

## Weekly Economic Update

### Will the MPC end the cycle?

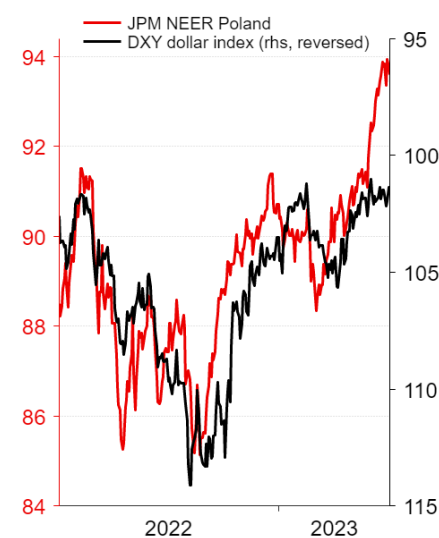
#### Economy next week

- The longest weekend of the year was, as we signalled a week ago, quite intense in terms of economic and market events: in the US there was a new wave of concern about the situation of banks (JPM took over First Republic, but several other regional banks are still struggling with share sell offs). Data was out confirming the collapse in European manufacturing and at the same time the recovery of the service sectors; in the US, there is strength in both sectors, plus mega-strength in the labour market. In contrast, data from the banking sectors point to a tightening of credit policies in the US and Europe, which could dampen economic activity in the quarters ahead. The Fed raised rates by 25bp and hinted at a pause, but Chairman Jerome Powell strongly dampened market hopes for rate cuts this year. The ECB also raised rates by 25bp but hinted that there is further policy tightening ahead. A surprise 25bp hike was also introduced by the Bank of Australia, while the Czech central bank, although it did not change rates, was considering such a move and changed its rhetoric to a more hawkish one.
- On the domestic front, May began with the **central bank's 'dovish charge'**: there was a series of interviews with MPC members (Dąbrowski, Wnorowski, Mastowska), Governor Glapiński and head of research Szpunar, whose common theme was the message: disinflation is gaining momentum, single-digit inflation is on the horizon, a rate cut could be considered this year. This is quite a significant change, because back in April, basically the same people were arguing (in my view, quite rightly) that "rate cut considerations are premature".
- It is hard to see this as anything other than preparing the ground for the **MPC meeting, which will be the main domestic event of the coming week** (decision on Wednesday). Rates will not change in May, there is unlikely to be any doubt about that, but the key will be the tone of the NBP governor's statement at the conference (scheduled probably as usual for Thursday 15:00CET). Let us recall that a month earlier, contrary to triumphant statements about inflation falling "headlong", Glapinski's statements about the outlook for rates were rather cautious and balanced: he emphasised that all options are still open, the tightening cycle is not over, a fall in inflation in line with expectations (the NBP projection) is a condition for avoiding further rate hikes, and rates will begin to fall when the MPC is "absolutely certain that inflation will fall quickly to the target". It is apparent that there has already been a change here, because in a recent interview with Gazeta Polska, a fall in inflation in line with the projection is no longer a condition for the governor not to raise rates, but a condition for a rate cut before the end of this year. Connecting the dots, one can guess that **the tone of the governor's conference this Thursday will be more dovish than before**, as apparently the central bank has suddenly become confident about the strength and inevitability of disinflation. In our view, it is far too early for such certainty as long as the momentum of core inflation remains close to 1% m/m (and all indications are that this was still the case in April), but the NBP's assessment is apparently different and it cannot be ruled out that **we are fast approaching a decision to end the cycle of rate hikes**.
- Abroad, the calendar is almost empty. Inflation data from Europe (including the Czech Republic, Hungary and the euro area) and the US, the Michigan index, will be worth watching. **On Thursday, the Bank of England decision** with a 25bp rate hike expected on the back of inflation persistence. The situation of US banks remains a thing to watch.

#### Markets next week

- The dovish message from the MPC, reinforced by a fall in the domestic PMI and fears of a recession abroad, pushed down domestic yields and reignited expectations of rate cuts before the end of this year (the FRA market is pricing the first cut as early as September). **If the message from the Council on Wednesday-Thursday is dovish, expectations of cuts will probably strengthen further and the curve will steepen.** Such a scenario cannot be ruled out, although in our view it is quite risky - in a country that is very likely to be in the tail end of disinflation, the central bank's decision to be at the forefront of rate cuts (which in real terms are among the lowest anyway) cannot be indifferent to the exchange rate.
- That said, there is no denying that the **zloty remains, for the time being, remarkably resilient to the rekindled expectations of rate cuts**. However, we still see room for EURPLN to rebound upwards, which should be supported by the MPC's dovish message and the strengthening of the dollar following today's strong US employment data.

#### PLN nominal effective exchange rate vs. the US dollar strength index (inverted)

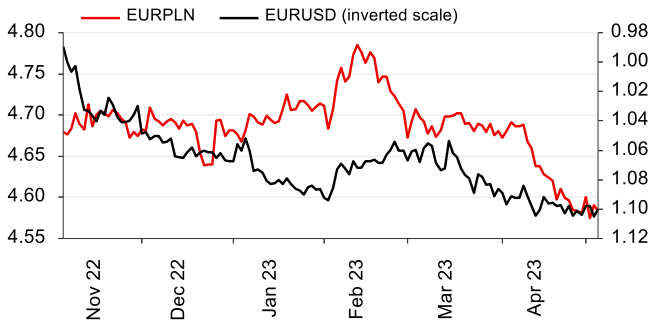


Źródło: Refinitiv Datastream, Santander

#### Economic Analysis Department:

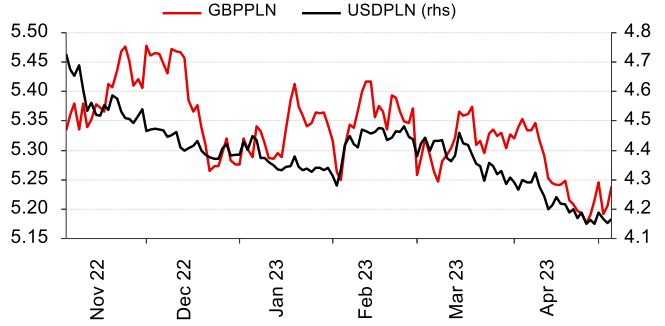
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**EURPLN and EURUSD**



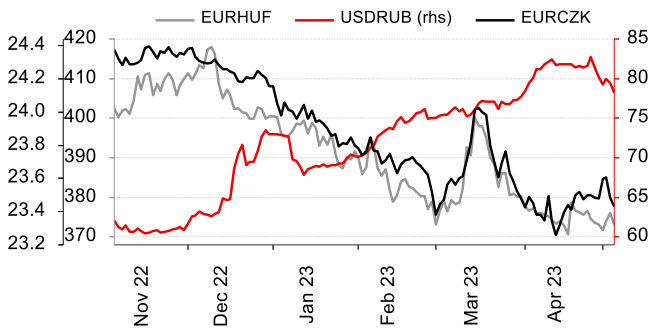
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



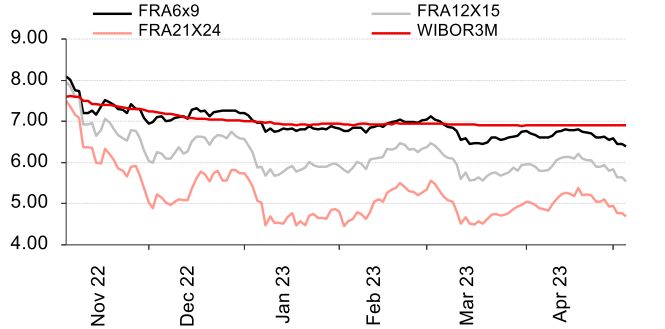
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



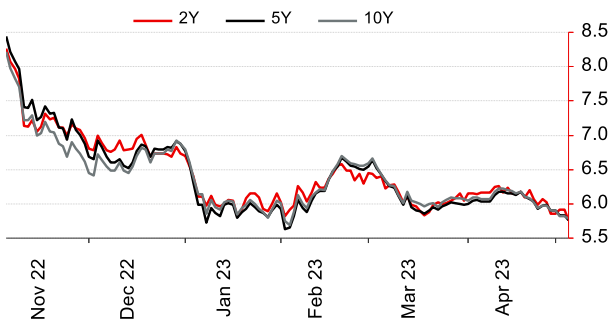
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



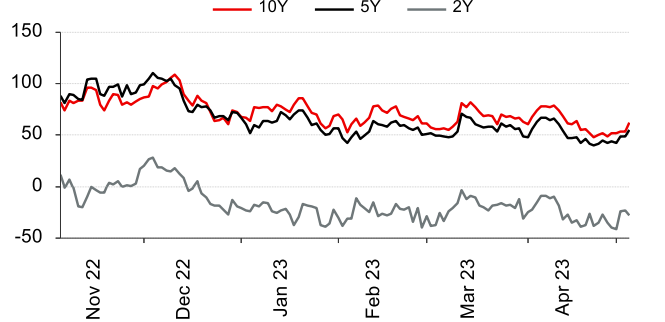
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



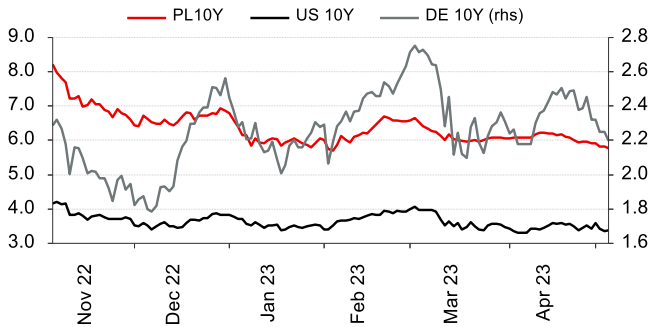
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



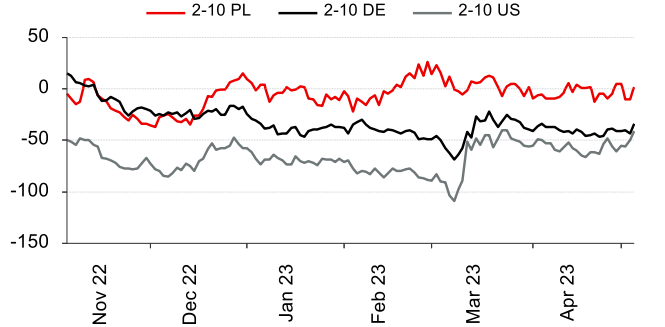
Source: Refinitiv Datastream, Santander Bank Polska

**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 (8 May)</b>						
08:00	DE	Industrial Production SA	Mar	% m/m	-1.4	2.0
<b>TUESDAY (9 May)</b>						
09:00	CZ	Industrial Production	Mar	% y/y	1.9	2.0
<b>WEDNESDAY (10 May)</b>						
	PL	<b>MPC decision</b>		%	<b>6.75</b>	<b>6.75</b>
08:00	DE	HICP	Apr	% m/m	0.6	0.6
08:30	HU	CPI	Apr	% y/y	24.0	25.2
14:30	US	CPI	Apr	% m/m	0.4	0.1
<b>THURSDAY (11 May)</b>						
09:00	CZ	CPI	Apr	% y/y	0.0	15.0
13:00	UK	BoE decision	May	%	4.50	4.25
14:30	US	Initial Jobless Claims		k	240	242
<b>FRIDAY (12 May)</b>						
16:00	US	Michigan index	May	pts	63.0	63.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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