

# Weekly Economic Update

## MPC decision and data abroad

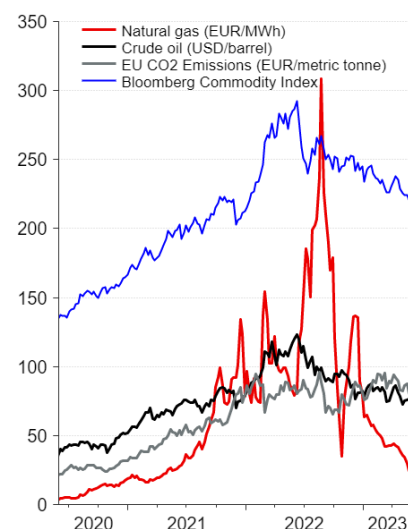
### Economy next week

- Another long weekend is approaching in Poland, so the coming week in the domestic market is likely to be marked by reduced activity. The key local event will be the **MPC meeting - the decision unusually on Tuesday and the conference of the NBP president this time on Wednesday afternoon**. Thursday is a day off (Corpus Christi), and apart from that the local publication calendar is virtually empty. Abroad, there is quite a set of new data during the week, including PMI indices in services, production and retail sales data in euro zone countries, inflation in the Czech Republic and Hungary, central bank decisions in New Zealand and Canada (in both cases a pause in hikes is expected). Data from China about foreign trade, credit and inflation will be also closely followed.
- **NBP interest rates will again remain unchanged** and, as usual, the focus will be on the communication. Already a month ago, after the first wave of media offensive by some MPC members suggesting possible rate cuts after the summer holidays, we did not rule out that the MPC would decide to formally end the hike cycle. However, this did not happen, and the tone of President Glapinski's statement at the conference was even surprisingly not dovish ("it is still more justified to ask for conditions for rate hikes than rate cuts"). We have already stopped focusing on the MPC representatives' statements, recognising that they create more confusion than clarity (one day suggestions of rate cuts after the summer holidays, another day that they could come in November, etc.). However, we have to admit that since the MPC's May meeting, there have been more signals in the economic data favouring expectations of faster disinflation, including: the lower-than-expected preliminary CPI reading for May, for the first time in a long time resulting from a deceleration in core inflation, a collapse in domestic demand in 1Q this year, weak activity and signals of rapid slowdown in input costs in European industry. In our view, the Council's decisions will ultimately be determined by the macroeconomic scenario that materialises. In our view, the macroeconomic scenario will not create the conditions for a rate cut this year - even if CPI dips below 10% y/y before the end of the year, it will do so only slightly and with core inflation still clearly stubborn, in an environment of gradual economic recovery, a tight labour market and the unravelling of the bag of pre-election spending promises that will hinder the disinflation process in the coming years. As a result, **we invariably believe that the market valuation of NBP interest rate cuts is overly optimistic**.

### Markets next week

- For quite some time, we have been writing almost every week that the potential for strengthening of the zloty is, in our opinion, exhausted and we see a correction on the horizon. Such a correction even started a few times, but after temporary increases EURPLN stubbornly returned towards 4.50. We assume that the coming week may look similar: **we attribute more chances to weakening than to strengthening of the zloty, but the movement may be neither significant nor lasting**. Perhaps only in the following week the CJEU verdict scheduled for 15 June may be the impulse for greater volatility in the domestic currency.
- Market rates and bond yields locally and in the core markets over the past week have retraced at least half of the rise that lasted for most of May, under influence of data that increased concerns about the health of global manufacturing and raised hopes of disinflation. The US labour market data just released (employment well above forecasts, but weaker wages) only slightly interrupted this trend and did not significantly shift market expectations for the next Fed rate hike. **After the weekend, a resumption of yield declines is possible**, which may be triggered by weak data from European industry and China. The lack of a clear pledge from the NBP governor about interest rate cuts this year may be a source of a slight upward adjustment of market rates at the end of the week.

### Prices of commodities keep declining

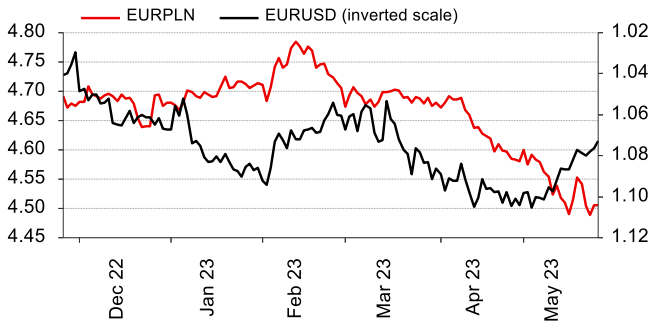


Source: Refinitiv Datastream, Santander

### Economic Analysis Department:

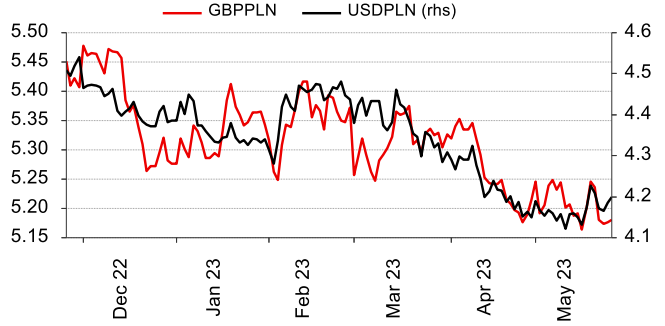
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**EURPLN and EURUSD**



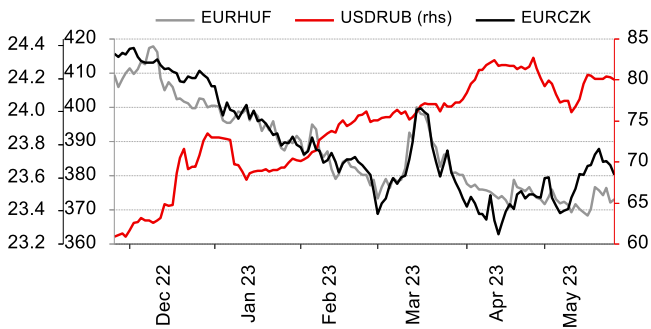
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



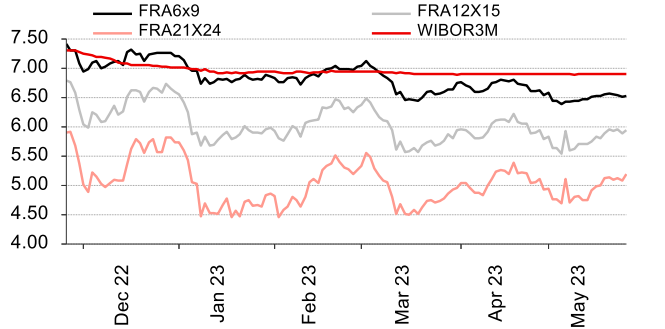
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



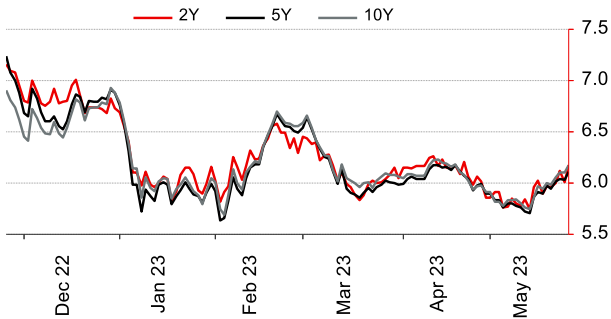
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



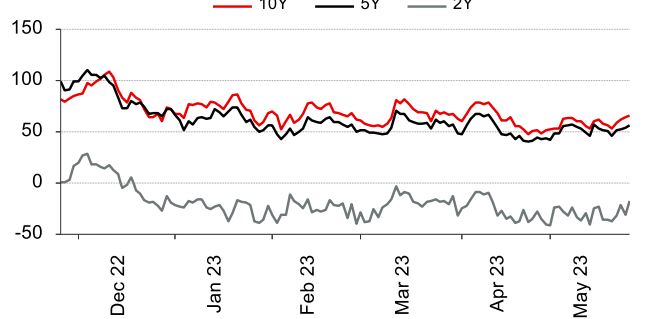
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



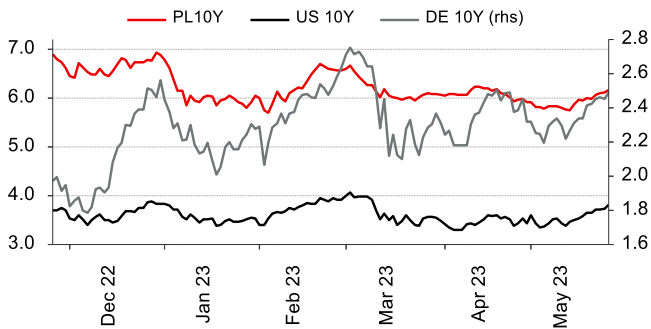
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



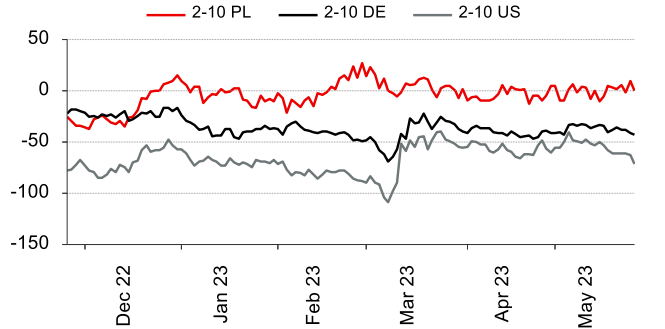
Source: Refinitiv Datastream, Santander Bank Polska

**10Y bond yields**



Source: Refinitiv Datastream, Santander

**Steepness of yield curves**



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	SANTANDER	
<b>MONDAY (5 June)</b>							
03:45	CN	Caixin China PMI Services	May	pts	55.2	-	56.4
08:00	DE	Exports SA	Apr	% m/m	-1.5	-	-5.9
09:55	DE	Markit Germany Services PMI	May	pts	57.8	-	56.0
10:00	EZ	Eurozone Services PMI	May	pts	55.9	-	56.2
16:00	US	Durable Goods Orders	Apr	% m/m	1.1	-	3.2
16:00	US	ISM services	May	pts	52.5	-	51.9
16:00	US	Factory Orders	Apr	% m/m	0.8	-	0.4
<b>TUESDAY (6 June)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>6.75</b>	<b>6.75</b>	<b>6.75</b>
08:00	DE	Factory Orders	Apr	% m/m	3.0	-	-10.7
09:00	CZ	Industrial Production	Apr	% y/y	-0.5	-	2.4
11:00	EZ	Retail Sales	Apr	% m/m	0.2	-	-1.2
<b>WEDNESDAY (7 June)</b>							
08:00	DE	Industrial Production SA	Apr	% m/m	0.7	-	-3.4
08:30	HU	Industrial Production SA	Apr	% y/y	1.4	-	-4.0
<b>15:00</b>	<b>PL</b>	<b>NBP president's conference</b>					
<b>THURSDAY (8 June)</b>							
	<b>PL</b>	<b>Market holiday</b>					
08:30	HU	CPI	May	% y/y	22.3	-	24.0
11:00	EZ	GDP SA	1Q	% y/y	1.3	-	1.8
14:30	US	Initial Jobless Claims		k	235	-	232
<b>FRIDAY (9 June)</b>							
No key data releases or events							

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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