

# Weekly Economic Update

## Fed decision, CPI prints and the energy price issue

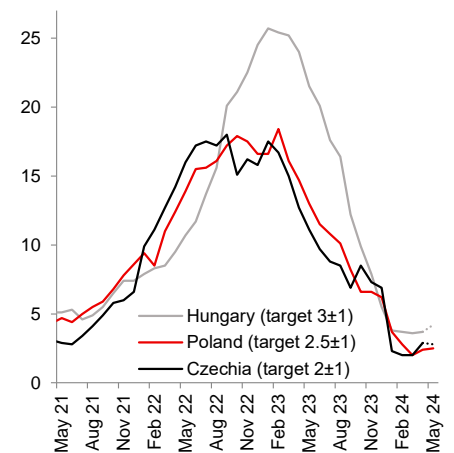
### Economy next week

- In the coming week we await the publication of the **details of May CPI inflation** (Friday). According to the stats office's quick estimate, inflation rebounded surprisingly little in May: from 2.4% in April to only 2.5% y/y, due to a relatively small increase in food prices (as if the April VAT hike had not yet fully reached retail prices). In our view, the rebound in CPI inflation was also limited by a marked deceleration in core inflation, and it will be interesting to see whether this is a matter of a sharp decline in a narrow part of core CPI or a more widespread phenomenon.
- -From the NBP we will get **April balance of payments data** (Thursday). We expect the monthly current account surplus to grow to EUR874m from EUR325m in March (to which the balance of merchandise trade will contribute +EUR743m), but the market doubts in any m/m improvement. In our view, April's rebound in economic activity, particularly seen in manufacturing, translated into a 4.7% y/y increase in exports of goods (previously -9.5% y/y) and a 2.9% y/y increase in imports of goods (previously -8.3% y/y).
- Although the topic of **new energy price regulations** is no longer a front-page story, it may soon return there, as the law still lacks the president's signature and the time for him to put it ends on 14 June. From the CPI's point of view, without the law, from July onwards, electricity and gas prices would have risen to the levels set in the current tariffs, i.e. by several tens of per cent. However, tariffs are supposed to be revised downwards by then, although probably to levels higher than the maximum energy prices to be set by the new law. **Should the President refuse to sign the bill, inflation forecasts for the second half of the year would therefore have to be revised upwards, and the financial market could react to such a scenario by pricing in the increasing likelihood of interest rate hikes** (given the NBP governor's remarks at his Thursday conference).
- Abroad, the main events will be the **monetary policy decisions of the Fed and the Bank of Japan**. The market expects that neither of the institutions will change their interest rates, but the tone of their communication may significantly affect the developments in the financial markets over the next days or weeks. At its policy meeting, Fed will present new projections and a new dot plot, summarising the views of all the FOMC members on the appropriate levels of the interest rates over this year and the next ones. The Bank of Japan may announce a reduction in its purchases of Japanese government bonds and set the stage for a rate hike at its next policy meeting (market-implied probability of a rate hike in July exceeds 50%).
- The beginning of the week will likely be a time for tallying up **the European Parliament election results**. There will also be **plenty of May inflation data releases**, including from Hungary (Monday) and Czechia (Tuesday), as well as from Germany and the US (Wednesday). On Friday we will see preliminary data on US consumer sentiment in June, and after hours the opening match of Euro 2024.

### Markets next week

- The appreciation trend of the zloty has stopped for now and EURPLN remains close to the 4.30 level, but we still see the potential for gradual strengthening in the coming months towards 4.20. The tone for the coming days may be set by a strong non-farm payrolls reading in the US and the FOMC meeting, which will affect the dollar. The prospect of rate cuts in the US is still remote, with the market pricing in only a partial first rate cut in September and just over two moves total this year. **If the Fed maintains its hawkish rhetoric, indicating the need to bring inflation down, we could see a slightly stronger dollar in the second half of the week, which could also trigger a correction in the CEE currencies towards slightly weaker levels.** For the forint and the koruna, inflation data from Czechia and Hungary, where a rebound in the annual rate of price growth is expected, could be important.
- In the interest rate market, trends in the core markets may be more important than in the domestic market, in view of the FOMC meeting and US CPI data release. Domestic inflation data may be of secondary importance. A rise in yields in global markets after the US employment and wage data could pull domestic yields upward as well, at least early next week. A domestic factor in the same direction would be the president's possible refusal to sign the energy price bill (however, we treat this as a risk case, not a baseline scenario). In general, we do not expect a rapid sustained decline in domestic market rates in view of the rather distant prospect of NBP rate cuts with accelerating consumption and the hawkish tone of the NBP.

### CPI inflation in the CE3 countries, %/y

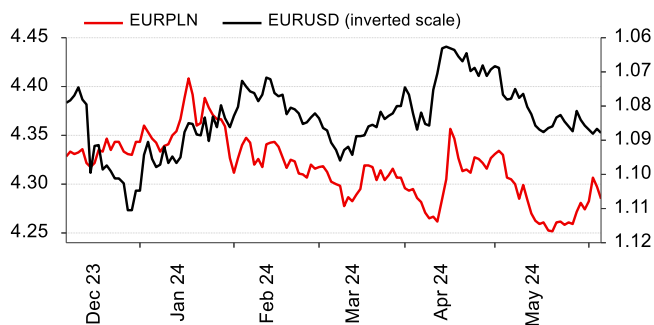


May'24 for CZ and HU are Bloomberg consensus forecasts  
Source: Santander

### Economic Analysis Department:

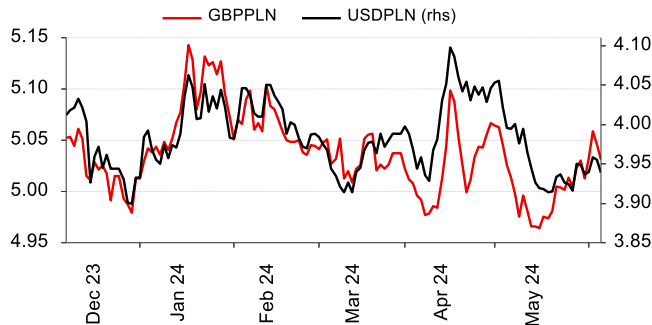
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### EURPLN and EURUSD



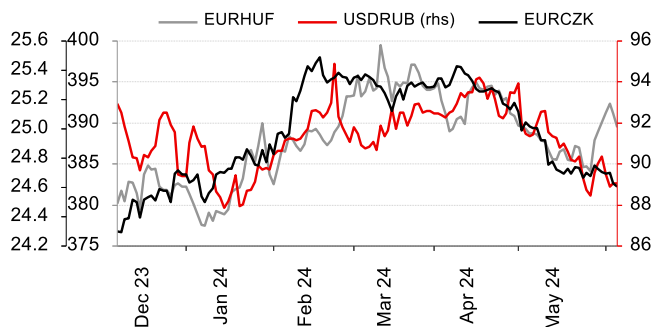
Source: LSEG Datastream, Santander

### GBPPLN and USDPLN



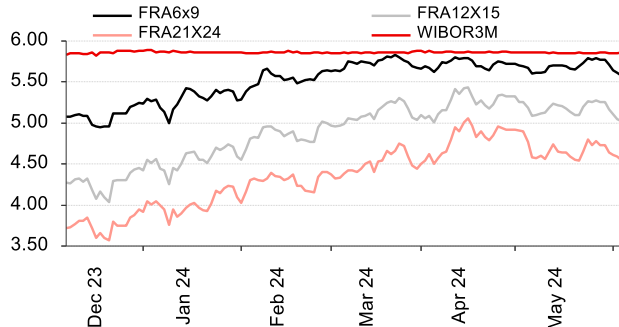
Source: LSEG Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



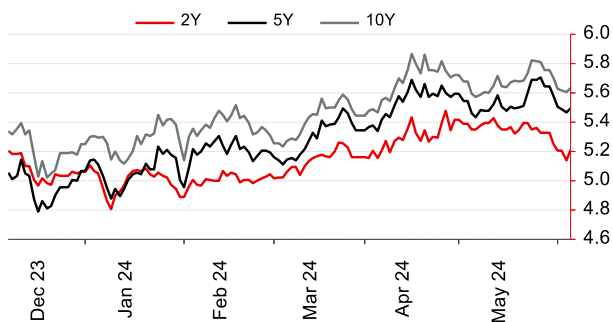
Source: LSEG Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



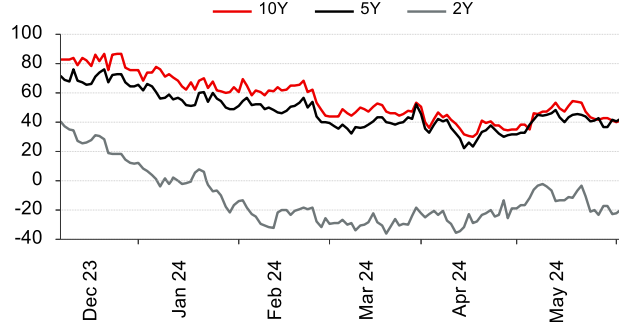
Source: LSEG Datastream, Santander Bank Polska

### Polish bond yields



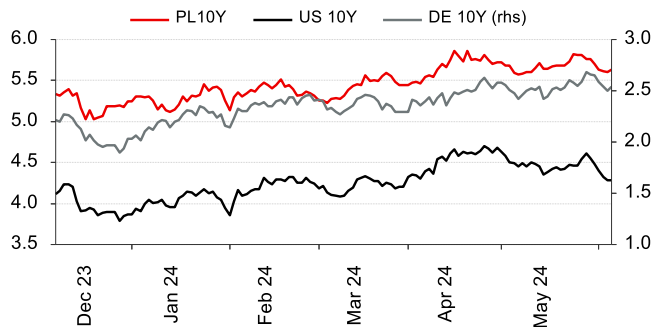
Source: LSEG Datastream, Santander Bank Polska

### Asset swap spreads



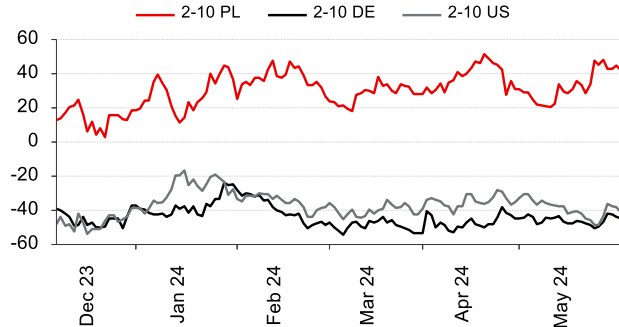
Source: LSEG Datastream, Santander Bank Polska

### 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 (10 June)</b>							
08:30	HU	CPI inflation	May	% y/y	4.2	-	3.7
<b>TUESDAY (11 June)</b>							
09:00	CZ	CPI inflation	May	% y/y	2.8	-	2.9
<b>WEDNESDAY (12 June)</b>							
08:00	DE	HICP inflation	May	% m/m	0.2	-	0.2
14:30	US	CPI inflation	May	% m/m	0.1	-	0.3
20:00	US	FOMC decision	Jun	%	5.50	-	5.50
<b>THURSDAY (13 June)</b>							
11:00	EZ	Industrial Production SA	Apr	% m/m	0.1	-	0.6
14:00	PL	<b>Current Account Balance</b>	Apr	€mn	<b>334</b>	<b>874</b>	<b>325</b>
14:00	PL	<b>Trade Balance</b>	Apr	€mn	<b>530</b>	<b>743</b>	<b>486</b>
14:00	PL	<b>Exports</b>	Apr	€mn	<b>27 872</b>	<b>27 779</b>	<b>28 331</b>
14:00	PL	<b>Imports</b>	Apr	€mn	<b>27 372</b>	<b>27 036</b>	<b>27 845</b>
14:30	US	Initial Jobless Claims		k	-	-	229
<b>FRIDAY (14 June)</b>							
05:00	JP	BoJ decision	Jun	%	0.10	-	0.10
10:00	PL	<b>CPI inflation</b>	May	% y/y	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>
16:00	US	Michigan index	Jun	pts	73.0	-	69.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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