26 May 2023

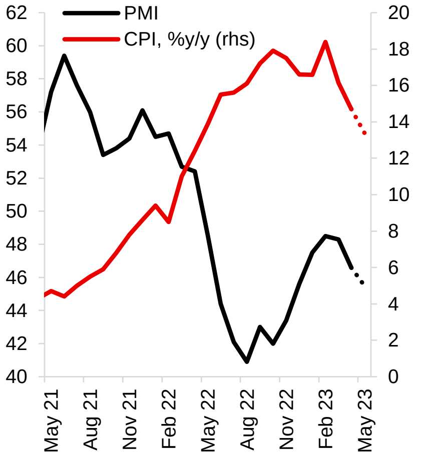
Weekly Economic Update

Week with GDP, CPI, PMI

Economy next week

- The new week will start with a day off on Wall Street and in London and the preliminary results of the second round of the presidential election in Turkey. Polls indicate that incumbent President Recep Tayyip Erdoğan is leading (around 51% of the vote according to averaged results), so his eventual win should not surprise markets.
- In the following days, calendars will grow heavier, as many economies will see the publication of 1Q GDP, inflation data, economic indicators (PMI, ESI, consumer sentiment) and the week will end with the monthly US employment report.
- In Poland, attention will be drawn primarily to three publications: on Wednesday at 10:00CET May flash CPI inflation and 1Q GDP, and on Thursday at 9:00CET May manufacturing PMI.
- **According to our estimates, the inflation rate eased to 13.4% y/y in May from 14.7% in April** (the consensus according to Bloomberg is at 13.4% y/y) after prices rose by 'just' 0.3% m/m. The apparent deceleration of the monthly price momentum is due firstly to seasonality, e.g. in clothing and footwear prices, but also to the marked decline in fuel prices (according to us around -4.5% m/m). A great deal of uncertainty still surrounds food prices - in April their monthly increase slowed markedly to 0.5% and we estimate that it was only slightly higher in May. The realisation of our forecast would mean that the cumulative increase in consumer prices from the beginning of the year to May reached 6% and would reaffirm our belief that at the end of the year the inflation rate will be in the vicinity of 10% y/y.
- **GDP data will reveal the structure in 1Q growth**, which according to the preliminary reading from mid-May was much better than expected (-0.2% y/y, +3.9% q/q SA). The main suspects behind the positive surprise are investment (data from large companies point to another strong increase) and the foreign trade balance (although in this case we have doubts if the improvement resulting mainly from the change in terms of trade should translate into real categories). The behaviour of consumption will also be extremely interesting - a positive surprise would reduce the space for rate cuts considerations.
- **The PMI for Polish industry probably declined in May** (our forecast 45.5 pts, consensus 46.0 pts), as in other European countries. In most economies, there is a slump in manufacturing and at the same time a strong recovery in services. Similar trends should be confirmed by the ESI business climate indicators.
- The end of May theoretically marks the date when the US administration is to run out of liquidity and, without **raising the debt limit**, the US is to face a debt service problem. The prevailing market belief is that the problem will be resolved at the last minute, and we hope that this will be the case. Any stumbles on this issue could temporarily rock the markets hard.

Inflation and manufacturing PMI



Źródło: GUS, S&P Global, Santander

Markets next week

- After the zloty appreciation from previous weeks lost momentum in recent days, we think that **the coming weeks may bring an upward correction of EURPLN**. We assume that the improvement in the current account has slowed down and that next months' data may show weaker trade balance. A stronger US dollar against the euro is also working against EM currencies. In addition, the date of the CJEU ruling is approaching (15 June), which, in the absence of a law to sort out the issue of CHF mortgage loans before the elections, may increase volatility of Polish assets. This week, the zloty may also be negatively affected by the deceleration of market rates and renewed declarations of possible rate cuts in Poland (this morning, Prime Minister Morawiecki and President Glapinski suggested possible cuts in 4Q).
- The pause in the upward movement in the domestic interest rate market that we had expected in response to the weak April manufacturing results lasted only a day, with good labour market data, the start of the election campaign and trends in the underlying markets pushing market rates higher. We think that markets abroad have already largely priced-in our expected scenario of modest hikes and no rate cuts until around 2H24 in the euro area, or no rate cuts in the USA, which may limit the room for rate increases in the core markets. On the other hand, the decline in domestic inflation in May, the weak PMI or the recent dovish comments by the NBP president and the prime minister may **support the short end of the curve**. At the longer end, we assume a widening of asset swap spreads due to the prospect of electoral fiscal stimulus and the approaching CJEU decision.

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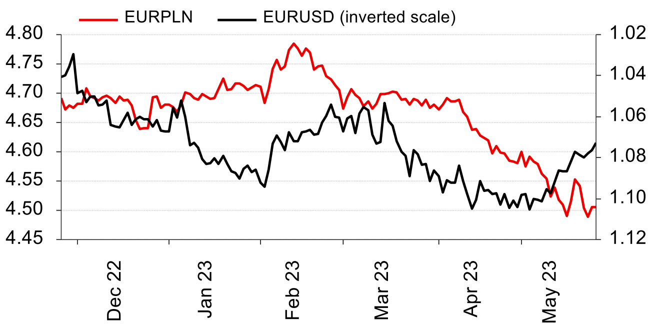
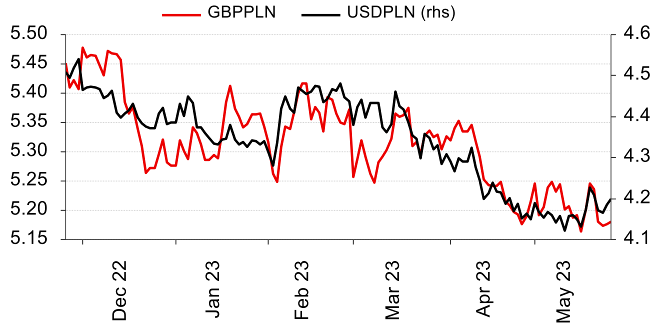
EURPLN and EURUSD



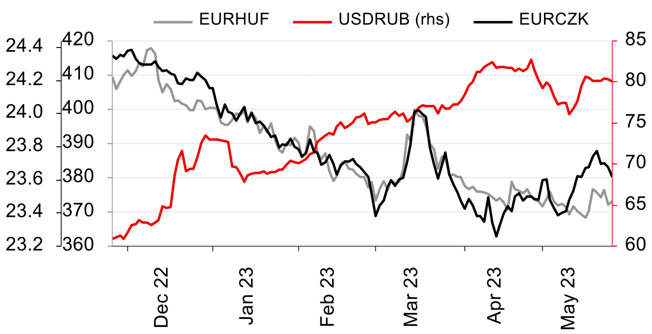
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



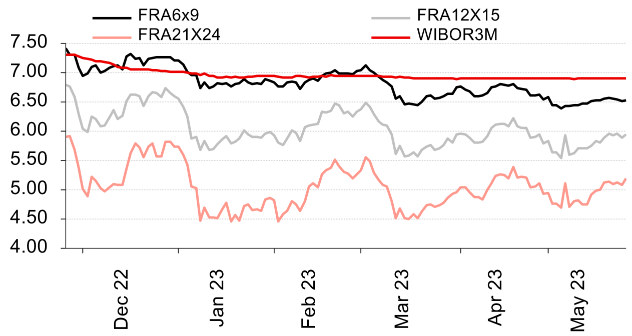
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



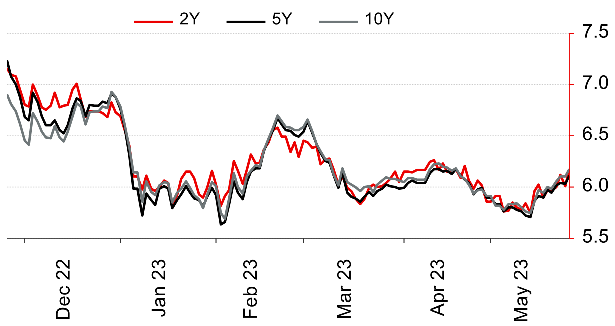
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



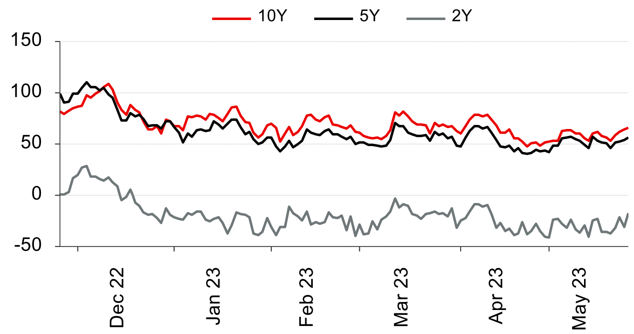
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



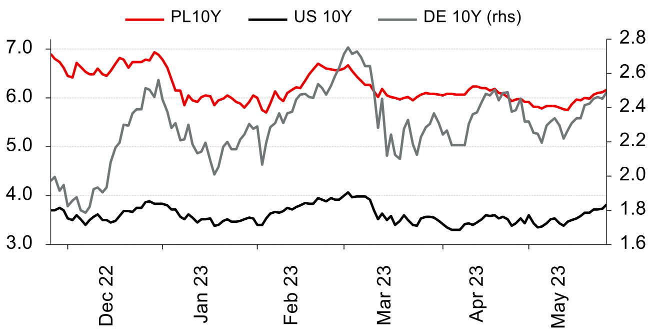
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



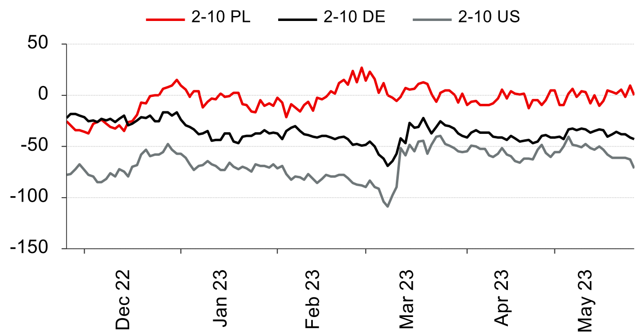
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (29 May)				
	UK, US	Market holiday					
			TUESDAY (30 May)				
09:00	CZ	GDP SA	1Q	% y/y	-0.2	-	0.3
11:00	EZ	ESI	May	pct.	99.0	-	99.3
16:00	US	Consumer Conference Board	May	pts	99.9	-	101.3
			WEDNESDAY (31 May)				
10:00	**PL**	**CPI**	**May**	**% y/y**	**13.4**	**13.4**	**14.7**
10:00	**PL**	**GDP**	**1Q**	**% y/y**	**-0.2**	**-0.2**	**2.3**
14:00	DE	HICP	May	% m/m	0.3	-	0.6
			THURSDAY (1 June)				
08:30	HU	GDP	1Q	% y/y	-0.9	-	0.4
09:00	**PL**	**Poland Manufacturing PMI**	**May**	**Pts**	**46.0**	**45.5**	**46.6**
09:55	DE	Germany Manufacturing PMI	May	pts	42.9	-	44.5
10:00	EZ	Eurozone Manufacturing PMI	May	pts	44.6	-	45.8
11:00	EZ	Flash HICP	May	% y/y	6.4	-	7.0
11:00	EZ	Unemployment Rate	Apr	%	6.5	-	6.5
14:15	US	ADP report	May	k	160	-	296
14:30	US	Initial Jobless Claims	May.23	k	245	-	229
16:00	US	ISM manufacturing	May	pts	47.0	-	47.1
			FRIDAY (2 June)				
14:30	US	Change in Nonfarm Payrolls	May	k	180	-	253
14:30	US	Unemployment Rate	May	%	3.5	-	3.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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