

# (Bi-)Weekly Economic Update

## Inflation, GDP, MPC, ECB

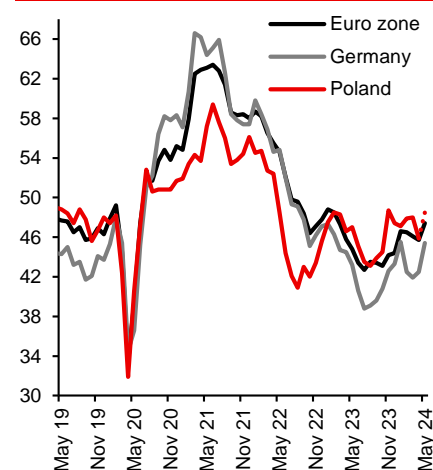
### Economy next week

- May in Poland started with a long weekend and will end similarly, due to a public holiday on Thursday 30 May (Corpus Christi). In the shortened working week, the key domestic publication will be the flash CPI inflation data for May (on Wednesday, 29 May). **Our estimates point to an increase in CPI to 2.7% y/y**, amid, among other things, a drop in fuel prices of around 1% m/m and a rise in food prices of 0.9% m/m. According to our observations of online prices, some shops, which had avoided to pass higher VAT on the retail food prices already in April, made up for this move in May.
- Monday will also see data on **1Q corporate earnings, unemployment** and the monthly GUS Statistical Bulletin, which, however, are not of primary importance for the market.
- The publication of the **IUNG PIB's first agricultural drought report of the season and the GUS assessment of crop condition** will shed some light on the outlook for food prices this year.
- The next week and the new month will start with the publication of **1Q24 GDP growth and manufacturing PMI data for May** (Monday, 3 June). Shortly after, we will know **the outcome of the MPC meeting** (Wednesday, 5 June) and a day later, the press conference of the NBP President Adam Glapiński.
- The preliminary GDP reading showed 1Q growth of 1.9% y/y and 0.4% q/q and we do not expect a major revision of this result in this publication, but **the key information will be the structure of economic growth**. According to our forecasts, private consumption grew by around 2.5% y/y and investment by 6% y/y, with a slightly negative contribution from inventory change and a close to neutral contribution from net exports.
- **We assume an upward rebound in the Polish manufacturing PMI in May to 48.5 points** after the corresponding index for Germany surprised with a marked improvement.
- **The Monetary Policy Council will most likely keep interest rates unchanged**, still pointing to risk factors for the disinflation process stemming from, inter alia, loose fiscal policy, expected economic recovery, high wage growth and awaiting the results of a new NBP projection to be published in July.
- NBP President A. Glapiński's speech on Thursday, 6 June, will almost exactly coincide with the conference of ECB President C. Lagarde, who will probably steal the show for him, most likely explaining **the ECB decision to cut interest rates in the euro area for the first time in this cycle** (the market is pricing in -25bp). The tone of her speech could significantly influence the direction of movements in the core markets in the following days.
- The calendar of economic publications abroad in the next two weeks will be quite interesting. The last week of May will see the release of the Ifo and ESI business climate indices, preliminary Eurozone inflation, the second reading of 1Q GDP in the US and the Fed's favourite inflation measure, the PCE deflator, among others. On the other hand, the first days of June will see the publication of PMI indices for industry and services, the performance of industrial production in EU countries, and the week will close with the monthly US labour market report.

### Markets next week

- In the FX market, after a month of strengthening in the CEE currencies, **we see increasing potential for a slight correction**. This could be more difficult with an upward move in rates unless there is a larger one in the core markets, but we generally assume a correction towards weaker CEE currencies in the near term. This could be supported by solid US data working towards a temporarily stronger dollar. In the longer term, we still see potential for the zloty to strengthen in the face of a not-so-dovish MPC, record Finance Ministry's foreign currency deposits, and the region's currencies could gain support from improving foreign trade performance or a gradual recovery in activity and a rise of EURUSD we assume.
- The sizable increase in market rates seen after the Polish bond auction with its relatively high supply and low bid-cover ratio and **the upward movement of yields in core and regional markets may continue for some time**. **A lower-than-consensus inflation reading may put the brakes on increase in rates, but we also have another auction** in prospect next week, which may not improve sentiment, and in the case of inflation itself, even if the data surprises downwards, inflation will probably rise. Important from the point of view of the outlook for interest rates will be the structure of GDP, including the strength of consumption. **A weak consumption result could be a major factor in the start of a downward movement in yields, although its scope should also not be large given our assumed relatively neutral message from the MPC**, which will want to wait until at least the July NBP projection with any change in rhetoric. Abroad, the German Ifo, the ISM reading for US services, rising inflation in the Eurozone or a possible further rebound in non-farm payrolls could work in the direction of higher yields early in the week. We will probably need to see the core market yields core start falling before we see a larger downward movement in the domestic curve.

### Manufacturing PMIs, pts

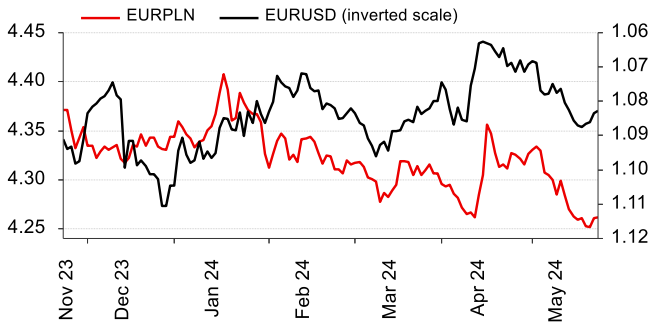


Source: S&P Global, Santander

### Economic Analysis Department:

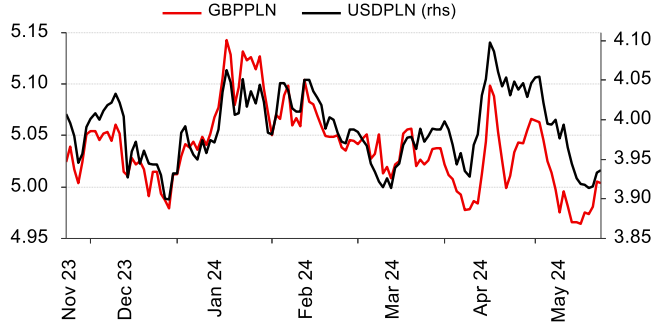
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**EURPLN and EURUSD**



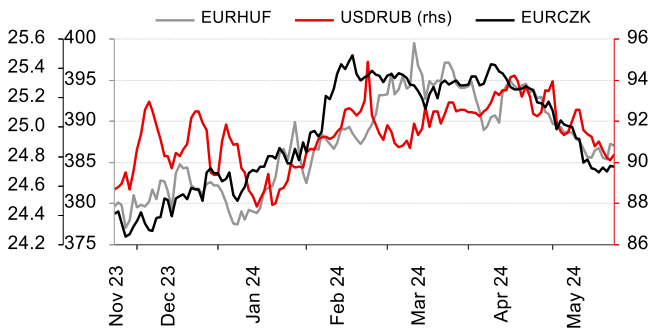
Source: LSEG Datastream, Santander

**GBPPLN and USDPLN**



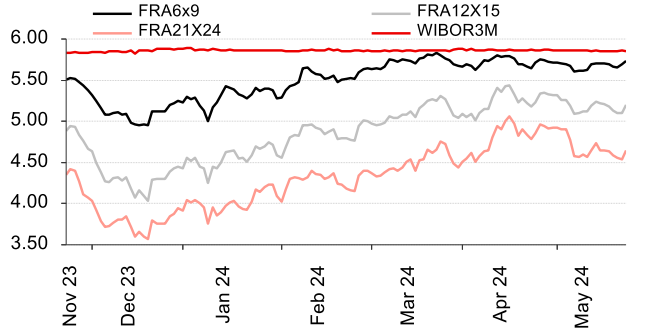
Source: LSEG Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



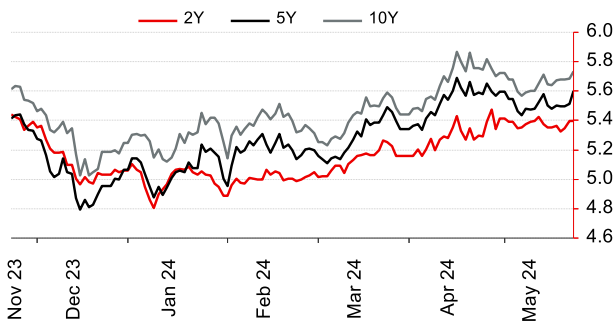
Source: LSEG Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



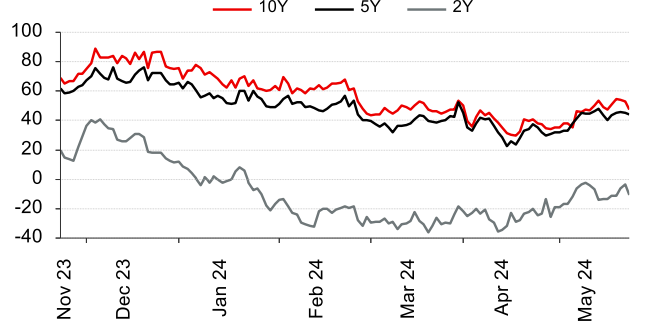
Source: LSEG Datastream, Santander Bank Polska

**Polish bond yields**



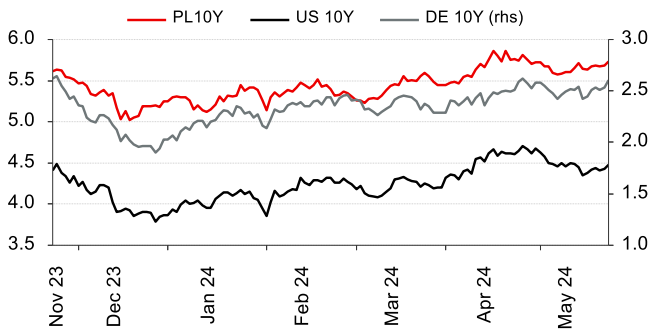
Source: LSEG Datastream, Santander Bank Polska

**Asset swap spreads**



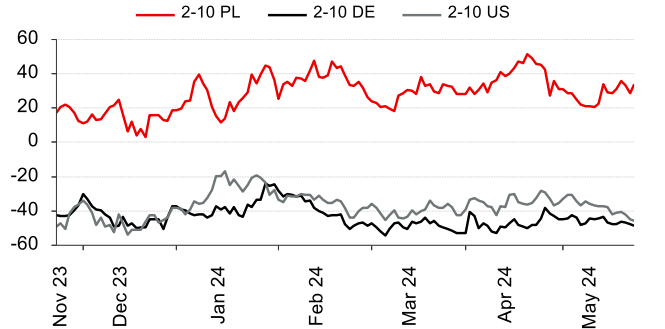
Source: LSEG Datastream, Santander Bank Polska

**10Y bond yields**



Source: LSEG Datastream, Santander

**Steepness of yield curves**



Source: LSEG Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	SANTANDER	
<b>MONDAY (27 May)</b>							
10:00	DE	IFO Business Climate	May	pts	90.5	-	89.4
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Apr</b>	<b>%</b>	<b>5.2</b>	<b>5.1</b>	<b>5.3</b>
<b>TUESDAY (28 May)</b>							
16:00	US	Consumer Conference Board	May	pts	96.0	-	97.0
<b>WEDNESDAY (29 May)</b>							
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>May</b>	<b>% y/y</b>	<b>2.9</b>	<b>2.7</b>	<b>2.4</b>
14:00	DE	HICP	May	% m/m	0.2	-	0.6
<b>THURSDAY (30 May)</b>							
11:00	EZ	Unemployment Rate	Apr	%	6.5	-	6.5
11:00	EZ	ESI	May	pct.	96.2	-	95.6
14:30	US	GDP Annualized	1Q	% Q/Q	1.3	-	1.6
14:30	US	Initial Jobless Claims		k	218	-	215
16:00	US	Pending Home Sales	Apr	% m/m	-0.6	-	3.4
<b>FRIDAY (31 May)</b>							
08:00	DE	Retail Sales	Apr	% m/m	-0.2	-	2.3
09:00	CZ	GDP SA	1Q	% y/y	0.4	-	0.4
11:00	EZ	Flash HICP	May	% y/y	2.5	-	2.4
14:30	US	Personal Spending	Apr	% m/m	0.3	-	0.8
14:30	US	Personal Income	Apr	% m/m	0.3	-	0.5
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	-	0.3
<b>MONDAY (3 June)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>May</b>	<b>pts</b>	<b>-</b>	<b>48.5</b>	<b>45.9</b>
09:30	DE	Germany Manufacturing PMI		pts	-	-	45.4
10:00	EZ	Eurozone Manufacturing PMI		pts	-	-	47.4
10:00	PL	GDP	1Q	% y/y	-	<b>1.9</b>	<b>1.9</b>
16:00	US	ISM manufacturing	May	pts	49.7	-	49.2
<b>TUESDAY (4 June)</b>							
08:30	HU	GDP	1Q	% y/y	-	-	1.1
16:00	US	Factory Orders	Apr	% m/m	-	-	0.8
<b>WEDNESDAY (5 June)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>5.75</b>	<b>5.75</b>	<b>5.75</b>
03:45	CN	Caixin China PMI Services	May	pts	-	-	52.5
09:30	DE	Markit Germany Services PMI		pts	-	-	53.9
10:00	EZ	Eurozone Services PMI		pts	-	-	53.3
14:15	US	ADP report	May	k	180	-	192
16:00	US	ISM services	May	pts	50.5	-	49.4
<b>THURSDAY (6 June)</b>							
08:00	DE	Factory Orders	Apr	% m/m	-	-	-0.4
09:00	CZ	Industrial Production	Apr	% y/y	-	-	-11.1
11:00	EZ	Retail Sales	Apr	% m/m	-	-	0.8
14:15	EZ	ECB Main Refinancing Rate	Jun.24	%	4.25	-	4.50
<b>FRIDAY (7 June)</b>							
08:00	DE	Exports SA	Apr	% m/m	-	-	1.1
08:00	DE	Industrial Production SA	Apr	% m/m	-	-	-0.4
08:30	HU	Industrial Production SA	Apr	% y/y	-	-	-2.8
11:00	EZ	GDP SA	1Q	% y/y	-	-	0.4
14:30	US	Change in Nonfarm Payrolls	May	k	180	-	175
14:30	US	Unemployment Rate	May	%	3.9	-	3.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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