

Eyeopener

Deeper drop of inflation, domestic demand weakness

Today manufacturing PMIs and ISM, US labour market data, euro zone inflation
 Polish May CPI lower than expected, GDP structure showed a collapse of domestic demand
 Further significant declines in bond yields and IRS rates
 CEE currencies a bit weaker vs. the euro amid lower EURUSD

Today, the PMI industrial indices for May will fall under scrutiny. We expect the PMI for Poland to fall to 45.5 points from 46.6 points in April, slightly below the consensus (46.0 points). The market expects confirmation of the decline shown in preliminary PMI index readings for Germany and the euro zone and a fall in the ISM for the US. We will also get to see the preliminary inflation data for the euro area for May, which, given the deep declines in inflation from Germany, France and Spain, should show a much lower reading than the consensus. The ADP report could signal the level of Friday's non-farm employment data. A positive surprise came from the Caixin PMI index for Chinese manufacturing, published today, returning above 50 points, while April retail sales data in Germany showed a bleak picture - a deepening of the decline to -8.6% y/y

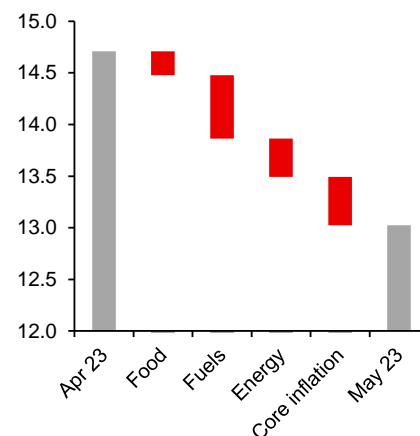
Flash CPI inflation in May printed 13.0% y/y versus 14.7% y/y in April and was below forecasts. What surprised us the most was core inflation, which might have fallen markedly to 11.4% y/y from 12.2% y/y. We are expecting inflation to decline further in the coming months, There is a growing chance that it will enter the single-digit area by the end of this year, but we still see it not far from 10% y/y. **1Q23 GDP** was down 0.3% y/y. Seasonally adjusted GDP jumped +3.8% q/q, after -2.3% q/q in 4Q2). The breakdown of growth revealed a major weakness of domestic demand at the start of the year: -5.2% y/y, which is the second largest drop in the history of available data. Private consumption declined -2.0% y/y, in line with our expectations, while investments increased 5.5% y/y, slightly more than we estimated. Inventories contracted sharply but this was offset by the improvement in net exports. We are likely to see a gradual economic re-acceleration in the coming quarters. More in [Economic Comment](#).

A dovish signal from the MPC. One of the moderate MPC members, **Henryk Wnorowski**, suggested that he would be willing to discuss interest rate cuts if the July inflation projection is optimistic (which he assumes it is, hoping it will show a faster arrival at the target) and inflation falls to single-digit levels. He suggested that inflation could fall below 10% y/y as early as August, unless something unexpected happens. The need to confirm the downward trend in inflation in the July projection before the topic of cuts is taken up was also pointed out by **Iwona Duda**. We believe that although the latest inflation data surprised downwards both domestically and internationally, the road to inflation falling below 10% may be longer. In the current scenario, we assume that this will happen in 4Q, and in the most optimistic scenario - in September. On the other hand, given last months' data, we think that the July projection will not necessarily show a softer inflation profile due to the higher starting point for GDP and inflation.

CEE currencies slightly weakened versus the euro, with **EURPLN** rising to 4.53 and **USDPLN** to 4.25 against a further fall in **EURUSD** to 1.065. The strengthening of the dollar against the euro was supported by US data and a widening of the US-German bond yield differential. Sentiment towards the EM currencies might have been negatively impacted by yesterday's weak Chinese PMIs (the ones calculated by a government agency) in addition to local factors.

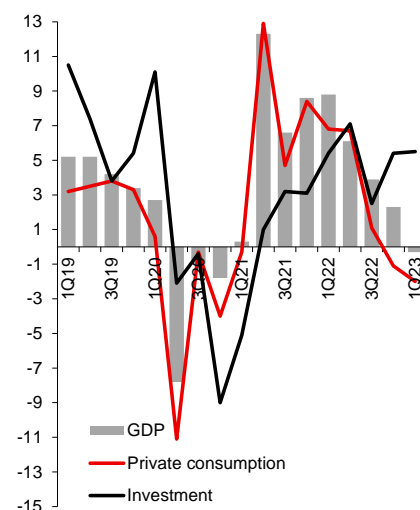
Further significant fall in market rates. Wednesday's drop in rates was the third consecutive day of market rate declines in Europe and the US. European markets are dominated this week by the theme of falling inflation in the face of lower-than-expected preliminary CPI readings for May. Yesterday, inflation from France and Germany surprised downwards, as did a faster decline in import prices in Germany. US yields declines was likely limited by the solid JOLTS labour market report showing a much higher than forecast vacancy rate with 1.8 job offers per unemployed person. German yields and European swaps and Treasuries yields fell by 3-7bp. Domestically, the FRA curve moved down 8-20bp, with the swap curve down around 10bp with little change in bond yields and widening of asset swap credit spreads. Declines in market rates were influenced by inflation data, core markets, GDP structure and statements from MPC members. Today's expected decline in the PMI may support the downward trend in market rates, which may continue at least until Friday's US labour market data. However, given the scale of inflation surprises, we presume the swap rates may fall below the support line set by this year's minima in the near term.

CPI inflation change, decomposition, %/y



Source: GUS, Santander

GDP and its components, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.5306	CZKPLN	0.1908
USDPLN	4.2422	HUFPLN*	1.2106
EURUSD	1.0677	RUBPLN	0.0524
CHFPLN	4.6561	NOKPLN	0.3818
GBPPLN	5.2731	DKKPLN	0.6083
USDCNY	7.1080	SEKPLN	0.3906

*for 100HUF

Last session in the FX market 31.05.2023

	min	max	open	close	fixing
EURPLN	4.5259	4.5449	4.5415	4.5293	4.5376
USDPLN	4.2348	4.2603	4.2473	4.2520	4.2559
EURUSD	1.0649	1.0705	1.0696	1.0651	-

Interest rate market 31.05.2023

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	5.95	-10
WS0428 (5Y)	5.92	-8
DS1033 (10Y)	6.05	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	6.65	-8	5.32	-5	3.73	-4
2L	6.12	-13	4.57	-5	3.51	-6
3L	5.68	-13	4.14	-9	3.26	-6
4L	5.47	-12	3.93	-8	3.11	-6
5L	5.38	-12	3.82	-4	3.03	-6
8L	5.31	-12	3.67	-6	2.95	-5
10L	5.35	-11	3.65	-5	2.95	-4

WIBOR rates

Term	%	Change (bps)
O/N	6.21	-72
T/N	6.79	-2
SW	6.84	0
2W	6.85	-1
1M	6.83	1
3M	6.90	0
6M	6.95	0
1Y	7.05	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	6.87	-2
3x6	6.76	-6
6x9	6.36	-8
9x12	5.96	-16
3x9	6.78	-7
6x12	6.36	-9

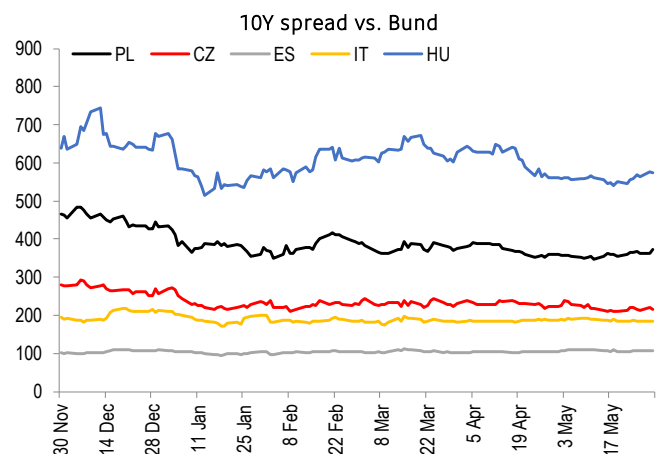
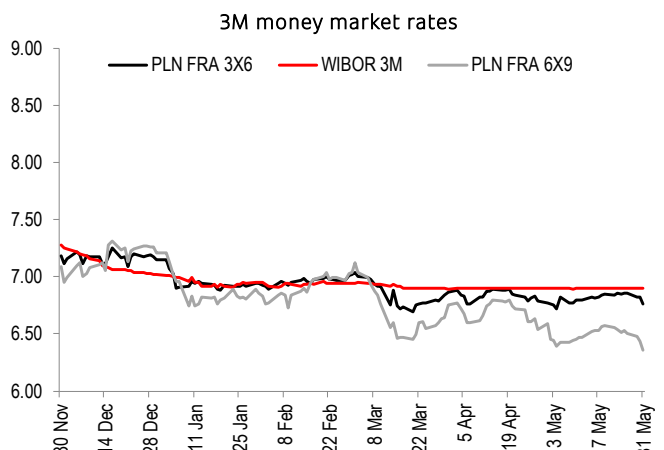
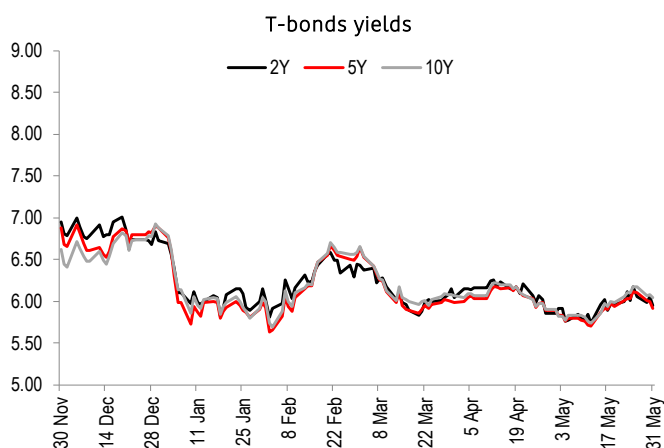
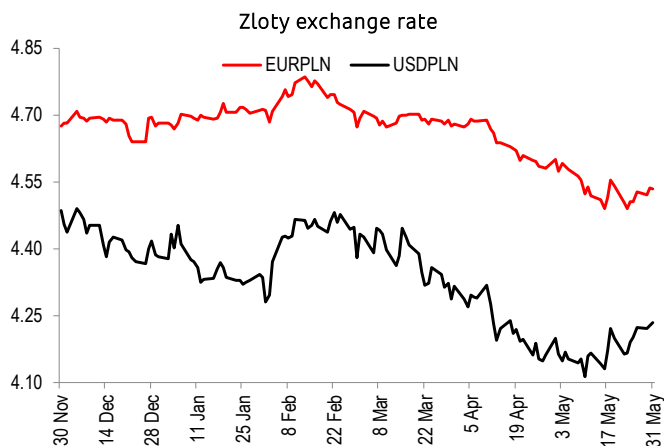
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	78	0	374	10
France	14	0	66	9
Hungary	177	0	574	-2
Spain	52	0	107	0
Italy	45	0	184	-1
Portugal	40	0	74	0
Ireland	19	0	45	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		
FRIDAY (26 May)							
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
MONDAY (29 May)							
No key data releases or events							
TUESDAY (30 May)							
09:00	CZ	GDP SA	1Q	% y/y	-0.2	-0.4	0.3
11:00	EZ	ESI	May	pct.	99.0	96.5	99.0
16:00	US	Consumer Conference Board	May	pts	99.0	102.3	103.7
WEDNESDAY (31 May)							
10:00	PL	CPI	May	% y/y	13.4	13.0	14.7
10:00	PL	GDP	1Q	% y/y	-0.2	-0.3	2.3
14:00	DE	HICP	May	% m/m	0.2	-0.2	0.6
THURSDAY (1 June)							
08:30	HU	GDP	1Q	% y/y	-0.9	-0.9	0.4
09:00	PL	Poland Manufacturing PMI	May	pts	46.0	-	46.6
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
FRIDAY (2 June)							
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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