10 June 2024

Eyeopener

US data and EP election results strengthen the dollar

KO won European Parliament elections in Poland, France calls snap elections
Upside surprise in US non-farm payrolls
Zloty weaker, dollar stronger, bond yields up in response to US labour market data

Today, the only item on the economic calendar is the May inflation data for Hungary, which has already been released and indicated an increase to 4.0% y/y from 3.7% y/y, while a move to 4.2% y/y was expected. For markets, the start of the week will be marked by the assessment of the European Parliament election results and their consequences. In Poland, the EP elections were won by KO (the main party forming the current ruling coalition) which garnered 37.1% of the votes, followed by PiS (36.2%), then Konfederacja (12.1%), Trzecia Droga (6.9%) and Nowa Lewica (6.3%). Turnout was 40.7%. In Europe, far-right parties have gained ground, although it looks like the existing coalition of mainstream parties will retain their majority in the EP. The French president, after a clear loss to the far-right party, announced the dissolution of parliament and early elections for the end of June.

MPC member Ludwik Kotecki assessed on Friday that perhaps a slightly tighter monetary policy would be better suited to finish the fight against inflation. Kotecki justified this statement by pointing out that inflation had fallen due to temporary, one-off reasons and would soon rise again and remain at elevated levels. He also indicated that he was concerned about high wage growth. Kotecki added that under these conditions and in light of the interest rate cuts delivered in September and October last year, the Council might have a 'credibility problem'. Nevertheless, Kotecki stressed that raising rates now might not be the best idea and that the Council had other monetary policy tools at its disposal. He also mentioned that he has 'put forward an idea' about an alternative way of tightening the policy and is waiting for analyses.

According to the **minutes of the May, i.e. penultimate, policy meeting of the Monetary Policy Council**, during the meeting the Council indicated that inflation dynamics would remain in line with the inflation target in 2Q24, but would likely increase later in the year, driven by rising food and energy prices. The Council again noted that the path of inflation is fraught with uncertainties related to fiscal policy, wage growth dynamics, inflation expectations and the geopolitical situation. Again, during the discussion, there was a minority opinion that the current level of NBP interest rates is too low to ensure a sustainable return of inflation to the target in the medium term.

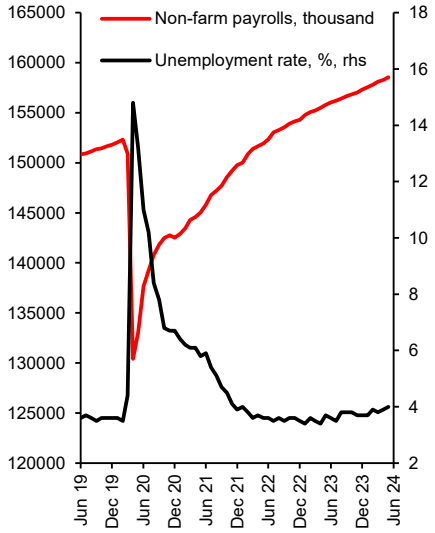
Nonfarm payrolls in the US increased in May by 272k, well above market expectations for an increase by 180k. At the same time, their April print was revised slightly downwards from 175k to 165k. The better-than-expected result in May was caused by increases in most of the sectors surveyed. The highest increases were registered in healthcare, the public sector, leisure and hospitality, and construction. On the other hand, the household survey (an alternative way of monitoring the US labour market, although less watched than the non-farm employment data) indicated a decline by 250k in the civilian labour force and by 408k in the number of employed, which translated into an increase in the unemployment rate from 3.9% to 4.0%.

The FAO World Food Price Index rose to 120.4pts in May from 119.3pts in April. The increase in the index resulted from increases in the price indices for cereals and dairy products and occurred despite declines in the price indices for sugar and vegetable oils.

The zloty weakens, the dollar gains. Friday's session ended with declines in stock market indices and a strengthening of the dollar in international markets in the face of the better data from the US labour market, leading to reduced expectations for US rate cuts. The EURUSD's drop of about 0.8% to c. 1.08 was accompanied by a weakening of the CEE currencies by about 0.3-0.7% including EURPLN rising to 4.305. The outcome of the European elections, most notably the announcement of early elections in France, pushed the EURUSD even lower, to 1.075 this morning. The tone for the coming days for the EURUSD may be set by Wednesday's FOMC meeting. The prospect of rate cuts in the US is still distant, with the market pricing in only a partial first rate cut in September and about two moves total this year. If the Fed maintains its hawkish rhetoric, indicating the need to bring inflation down, we could see a stronger dollar and a weakening of the CEE currencies.

Rate increases in response to US data. The higher-than-expected non-farm payrolls reading was the main event of Friday's session, which led to a rise in rates in the core markets, including especially in the US by about 13 bps, in Germany by about 6-7 bps. Polish FRA rates rose by about 1-2 bps, IRS by 1-2 bps, and bond yields by about 2-4 bps. Trends in the core markets may be important for the domestic market in view of the FOMC meeting and US CPI data. Domestic inflation data may be of secondary importance. A rise in yields in global markets after the US employment print could pull domestic yields upward as well, at least early in the week. A domestic factor in the same direction would be the president's possible refusal to sign the energy price bill (however, we treat this as a risk case, not a baseline scenario). In general, we do not expect a rapid sustained decline in domestic market rates in view of the rather distant prospect of NBP rate cuts with accelerating consumption and the hawkish tone of the NBP.

US labour market data



Source: LSEG, Santander

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FX market

Today's opening

EURPLN	4.3168	CZKPLN	0.1743
USDPLN	4.0123	HUFPLN*	1.0923
EURUSD	1.0753	RUBPLN	0.0450
CHFPLN	4.4705	NOKPLN	0.3715
GBPPLN	5.0783	DKKPLN	0.5766
USDCNY	7.2475	SEKPLN	0.3778

*for 100HUF

Last session in the FX market **07.06.2024**

	min	max	open	close	fixing
EURPLN	4.2768	4.3128	4.2820	4.3097	4.2891
USDPLN	3.9247	3.9904	3.9310	3.9879	3.9389
EURUSD	1.0802	1.0901	1.0893	1.0805	

Interest rate market **07.06.2024**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5.17	-4
WS0429 (5Y)	5.55	5
DS1033 (10Y)	5.69	5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.81	0	5.44	10	3.61	3
2L	5.45	1	5.03	15	3.38	6
3L	5.23	1	4.76	15	3.19	7
4L	5.13	2	4.59	16	3.06	8
5L	5.10	2	4.49	16	2.98	8
8L	5.15	2	4.36	15	2.87	8
10L	5.21	1	4.33	14	2.86	6

WIRON rate

Term	%	Change (bps)
WIRON	5.31	16

WIBOR rates

Term	%	Change (bps)
O/N	5.71	-2
T/N	5.77	0
SW	5.83	-1
1M	5.85	0
3M	5.85	0
6M	5.86	1
1Y	5.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.86	2
3x6	5.81	0
6x9	5.69	-1
9x12	5.40	1
3x9	5.80	-1
6x12	5.67	-1

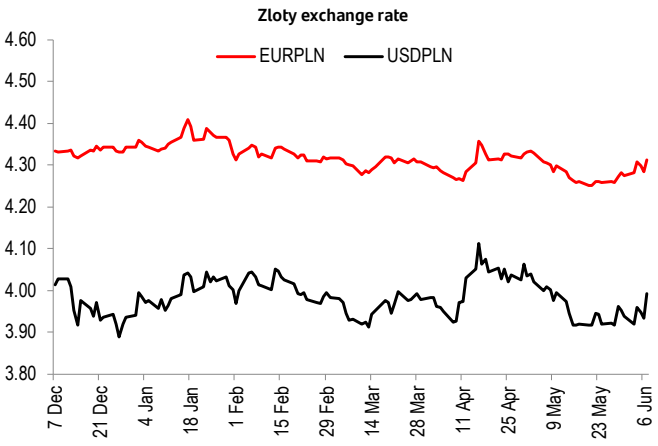
CDS rates and 10Y yield spread vs. German Bund

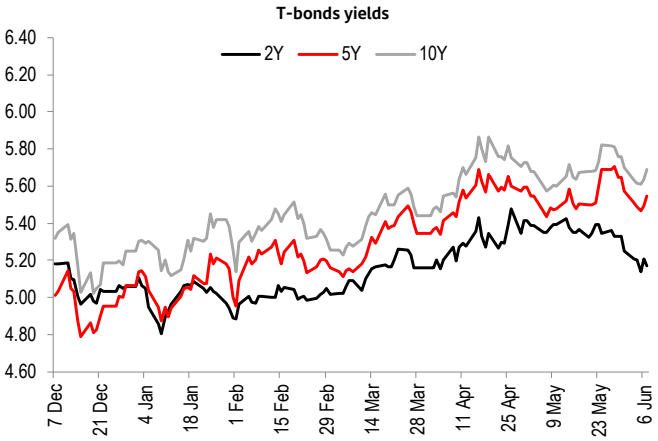
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	64	0	309	-2
France	12	0	50	1
Hungary	119	0	422	-15
Spain	35	-1	73	0
Italy	27	0	132	1
Portugal	22	0	61	1
Ireland	12	0	40	0
Germany	5	0	-	-

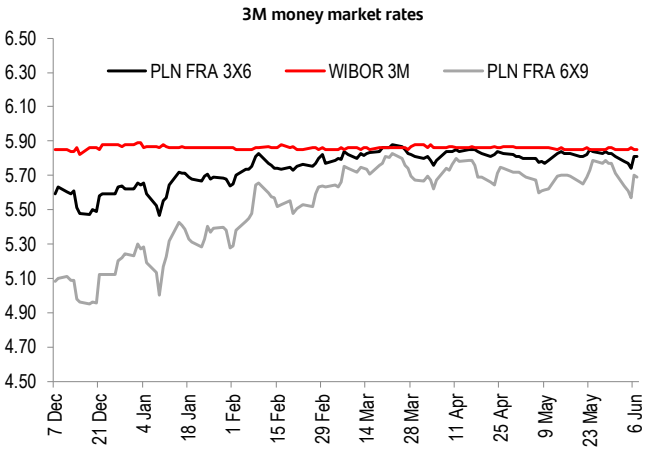
* 10Y treasury bonds over 10Y Bunds

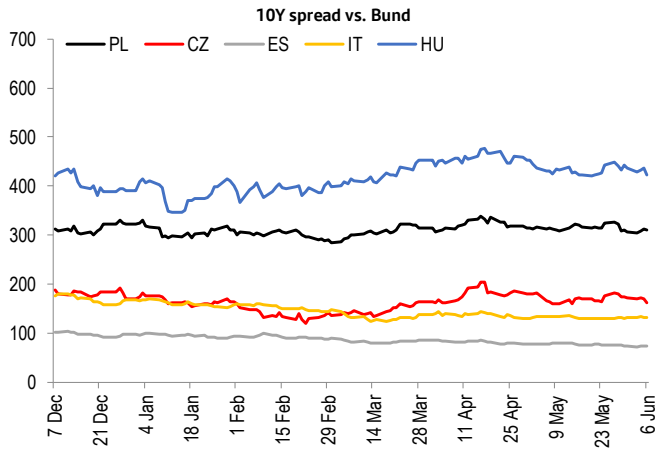
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream









Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (7 June)					
08:00	DE	Exports SA	Apr	% m/m	1.1	-	1.6	1.1
08:00	DE	Industrial Production SA	Apr	% m/m	0.2	-	-0.1	-0.4
08:30	HU	Industrial Production SA	Apr	% y/y	0.7	-	-2.4	-2.8
11:00	EZ	GDP SA	1Q	% y/y	0.4	-	0.4	0.4
14:30	US	Change in Nonfarm Payrolls	May	k	185	-	272	165
14:30	US	Unemployment Rate	May	%	3.9	-	4.0	3.9
			MONDAY (10 June)					
08:30	HU	CPI	May	% y/y	4.2	-	4.0	3.7
			TUESDAY (11 June)					
09:00	CZ	CPI	May	% y/y	-	-	-	2.9
			WEDNESDAY (12 June)					
08:00	DE	HICP	May	% m/m	-	-	-	0.2
14:30	US	CPI	May	% m/m	0.1	-	-	0.3
20:00	US	FOMC decision	Jun	%	5.50	-	-	5.50
			THURSDAY (13 June)					
11:00	EZ	Industrial Production SA	Apr	% m/m	-	-	-	0.6
14:00	**PL**	**Current Account Balance**	**Apr**	**€mn**	**700**	**874**	**-**	**325**
14:00	**PL**	**Trade Balance**	**Apr**	**€mn**	**650**	**743**	**-**	**486**
14:00	**PL**	**Exports**	**Apr**	**€mn**	**27 786**	**27 779**	**-**	**28 331**
14:00	**PL**	**Imports**	**Apr**	**€mn**	**27 253**	**27 036**	**-**	**27 845**
14:30	US	Initial Jobless Claims		k	220	-	-	229
			FRIDAY (14 June)					
05:00	JP	BoJ decision	Jun	%	0.10	-	-	0.10
10:00	**PL**	**CPI**	**May**	**% y/y**	**2.5**	**2.5**	**-**	**2.4**
16:00	US	Michigan index	Jun	pts	73.0	-	-	69.1

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*

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