

Weekly Economic Update

The week of rising interest rates

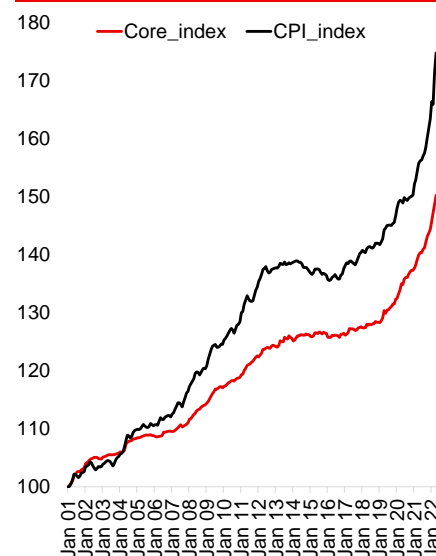
Economy next week

- The shortened week after the early May holidays (2 May in London, 3 May in Poland) will be intensive for central banks. On Tuesday morning the Bank of Australia will decide on rates, on Wednesday evening the Fed, on Thursday the central banks of the UK, Czechia and the Polish MPC will follow suit.
- Most analysts assume that the **FOMC hikes rates by 50bp** and this conviction was not weakened by the unexpected fall of US GDP in 1Q (domestic demand remained strong and the price pressure was still high). **RBA is to raise rates by 15bp, Boe by 25bp and CNB by 50bp.**
- The MPC will likely join the rate-hikers' club, and will most likely even be its leader – after the recent data, which showed stronger-than-expected economic activity in late 1Q and another large upside inflation surprise in April (12.3% y/y!) **we assume that the NBP reference rate will go up in May by another 100bp to 5.50%.** Decisions in the following months will still be to a large extent a function of new data on how high the inflation can still go (this is almost certain that it will go up from here) and on the other hand how quick and how painful will be the economic slowdown (also hard to avoid). For now our baseline scenario is that the main interest rate goes to no less than 6.50% before the signals of meaningful slowdown in the data stop the MPC from tightening further its policy.
- In April inflation was once again strongly pushed to the upside by high growth of food prices: their rise by 4.2% m/m in this part of the year did not occur even in the early 90s. If this momentum in food prices does not fade then **in May CPI may cross another threshold of 13% y/y, and in June it can approach 14% y/y.** The suspension of gas flow from Russia increases the worries about rising energy prices. At the same time, core inflation is not losing pace too and in April, according to our estimates, it might have jumped to the record-high level of 7.5% y/y.
- **Adam Glapiński's press conference** is scheduled on Friday at 15:00 CET. This will be the last one before the vote in the Sejm (11 or 12 May) to grant him the second term as the central bank governor. We think that faced with the recent solid data Glapiński will stick to his highly hawkish tone and the previously presented rhetoric that the economy is doing great and there is plenty of room more for monetary tightening.
- Monday is in Poland a bridge between two national holidays so many people will be away (incl. us - our next Eyeopener will come out on 4 May), but there will be manufacturing PMIs and ESI business and consumer sentiment surveys. The flash PMIs for Germany and Eurozone declined only a bit in April and for some European countries the even went up (France, the UK). We think that the **Polish manufacturing PMI will drop to 51.5 pts** – the survey was most likely conducted before the news on Russian gas delivery suspension. Apart from that, the local calendar is empty, abroad there will be some activity data like services PMIs, retail sales and output in Europe, US employment report.

Markets next week

- EURPLN dropped today after the CPI data to almost 4.65, offsetting almost the whole Tuesday jump to 4.70, which had been a reaction to the news about stopped delivery of Russian gas. However the quick rebound to 4.67 that followed shows that for now there are no arguments for a permanent return of the exchange rate to the 4.61-4.65 range in which it spent several previous weeks. NBP rate hike expectations are supportive for the zloty for sure, but on the other hand there are some important risks: Fed rate hike and further appreciation of the dollar, geopolitics (Russia's more aggressive stance ahead of the country's national holiday on 9 May, the Victory Day – cut-off of Poland and Bulgaria from gas deliveries, provocations in Transnistria, threats of a nuclear conflict), but also local politics (the prolonged clinch in the rule-of-law issue, unstable ruling coalition). Finally, it is worth mentioning that Moody's is to review Polish rating this evening. We do not expect a downgrade of the score (which is higher than the scores given by S&P and Fitch), but a change of the rating outlook to negative cannot be ruled out. As a result, **we feel it is more probable that the zloty weakens in early May rather than strengthens.**
- Another CPI surprise sent government bond yields, IRS and FRA rates up. **We still do not see on the horizon any factors that could stop the upward trend in the coming weeks.**

Consumer prices in Poland, Jan 2001=100

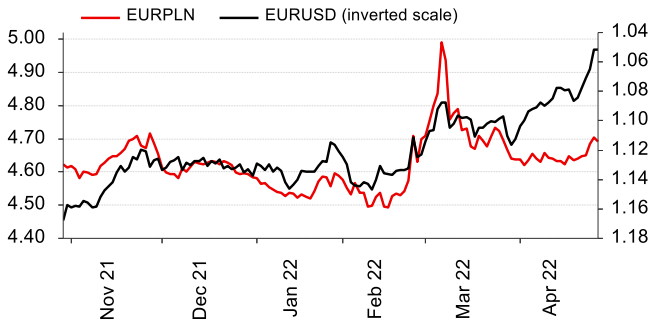


Source: GUS, Santander

Economic Analysis Department:

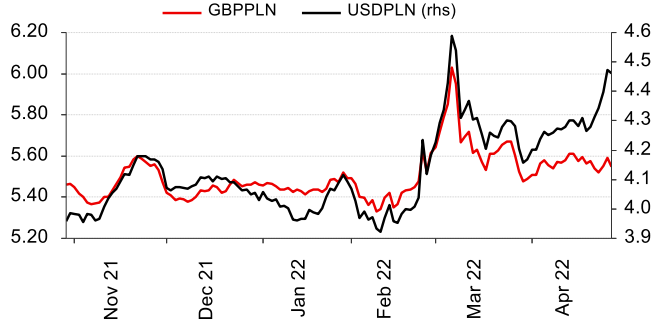
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Marcin Luziński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



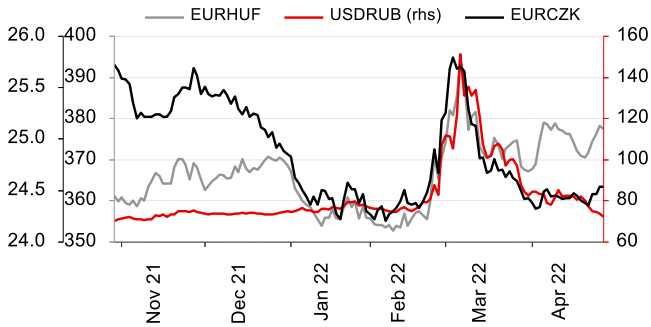
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



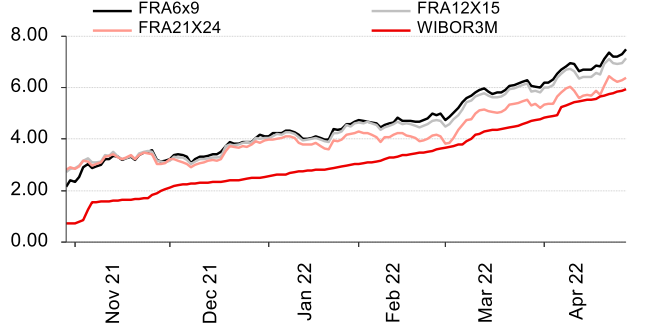
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



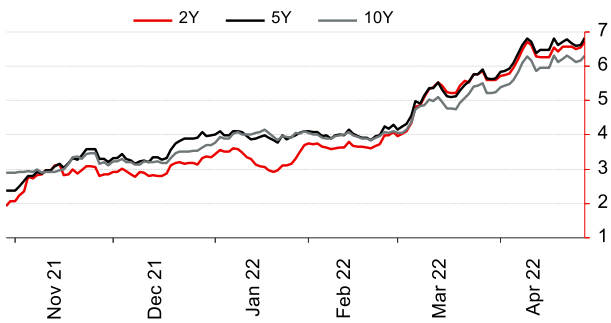
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



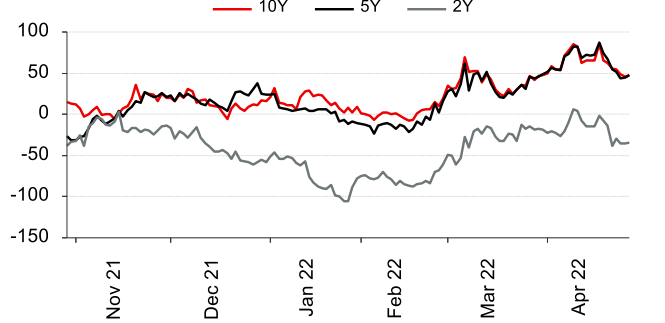
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



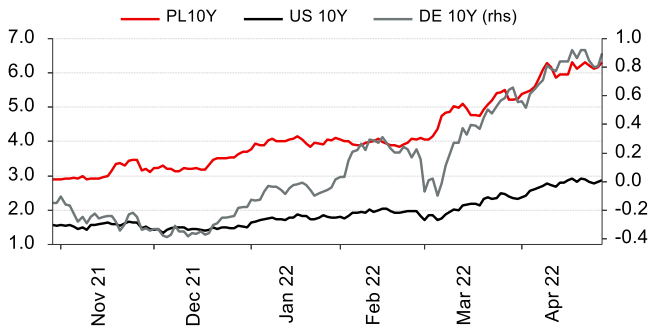
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



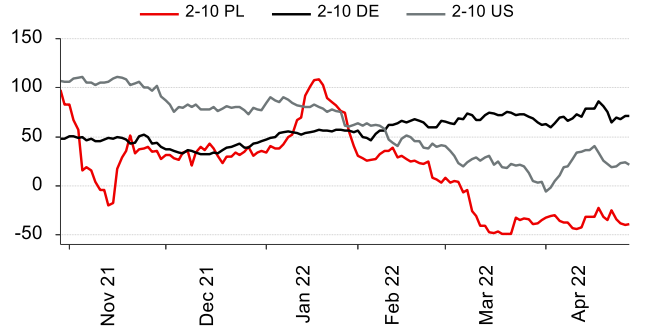
Source: Refinitiv Datastream, Santander Bank Polska

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		
MONDAY (2 May)							
09:00	PL	Poland Manufacturing PMI	Apr	pts	51.4	51.5	52.7
09:55	DE	Germany Manufacturing PMI	Apr	pts	54.1	-	54.1
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	55.3	-	55.3
11:00	EZ	ESI	Apr	pct.	108.0	-	108.5
16:00	US	ISM manufacturing	Apr	pts	57.7	-	57.1
TUESDAY (3 May)							
11:00	EZ	Unemployment Rate	Mar	%	6.7	-	6.8
16:00	US	Durable Goods Orders	Mar	% m/m	-	-	0.8
16:00	US	Factory Orders	Mar	% m/m	1.1	-	-0.5
WEDNESDAY (4 May)							
08:00	DE	Exports SA	Mar	% m/m	-2.0	-	6.4
09:55	DE	Markit Germany Services PMI	Apr	pts	57.9	-	57.9
10:00	EZ	Eurozone Services PMI	Apr	pts	57.7	-	57.7
11:00	EZ	Retail Sales	Mar	% m/m	-0.1	-	0.3
14:15	US	ADP report	Apr	k	385.0	-	455.1
16:00	US	ISM services	Apr	pts	58.7	-	58.3
20:00	US	FOMC decision	May.22		1.00	-	0.50
THURSDAY (5 May)							
	PL	MPC decision		%	5.50	5.50	4.50
03:45	CN	Caixin China PMI Services	Apr	pts	41.0	-	42.0
08:00	DE	Factory Orders	Mar	% m/m	-0.9	-	-2.2
14:30	US	Initial Jobless Claims		k	-	-	180.0
14:30	CZ	Central Bank Rate Decision	May.22		5.50	-	5.00
FRIDAY (6 May)							
08:00	DE	Industrial Production SA	Mar	% m/m	-1.0	-	0.2
09:00	HU	Industrial Production SA	Mar	% y/y	-	-	4.5
14:30	US	Change in Nonfarm Payrolls	Apr	k	390	-	431
14:30	US	Unemployment Rate	Apr	%	3.6	-	3.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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.