

Weekly Economic Update

Who ends the cycle and who begins

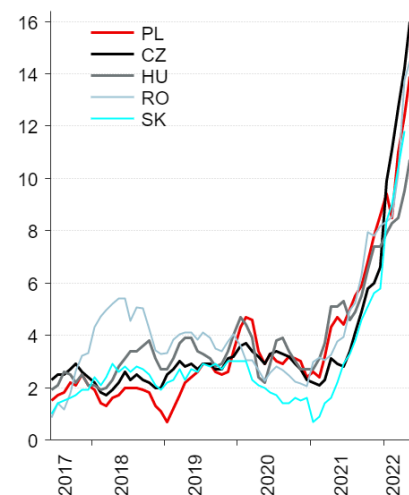
Economy next week

- Monetary policy will remain the main spot on investors' radar after the weekend. The calendar features **decisions of central banks in the USA (Wednesday), the UK and Switzerland (Thursday) and Japan (Friday)**. Only the latter openly communicates no intention to give up its ultra-loose monetary policy anytime soon. The FOMC and BoE are expected to raise rates (the former by +50bp, the latter by +25bp) despite the widely discussed risk of recession, and to signal the continuation of the cycle in the coming months. The dark horse may be the SNB, which – according to market consensus – is expected to leave rates on hold, although some analysts suggest it may start a tightening cycle as early as this month. If this were to happen, it could introduce volatility to the financial market just in the middle of the long weekend in Poland (Thursday is a national holiday).
- **The monetary policy tightening cycle of the major central banks is still in its early stage**, which may put pressure on yield curves and FX rates in other markets. In this context, the [NBP president's declaration](#) of the nearing end of the rate hiking cycle in Poland seems premature and risky. This does not mean that it is impossible to stop the NBP rate near 7% after the summer holidays (on the contrary, this is our base case scenario), but such communication will not make it easier. Firstly, softening the rhetoric right after re-election for the second term in the chair of the NBP President does not serve to strengthen his credibility. Secondly, the risks to inflation, and thus to rates, are clearly still very much tilted to the upside, and again the impression is created that the central bank is sliding into denial of such risks. Third, this is apparently having an effect on the currency, which also does not help to tame inflation.
- Domestically, there will be several important publications in the coming week: On Monday, the **balance of payments for April** - expected further widening of current account gap, unfavorable for the zloty. On Wednesday, the **final CPI figure for May** - the flash reading showed an increase to 13.9% y/y, but, as in the last few months, we do not rule out a slight upward revision to 14.0% y/y. On Friday, **May core inflation**, which according to our estimate (in line with the consensus) will rise to a new record of 8.5% y/y, paving the way to ca. 10% by the end of the year. During the week we may also see **preliminary results of the state budget for May**, which will show the extent to which anti-inflationary shields weaken the growth of tax revenues despite high inflation.
- Data releases abroad include inflation in Europe, industrial output in the US and the Eurozone.

Markets next week

- The NBP president's announcement that the rate hiking cycle is nearing its end cooled market expectations for the scale of policy tightening in the coming months, but pushed up the long end of the curves, reflecting investors' fears that attempts to hold off on hikes after the summer may consolidate and prolong inflationary trends. After the weekend, **we expect the upward trend at the long end of the bond and swap curves to continue**, supported by inflation data and hawkish signals from central banks abroad.
- On the FX market, **we see a greater risk of EURPLN rising well above 4.60 than retreating below**. The risk aversion is on the rise, reflected by falling EURUSD and stock market indices, but also the contrast between less hawkish communication from the National Bank of Poland and increasingly hawkish tone of major central banks does not favour the zloty. In particular, should the FOMC's message on Wednesday evening and the SNB's on Thursday morning turn out to be firmer than expected, the zloty could face a severe test in the middle of the long weekend.

Inflation rates in CEE, % y/y

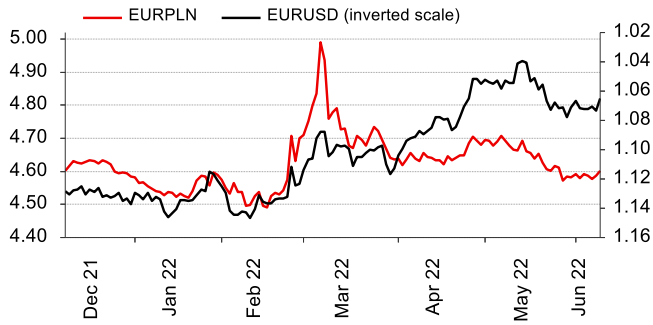


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

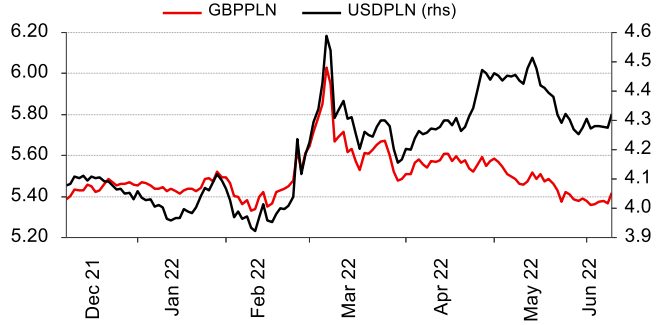
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EURPLN and EURUSD



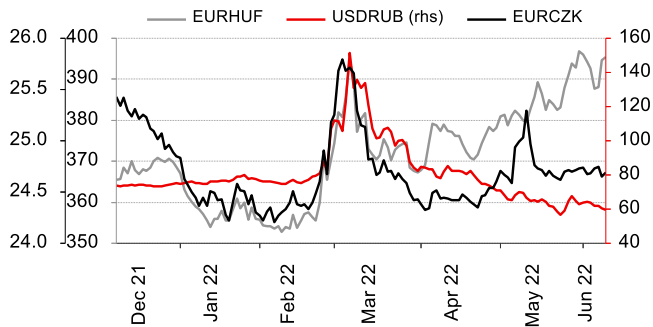
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



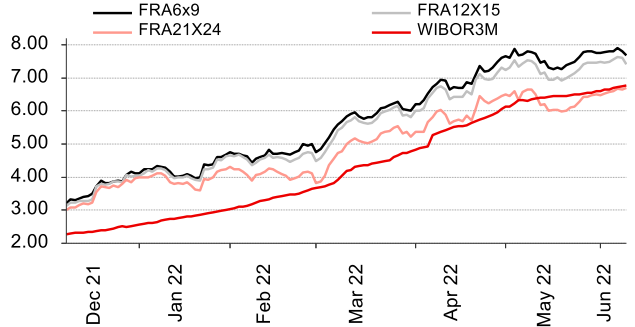
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



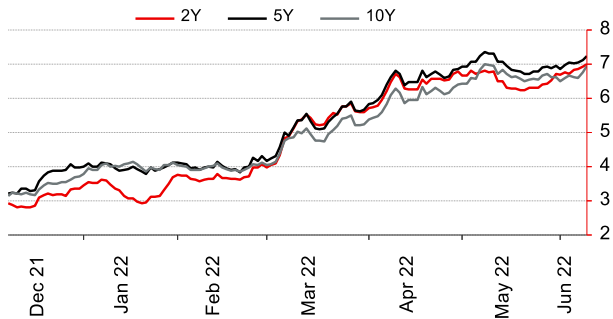
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



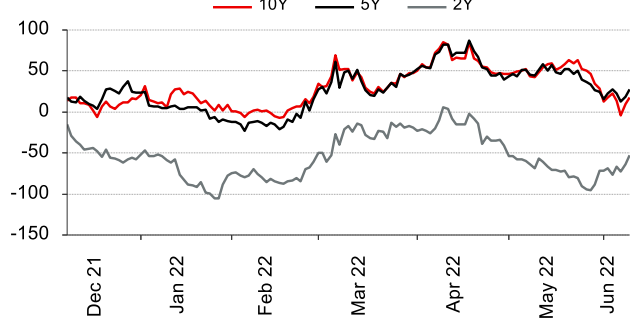
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



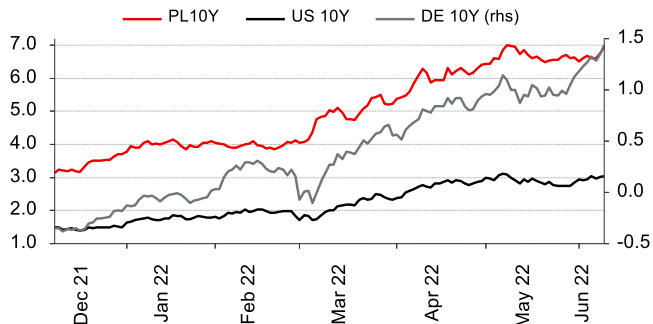
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



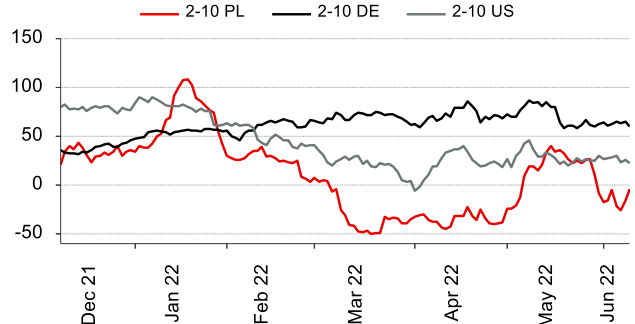
Source: Refinitiv Datastream, Santander Bank Polska

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		
MONDAY (13 Jun)							
14:00	PL	Current Account Balance	Apr	€mn	-3100	-2397	-2972
14:00	PL	Trade Balance	Apr	€mn	-2795	-2795	-3253
14:00	PL	Exports	Apr	€mn	27100	28165	25831
14:00	PL	Imports	Apr	€mn	30250	30960	29084
TUESDAY (14 Jun)							
08:00	DE	HICP	May	% m/m	1.1	-	1.1
11:00	DE	ZEW Survey Current Situation	Jun	pts	0.0	-	-36.5
WEDNESDAY (15 Jun)							
	PL	Central budhet result	May	PLNm	-	-	9207.19
10:00	PL	CPI	May	% y/y	-	14.0	13.9
11:00	EZ	Industrial Production SA	Apr	% m/m	0.7	-	-1.8
14:30	US	Retail Sales Advance	May	% m/m	0.2	-	0.9
20:00	US	FOMC decision		%	1.5	-	1
THURSDAY (16 Jun)							
	PL	Corpus Christi – market holiday					
09:30	CH	SNB decision		%	-0.75	-	-0.75
13:00	UK	BoE decision		%	1.25	-	1.00
14:30	US	Initial Jobless Claims	week	k	206	-	229
14:30	US	Housing Starts	May	% m/m	-0.6	-	-0.2
FRIDAY (17 Jun)							
11:00	EZ	HICP	May	% y/y	8.1	-	8.1
14:00	PL	CPI Core	May	% y/y	8.5	8.5	7.7
15:15	US	Industrial Production	May	% m/m	0.4	-	1.08
TUESDAY (21 Jun)							
10:00	PL	Employment in corporate sector	May	% y/y	2.6	2.6	2.8
10:00	PL	Sold Industrial Output	May	% y/y	15.2	17.3	13
10:00	PL	PPI	May	% y/y	24.7	24.8	23.3
10:00	PL	Average Gross Wages	May	% y/y	14.7	14.5	14.1
16:00	US	Existing Home Sales	May	% m/m	-2.8	-	-2.43
WEDNESDAY (22 Jun)							
10:00	PL	Construction Output	May	% y/y	8.6	-	9.3
10:00	PL	Retail Sales Real	May	% y/y	8.9	-	19
14:30	CZ	Central Bank Rate Decision		%	-	-	5.75
THURSDAY (23 Jun)							
09:30	DE	Flash Manufacturing PMI	Jun	pts	-	-	54.8
09:30	DE	Flash Services PMI	Jun	pts	-	-	55
10:00	EZ	Flash Manufacturing PMI	Jun	pts	-	-	54.6
10:00	EZ	Flash Services PMI	Jun	pts	-	-	56.1
14:00	PL	Money Supply M3	May	% y/y	8.1	7.8	8.2
FRIDAY (24 Jun)							
10:00	DE	IFO Business Climate	Jun	pts	-	-	93
10:00	PL	Unemployment Rate	May	%	5.1	5.1	5.2
16:00	US	New Home Sales	May	% m/m	-	-	-16.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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