

30 May 2023

# Eyeopener

## Awaiting the fall of inflation

Today ESI indicators, Spanish CPI and Czech GDP  
 EURUSD tested 1.07 again, with minimal move of the złoty  
 Significant drop of European yields despite no trade in US and UK

**Today** US and UK investors will return to the markets, so more activity and reaction to the outcome of the debt limit negotiations can be expected. Further declines in European bond yields may be influenced by an expected deterioration in the Eurozone Economic Sentiment Index (ESI) and the Conference Board consumer sentiment index in the US. Also Spanish inflation data (expected to fall to 3.6% y/y from 4.1%) are scheduled for release today which will kick off a series of inflation releases ahead of Thursday's preliminary May HICP inflation data for the euro area. In the region, we will get to see the breakdown of 1Q GDP data in the Czech Republic.

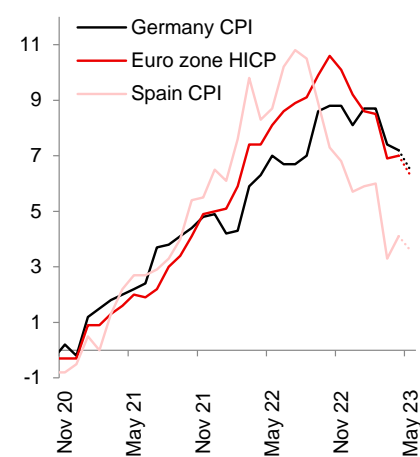
**Ludwik Kotecki**, one of the MPC's biggest hawks, said that there is no room for interest rate cuts in 2023, and possibly also in 2024 since the inflation projection does not assume reaching the target even in 2025 while maintaining the current level of rates. At the same time, in his view, the last projection was based on the incorrect assumption of the anti-inflation shield on food (0% VAT) being in place until the end of 2025. According to Kotecki, inflation will fall to 13% in May. While **Gabriela Mastowska** suggested that it was not yet time to talk about rate cuts, she also added that the likely decline in inflationary pressures and the prospect of CPI below 10% by the end of this year would open the way for cuts. She added that it is worth minimising the economic cost of getting inflation to target, so that the unemployment rate does not return to very high levels. The moderately dovish MPC member pointed to the anti-inflationary nature of the strengthening of the złoty in recent months. We assume that the decline in inflation will continue, but relatively slowly (year-end CPI% y/y forecast above 10%). The ex ante real rate (the current central bank rate minus the median inflation forecast for the year ahead according to Bloomberg) is currently close to zero and remains the lowest in the region, but will gradually rise in the coming months. However, with the unemployment rate remaining below neutral and labour market data surprisingly positive we think that rate cuts may not start until around mid-2024.

With low activity in the markets after a weaker opening for the dollar, **EURUSD** tested the 1.07 level again, without a significant reaction to Spanish early elections call (23 July). If the US market reacts with a rise in yields to the debt agreement and the spread to German yields widens, EURUSD decline could eventually overcome 1.07. The dollar could potentially strengthen even toward 1.05, although these would already be levels marking a EURUSD bottom in our view. We forecast that in the 6-12M timeframe EURUSD should already be back above the present level.

**EURPLN** saw minimal changes, as did the Czech koruna with a slight weakening of the forint, with no significant reaction to the weakening of the lira following Erdogan's win in Turkey. We see potential for the złoty to weaken in the coming weeks toward 4.55-58 (or even higher in case of high market anxiety ahead of the mid-June CJEU verdict) with forecast of 4.67 for end-2023, which would translate into an upward movement of USDPLN to around 4.28 by the end of the year.

Yesterday was marked by falling yields in both core and the domestic **debt market**. In the US, the market was inactive and, of the core markets, declines were most pronounced in long-term German bond yields by around 10bp and least pronounced in the recently heavily discounted UK bonds. European yields fell in anticipation of this week's inflation data, which is likely to show sizable declines. Domestically, short-term swap rates fell (1-3 bp) and to a slightly larger extent bond yields (4-6 bp) with fairly stable levels on the FRA curve. We think that a further decline in domestic rates is not ruled out in anticipation of falling domestic inflation and a low PMI reading. US debt, on the other hand, should behave weaker than European debt in reaction to the debt limit agreement.

Inflation in Europe, %y/y, with May'23 market expectations



Source: Bloomberg, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 691 393 119  
**Cezary Chrapek, CFA** +48 887 842 480  
**Marcin Luźniński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

**FX market**

**Today's opening**

EURPLN	4.5182	CZKPLN	0.1904
USDPLN	4.2280	HUFPLN*	1.2039
EURUSD	1.0685	RUBPLN	0.0521
CHFPLN	4.6648	NOKPLN	0.3789
GBPPLN	5.2128	DKKPLN	0.6065
USDCNY	7.0972	SEKPLN	0.3894

\*for 100HUF

**Last session in the FX market 29.05.2023**

	min	max	open	close	fixing
EURPLN	4.5105	4.5291	4.5272	4.5204	4.5242
USDPLN	4.1980	4.2275	4.2182	4.2193	4.2156
EURUSD	1.0704	1.0743	1.0734	1.0712	-

**Interest rate market 29.05.2023**

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

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.99	-6
WS0428 (5Y)	6.01	-9
DS1033 (10Y)	6.07	-10

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.78	-2	5.41	0	3.83	-1
2L	6.31	-3	4.75	0	3.67	-5
3L	5.86	-1	4.35	2	3.44	-6
4L	5.64	-1	4.14	0	3.28	-7
5L	5.54	-1	4.01	0	3.19	-8
8L	5.46	-5	3.85	0	3.09	-9
10L	5.51	-4	3.82	0	3.08	-10

**WIBOR rates**

Term	%	Change (bps)
O/N	6.47	-7
T/N	6.80	0
SW	6.83	-1
2W	6.83	-1
1M	6.84	2
3M	6.90	0
6M	6.95	0
1Y	7.06	0

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

Term	%	Change (bps)
1x4	6.87	-1
3x6	6.82	-3
6x9	6.48	-2
9x12	6.21	-2
3x9	6.85	-3
6x12	6.51	0

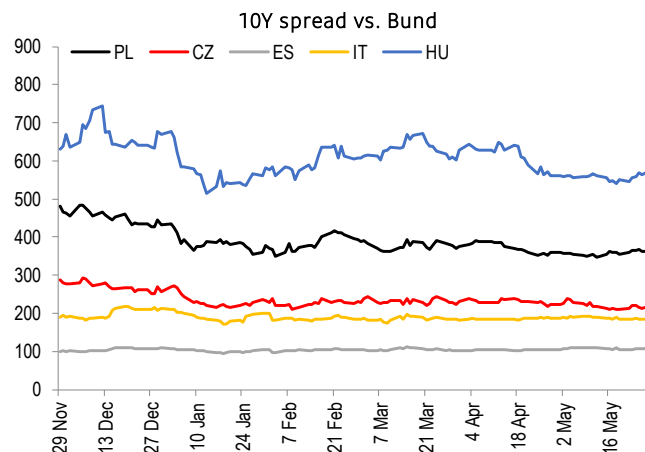
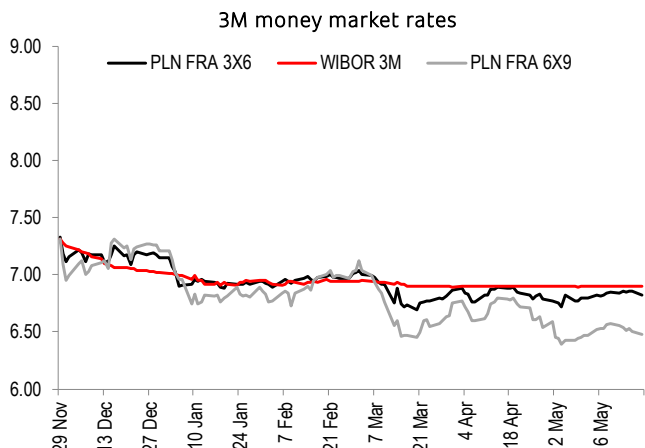
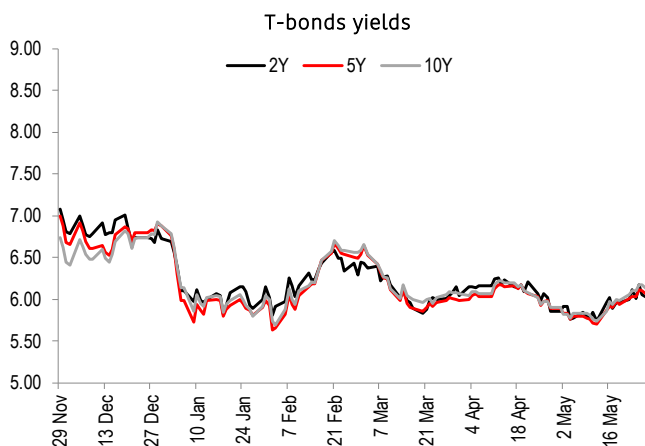
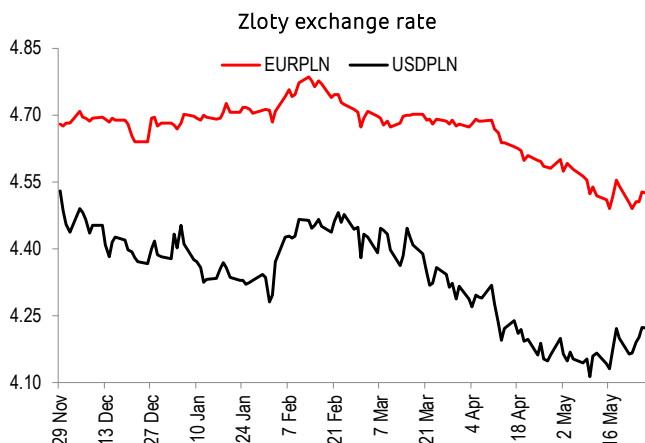
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	79	0	364	0
France	14	0	57	-1
Hungary	177	0	576	11
Spain	53	0	106	0
Italy	46	0	185	-1
Portugal	40	0	74	-1
Ireland	19	0	43	0
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 (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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.