty standing out negatively. The EURPLN exchange rate increased by c. 1% to c. 4.54. News on the risk of a higher budget deficit may have also contributed to the weakening of the CZK. We believe that the coming weeks may bring an upward correction of EURPLN. We assume that the improvement in the current account has slowed down and the data for the next months may show a weaker trade balance. In addition, the deadline for the CJEU ruling is approaching (15 June), and a stronger dollar against the euro is also working against EM currencies. Moreover, a weaker koruna may be accepted by the CNB in view of the expected decline in inflation and fiscal consolidation plans.

**Interest rate market:** Strong US data translated into a further rise in US Treasuries yields and a flattening of the curve. The rise in Bund yields was somewhat smaller. In the domestic rate market, the swap curve rose slightly. We think that markets abroad have already largely priced in our expected scenario of modest hikes and no rate cuts until around 2H24 in the euro area, or no rate cuts in the US this year, which may limit the room for rate increases in the core markets. Conversely, a drop in domestic inflation for May, weak PMIs or recent dovish comments from the NBP president may support the short end of the local curve. At the longer end, we assume a widening of asset swap spreads due to the prospect of electoral fiscal stimulus and the approaching CJEU decision.

#### Inflation and manufacturing PMI



Source: GUS, S&P Global, Santander

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**FX market**

**Today's opening**

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.5200 | CZKPLN  | 0.1906 |
| USDPLN | 4.2114 | HUFPLN* | 1.2095 |
| EURUSD | 1.0730 | RUBPLN  | 0.0526 |
| CHFPLN | 4.6546 | NOKPLN  | 0.3796 |
| GBPPLN | 5.2118 | DKKPLN  | 0.6067 |
| USDCNY | 7.0693 | SEKPLN  | 0.3893 |

\*for 100HUF

**Last session in the FX market** 26.05.2023

|        | min    | max    | open   | close  | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4.4940 | 4.5420 | 4.5037 | 4.5269 | 4.5242 |
| USDPLN | 4.1876 | 4.2338 | 4.1926 | 4.2246 | 4.2156 |
| EURUSD | 1.0700 | 1.0758 | 1.0740 | 1.0710 | -      |

**Interest rate market** 26.05.2023

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

| Benchmark (term) | %    | Change (bps) |
|------------------|------|--------------|
| PS1024 (2Y)      | 6.05 | -12          |
| WS0428 (5Y)      | 6.11 | 0            |
| DS1033 (10Y)     | 6.17 | 0            |

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

| Term | PL   |              | US   |              | EZ   |              |
|------|------|--------------|------|--------------|------|--------------|
|      | %    | Change (bps) | %    | Change (bps) | %    | Change (bps) |
| 1L   | 6.80 | -1           | 5.41 | 2            | 3.84 | -1           |
| 2L   | 6.34 | -1           | 4.75 | 4            | 3.72 | 2            |
| 3L   | 5.87 | -1           | 4.34 | 2            | 3.50 | 3            |
| 4L   | 5.65 | 0            | 4.13 | 4            | 3.36 | 2            |
| 5L   | 5.54 | -1           | 4.01 | 3            | 3.27 | 2            |
| 8L   | 5.51 | 4            | 3.85 | 0            | 3.18 | 1            |
| 10L  | 5.54 | 3            | 3.82 | -1           | 3.18 | 1            |

**WIBOR rates**

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 6.54 | -3           |
| T/N  | 6.80 | -2           |
| SW   | 6.84 | 0            |
| 2W   | 6.84 | -1           |
| 1M   | 6.82 | -3           |
| 3M   | 6.90 | 0            |
| 6M   | 6.95 | 0            |
| 1Y   | 7.06 | 0            |

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

| Term | %    | Change (bps) |
|------|------|--------------|
| 1x4  | 6.88 | -1           |
| 3x6  | 6.85 | -1           |
| 6x9  | 6.50 | -3           |
| 9x12 | 6.23 | -3           |
| 3x9  | 6.88 | -3           |
| 6x12 | 6.51 | -2           |

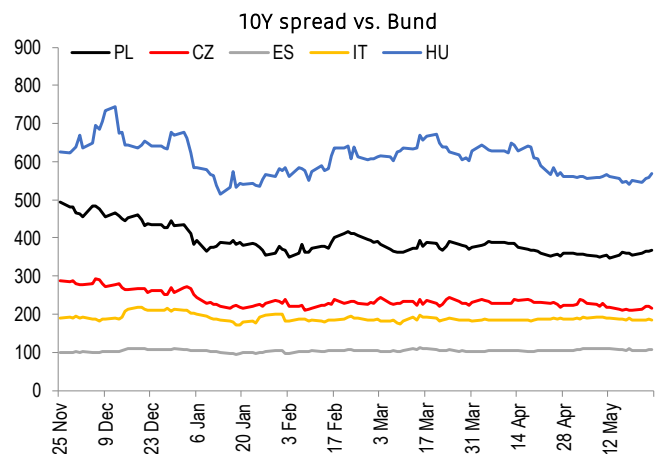
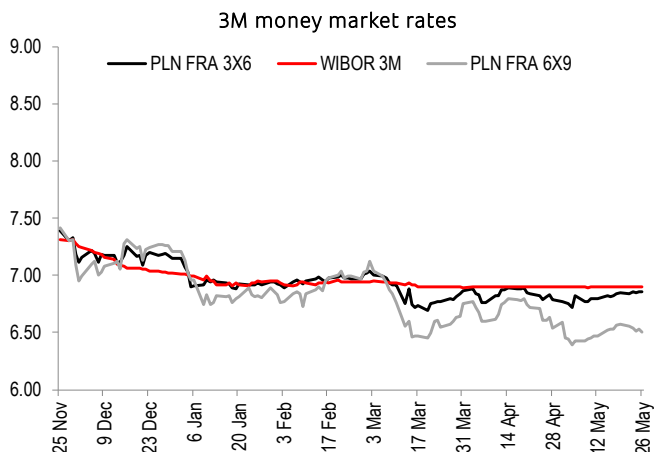
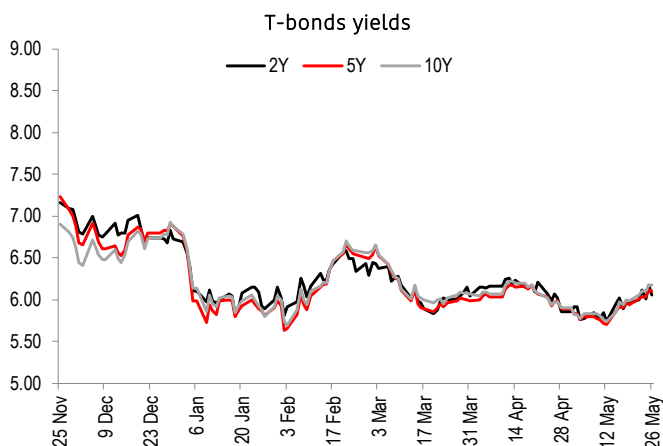
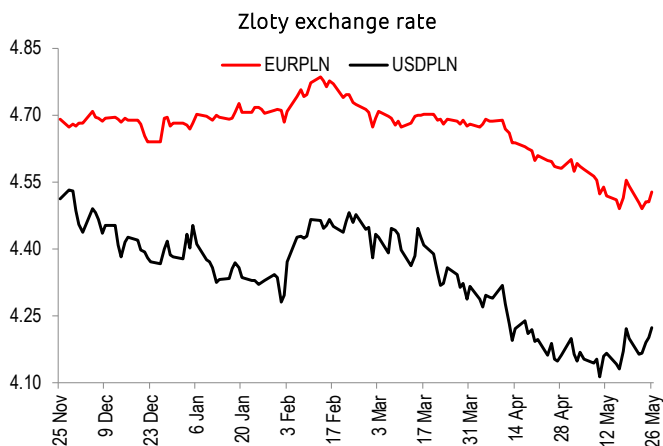
**Measures of fiscal risk**

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   | 81         | 0            | 368         | 3            |
| France   | 13         | 0            | 59          | 0            |
| Hungary  | 177        | 0            | 568         | 9            |
| Spain    | 53         | 0            | 107         | 0            |
| Italy    | 46         | 0            | 186         | -1           |
| Portugal | 40         | 0            | 76          | -2           |
| Ireland  | 18         | 0            | 45          | 2            |
| 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



## Calendar of events and publications

| TIME<br>CET                    | COUNTRY   | INDICATOR                       | PERIOD     | FORECAST     |             | ACTUAL<br>VALUE | LAST<br>VALUE* |
|--------------------------------|-----------|---------------------------------|------------|--------------|-------------|-----------------|----------------|
|                                |           |                                 |            | MARKET       | SANTANDER   |                 |                |
| <b>FRIDAY (26 May)</b>         |           |                                 |            |              |             |                 |                |
| 14:30                          | US        | Durable Goods Orders            | Apr        | % m/m        | -1.0        | 1.1             | 3.3            |
| 14:30                          | US        | Personal Spending               | Apr        | % m/m        | 0.5         | 0.8             | 0.1            |
| 14:30                          | US        | Personal Income                 | Apr        | % m/m        | 0.4         | 0.4             | 0.3            |
| 14:30                          | US        | PCE Deflator SA                 | Apr        | % m/m        | 0.3         | 0.4             | 0.1            |
| 16:00                          | US        | Michigan index                  | May        | pts          | 58.0        | 59.2            | 57.7           |
| <b>MONDAY (29 May)</b>         |           |                                 |            |              |             |                 |                |
| No key data releases or events |           |                                 |            |              |             |                 |                |
| <b>TUESDAY (30 May)</b>        |           |                                 |            |              |             |                 |                |
| 09:00                          | CZ        | GDP SA                          | 1Q         | % y/y        | -0.2        | -               | 0.3            |
| 11:00                          | EZ        | ESI                             | May        | pct.         | 99.0        | -               | 99.3           |
| 16:00                          | US        | Consumer Conference Board       | May        | pts          | 99.9        | -               | 101.3          |
| <b>WEDNESDAY (31 May)</b>      |           |                                 |            |              |             |                 |                |
| <b>10:00</b>                   | <b>PL</b> | <b>CPI</b>                      | <b>May</b> | <b>% y/y</b> | <b>13.4</b> | <b>13.4</b>     | <b>-</b>       |
| <b>10:00</b>                   | <b>PL</b> | <b>GDP</b>                      | <b>1Q</b>  | <b>% y/y</b> | <b>-0.2</b> | <b>-</b>        | <b>2.3</b>     |
| 14:00                          | DE        | HICP                            | May        | % m/m        | 0.3         | -               | 0.6            |
| <b>THURSDAY (1 June)</b>       |           |                                 |            |              |             |                 |                |
| 08:30                          | HU        | GDP                             | 1Q         | % y/y        | -0.9        | -               | 0.4            |
| <b>09:00</b>                   | <b>PL</b> | <b>Poland Manufacturing PMI</b> | <b>May</b> | <b>pts</b>   | <b>46.0</b> | <b>45.5</b>     | <b>-</b>       |
| 09:55                          | DE        | Germany Manufacturing PMI       | May        | pts          | 42.9        | -               | 44.5           |
| 10:00                          | EZ        | Eurozone Manufacturing PMI      | May        | pts          | 44.6        | -               | 45.8           |
| 11:00                          | EZ        | Flash HICP                      | May        | % y/y        | 6.4         | -               | 7.0            |
| 11:00                          | EZ        | Unemployment Rate               | Apr        | %            | 6.5         | -               | 6.5            |
| 14:15                          | US        | ADP report                      | May        | k            | 160         | -               | 296            |
| 14:30                          | US        | Initial Jobless Claims          | May.23     | k            | 245         | -               | 229            |
| 16:00                          | US        | ISM manufacturing               | May        | pts          | 47.0        | -               | 47.1           |
| <b>FRIDAY (2 June)</b>         |           |                                 |            |              |             |                 |                |
| 14:30                          | US        | Change in Nonfarm Payrolls      | May        | k            | 180         | -               | 253.0          |
| 14:30                          | US        | Unemployment Rate               | May        | %            | 3.5         | -               | 3.4            |

Source: Santander Bank Polska, Bloomberg, Parkiet

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

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